

OFFICE OF THE CITY AUDITOR

Audit of Love Field Airport Parking Garage Revenues



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Memorandum



CITY OF DALLAS

June 23, 2006

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of Dallas Love Field (DAL) Parking Garage Revenues Concession Contract with Parking Company of America – Dallas (PCA), administered by the City of Dallas Aviation Department (Aviation).

Our audit focused on the adequacy of management controls with respect to the City of Dallas (COD) receiving the minimum annual guaranteed revenue as specified in the contract, and whether issues pertaining to the previous contract have been addressed. We performed limited tests to ensure that the controls were functioning as intended. These tests were limited to COD activities and did not extend to assessing the management controls used by PCA pertaining to the contract. We also sought to identify opportunities to improve the current management control system.

Based on the procedures performed, we did not identify any significant internal management control issues. As a result, we will not be initiating any further audit work at this time.

We appreciate the cooperation of City staff during our examination.

Paul T. Garner

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c: Mary K. Suhm, City Manager

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INTRODUCTION

Authorization

We have conducted a performance audit of Love Field Airport (DAL) Parking Garage Revenues. DAL Parking Garage Operations are handled via a concession contract with the Parking Company of America – Dallas (PCA). DAL is administered by the City of Dallas Aviation Department (Aviation). We conducted this audit under the authority of Chapter IX, Section 3 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

We conducted our audit in accordance with generally accepted government auditing standards and included inquiries, tests of accounting and related records, and other audit procedures we considered necessary in the circumstances. Our audit period covered the first year of the contract, September 1, 2004 through August 31, 2005. However, we also reviewed certain related procedures, reports, and events occurring before and after this period.

Our audit objectives were to determine whether:

- The City of Dallas received the minimum annual guaranteed revenue as specified in the contract.
- Issues in the February 12, 2004 City Auditor letter to Aviation pertaining to the previous parking garage contract have been addressed.

To develop an understanding of parking concession contracts and related collection activities, we:

- Analyzed the current contract, the Request for Proposal (RFP), and other related contract documents.
- Reviewed the City Charter, City Code, applicable guidelines, and policies and procedures.
- Interviewed City personnel.
- Reviewed prior audit reports issued on the City's Aviation Parking Garage and contacted other municipalities/entities regarding their airport parking operations.

Overall Conclusion

Based on the work performed, we conclude that:

- The City of Dallas parking services revenue exceeded the minimum annual guaranteed payment specified in the first year of the contract.
- The City of Dallas accepted \$700,000 to resolve the problem with the prior parking garage contractor.

INTRODUCTION

Background

City Council Resolution #04-1582 approved a five year concession services contract with PCA for parking services at Dallas DAL. The contract commenced on September 1, 2004. Under this concession contract, PCA is responsible for providing general management and administration of parking services, accounting and auditing services, parking attendants, supervisory staff, and employee training. The contractor is required to pay the City an annual concession fee¹ of 90.25 percent of Net Revenues² generated, or a minimum annual guarantee amount of \$6,602,000, whichever is greater for Year 1.

PCA collects revenue from patrons who make payments by cash or credit cards. PCA deposits daily collections (Adjusted Gross Revenues³—net of sales tax) into PCA's bank account, and delivers daily transaction reports to Aviation's Accounting section. Aviation Accounting applies the 9.75 percent to the Net Revenues to compute PCA's share, which is its "concession fee" or "retainage". The concession fee amount is retained by PCA, while the remaining balance is wired to the City of Dallas' bank account, which is verified by Aviation Accounting.

The Parking Garage minimum annual guarantee verification procedures require PCA to submit to Aviation on a monthly basis, the month's sales and revenue activity. The report details the Gross Revenues⁴, taxes paid, and credit card fees. On March 24, 2005, the Aviation Department signed a letter of agreement with PCA to implement an Automated Vehicle Identification (AVI) System integrated with the existing Parking Revenue Control System (PRCS). The implementation of AVI is in accordance with the City Council approved interlocal agreement with the North Texas Tollway Authority (NTTA) and the City of Dallas. The Letter of Agreement notified PCA of the accounting process related to the handling of daily deposits for all revenues derived from AVI transactions. Since May 2005, NTTA fees related to the use of AVI technology, which charges a fixed rate per transaction, are included with the PRCS revenue to determine the true Net Revenues upon which the concession fee is based.

Prior to the contract with the PCA, the City had a five-year parking concessions contract with AMPCO System Parking from January 1, 1998 through December 31, 2002. AMPCO provided exclusive management and operational control of the four-story parking garage and surface lot adjacent to the garage. AMPCO collected and made daily deposits into a city controlled bank account. The contract guaranteed that the City would receive annually a minimum of \$7,366,301 in revenues from this concessionaire and AMPCO would receive 9.725 percent of the adjusted gross revenues.

¹ See Appendix Glossary of Contract Terms

² See Appendix Glossary of Contract Terms

³ See Appendix Glossary of Contract Terms

⁴ See Appendix Glossary of Contract Terms

INTRODUCTION

On June 28, 2002, the City exercised a one-year renewal option for the period January 1, 2003 through December 31, 2003. AMPCO continued to operate the garage on a month-to-month basis until March 31, 2004.

For the period April 1, 2004 through August 31, 2004, PCA operated the parking garage under an Interim Parking Services Concession Agreement with the City.

OBSERVATIONS

1. The City of Dallas received \$8,617,295, which exceeded the minimum annual guaranteed revenue for the first year of the contract.

A. Aviation has adequate documentation to support its collections exceeding the minimum annual guarantee by \$2,015,295.

We reviewed deposit slips, credit card receipts, cashier reports, revenue reports, ticket usage, and other reports on daily parking activities and monthly summaries of parking lot utilization and financial outcomes. We found that the department has adequate supporting documentation for revenues used to determine the amount owed to the city and the amount paid to the contractor as a concession fee. Total parking Net Revenues retained by the City for Year 1 were \$8,617,295, which were \$2,015,295 more than the minimum annual guarantee of \$6,602,000. We reviewed the Independent Accountant's Examination Report and found agreement in its opinion on meeting the minimum annual guarantee requirements. We found through reviewing financial data maintained by the Office of Financial Services, Aviation accounting reports, and PCA reports on cashier and lane activity, that the monthly minimum guarantee amount* was exceeded in every month of the first year of the contract (September 1, 2004 through August 31, 2005.)

We recommend no additional audit work at this time.

B. Management controls are in place to reasonably monitor and evaluate compliance with the contract.

We reviewed administrative directives and interviewed Aviation personnel regarding their accounting and contract compliance duties. The Revenue Accountant verifies PCA activity and processes the monthly report summarizing the collections. The Contract Compliance Manager applies these data to compute the monthly revenue for the City and the contractor concession fee.

Aviation senior management is significantly involved in the monitoring of the contract. They understand in detail various aspects of the concession contract with the Parking Company of America, including parking garage security and risks; clearinghouse activity settling customer accounts, fees, and credit card charges; and the Toll Tag billing technology. The North Texas Tollway Authority (NTTA) and the use of the Toll Tag system which relies on the Parking Revenue Control System (PRCS) have controls in place to assure that NTTA Net Revenues are transferred to the City's bank account. Aviation management maintains constant communication with NTTA daily, dedicating one person on staff for this responsibility. In addition, the Director of Aviation holds monthly meetings with the President of PCA to keep informed of parking lot operations.

* Minimum annual guarantee amount divided by twelve months

OBSERVATIONS

There are sufficient verifications and approvals to ensure that the City accurately receives the revenue from the contract.

We recommend no additional audit work at this time.

2. Issues pertaining to AMPCO not meeting the minimum annual guarantee for Calendar Year 2002 have been resolved.

On February 12, 2004 the City Auditor issued a memo on the AMPCO contract and payments made to the City of Dallas that disclosed a minimum annual guaranteed shortfall of \$1,672,585.28 for 2002. AMPCO disputed the City's interpretation of the contractual obligations and the City agreed to accept \$700,000.

We recommend no additional audit work at this time.

Management's Comments:

The Parking Garage operation represents a significant revenue source for the Aviation Department with annual revenues of over \$8 million in FY 2004-05. The recent audit of the parking garage revenue collection and accounting functions in the department produced "No Findings." Aviation Management is pleased with this report and commends the City Auditor for the in-depth review of our revenue collection procedures and processes for the parking garage operation. Aviation staff is committed to continue improving our systems to maximize our revenue collection providing an exemplary customer service to all airport users. This continues to be our goal and the results of the City Auditor "No Findings" is a testimony to our commitment.

OBSERVATIONS

APPENDIX

GLOSSARY OF CONTRACT TERMS

The contract between PCA and the City defines the following terms as follows:

Section 1.C. states “**Gross Revenues** ... shall mean any and all monetary sums of any type received or receivable (both cash and credit) from Contractor’s parking concession operations at the Airport ...”

Section 1.D. states “**Adjusted Gross Revenues** ... shall mean Gross Revenues, less any federal, state or municipal taxes separately stated and collected from customers and directly payable to a taxing authority.”

Section 1.E. states “**Net Revenues** ... shall mean the Adjusted Gross Revenues, less any credit card fees and AVI fees and other reasonable associated transaction fees, which transaction fees shall be approved in advance by the Director.”

Section 1.F. states “**Concession Fee** ... shall mean the fee that Contractor shall pay City as consideration for City’s grant of its permission to Contractor to operate a vehicle parking concession at the Airport.”