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**Office of the City Auditor**

**Audit Report**

**Audit of Cash Receipts and  
Contract Monitoring Controls at  
the Department of Aviation**  
(Report No. A08- 016)

**August 8, 2008**

**City Auditor**

Craig D. Kinton

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## Executive Summary

The Department of Aviation's (AVI) Accounts Receivable Section has adequate controls over cash receipts. Cash receipts are properly recorded, deposited timely, and appropriately reconciled.

The AVI also has adequate controls over concession contracts that include Minimum Annual Guarantees (MAGs) of greater than \$100,000 per year (14 of 16 concession contracts). These concession contracts include annual audit provisions which provide independent assurance that the City is receiving the appropriate amount of revenue each year. In addition, AVI's Contract Compliance Section performs certain contract monitoring procedures to validate the MAGs for these concession contracts on a monthly basis and when the annual audits are received.

### Background Summary

The Department of Aviation collected approximately \$43.4 million in revenue for fiscal year 2007 or an average of approximately \$175,000 in daily revenue collections.

Revenues are generated from Field Maintenance, Terminal Maintenance, Parking Garage and Security Badge receipts, and concession contracts (garage, advertising, food and beverage, retail, ATM, shoe shine, baggage carts, and nine car rentals).

The Department's Contract Compliance Section reviews and monitors the concession contracts. Concession contracts generated approximately \$23 million or 53 percent of total revenue.

The AVI's Contract Compliance Section, however, does not have procedures in place to review controls for concession contracts which have MAGs of less than \$100,000 per year (2 of 16 concession contracts). As a result, AVI cannot ensure that cash is appropriately safeguarded, recorded, and reconciled for these concession contracts.

## Summary of Recommendation

We recommend that AVI's Contract Compliance Section develop and incorporate procedural steps to monitor controls for concession contracts with MAGs of less than \$100,000 per year.

Additionally, AVI should request concessionaires with an annual MAG of less than \$100,000 to provide an annual certification representing that controls over cash receipts exist and are adequately monitored.

## **Summary of Management’s Response**

The AVI prepared the responses for the recommendation identified in this report. They agreed with the recommendation and their complete response is included as Appendix III to this report.

## **Summary of Objective, Scope and Methodology**

The audit objective was to evaluate AVI’s cash receipts processes and monitoring controls for concession contracts.

The scope of the audit covered AVI’s cash receipts processes and concession contract monitoring procedures for the period of October 2006 to September 2007.

The methodology included: 1) reviewing policies and procedures for AVI and concessionaires; 2) interviewing AVI and concessionaire personnel involved in the cash receipts and contract monitoring processes; 3) performing observations and walkthroughs of cash receipts transactions to validate processes; 4) reviewing cash receipts to ensure proper controls exist; 5) verifying the timeliness of deposits; and, 6) verifying cash receipts were recorded accurately to the City’s general ledger.

# Audit Results

## Overall Conclusion

The Department of Aviation's (AVI) Accounts Receivable Section has adequate controls over cash receipts. Cash receipts are properly recorded, deposited timely, and appropriately reconciled. The AVI also has adequate controls over concession contracts that include Minimum Annual Guarantees (MAGs) of greater than \$100,000 per year (14 of 16 concession contracts).

The AVI's Contract Compliance Section, however, does not have procedures to ensure that controls are in place and operating effectively for concession contracts with a MAG of \$100,000 or less per year (2 of 16 concession contracts).

## Certain Concession Contracts are not properly monitored by the Department

The AVI's Contract Compliance Section is not properly monitoring two concession contracts, (Contract A and Contract B), with MAGs of less than \$100,000 per year. The AVI does not have formal policies and procedures or a monitoring checklist to ensure that significant aspects of these contracts are identified and regularly monitored. The AVI's monitoring procedures are an important control to ensure that the City receives the proper amount of revenue because contracts under \$100,000 are not required to have an independent audit.

**Concession Contracts  
with MAGs less than  
\$100,000 Annually**

Contract A – MAG is \$90,250 annually for the five year contract.

Contract B – MAG is \$11,000 annually for the five year contract.

Because AVI appears to rely on the concessionaire's controls, the audit procedures included an evaluation of these controls. Contract A was selected for further analysis because Contract B was a new contract; therefore, sufficient information for Contract B was not yet available.

Controls over a random sample of 27 cash receipts were evaluated to determine whether Contract A had sufficient controls in place to ensure that cash was handled and properly recorded. The following discussion describes the lack of controls noted in the 27 cash receipts tested.

### Contract A concessionaire does not ensure policies and procedures are followed

The AVI cannot ensure that cash is appropriately safeguarded, recorded, and reconciled. The concessionaire does not follow their own policies and procedures which were intended to ensure that daily sales are accounted for properly. For example:

- Concessionaire employees do not consistently obtain a daily cash change fund

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- Cash change fund and sales are not deposited separately and employees do not sign daily summary receipts
- Concessionaire management does not accurately reconcile daily cash receipts and accountants do not indicate their review
- Concessionaire management does not monitor overages or shortages by employee
- The concessionaire has not used existing audio and video surveillance to ensure that its employees are beginning the day's business with appropriate daily cash funds and properly recording sales
- The concessionaire has not performed periodic audits of daily cash change funds and daily sales

**Recommendation:**

We recommend that AVI Contract Compliance Section develop and incorporate procedural steps to monitor controls for concession contracts with MAGs of less than \$100,000 per year.

Additionally, AVI should request concessionaires with an annual MAG of less than \$100,000 provide an annual certification representing that controls over cash receipts exist and are adequately monitored.

**Management's Response**

The Contract Compliance Section monitors all aspects of the concession contracts, including contracts with MAGs less than \$100,000 annually. This monitoring includes monthly sales review and analysis, historical sales and payment comparisons, annual MAG adjustments, departmental audits, concession accountant meetings, and procedural reviews. Contract Compliance in association with the Aviation Accounting Department has previously audited both concession contracts having MAGs less than \$100,000.

Contract A, the subject of this audit, will submit an annual independent audit, in accordance with generally accepted standards, to indicate a reasonable assurance that reported sales are accurate and that principles and methodologies used in the accounting of revenues are adequate.

Contract B provides a Minimum Annual Guarantee of \$11,000. All customer transactions are self service through the use of vending equipment. As there are

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no direct customer to contractor cash transfers, the accuracy of reported revenues will be verified in the periodic review of the operational integrity and mechanical accuracy of the machines which accept payment, dispense carts, and accept cart returns. The electronic accuracy of the unit's revenue acceptance mechanisms will be tested and compared to previous months' counts to insure the reporting methodology is correct and equates to the proper payment to the City. In addition, contractor will submit, on an annual basis, a certification representing that controls over cash receipts exist and are adequately monitored.

**Implementation Dates:**

Contract A will submit a partial year independent audit review (February, 2008 through June, 2008), by September, 2008, then submit subsequent independent annual audits.

Contract B will submit their initial monthly revenue report by the end of July, 2008. The reporting methodology will be reviewed and revised as necessary to insure traceable electronic data relating to sales, refunds, coin returns and revenue received is adequate and accurate. Contractor will submit a certification within 60 days following the end of each contract year that cash controls exist and are adequately monitored.

**Responsible Manager:** Robert Miville — Contract Compliance Section Manager



## Appendix I

### Background, Objective, Scope and Methodology

#### Background

The Department of Aviation (AVI) is located at Dallas Love Field Airport. Dallas Love Field Airport offers commercial flights – American, Southwest, and Continental – and non-commercial flights. The AVI's responsibilities include airport maintenance, operations and security, the Dallas Executive Airport, the downtown heliport, and capital construction and debt service for both Love Field and the Dallas Executive Airport.

Revenues are generated from Field Maintenance, Terminal Maintenance, Parking Garage receipts, Security Badge receipts, and Concession Contracts. The AVI's Accounts Receivable Section averaged approximately \$175,000 in daily revenue collections and \$43.4 million for the period October 2006 through September 2007.

The Contract Compliance Section is responsible for monitoring the 16 concession contracts (garage, advertising, food and beverage, retail, ATM, shoe shine, bag cart, and nine car rentals) and monthly documentation provided by the concessionaires. The 16 concession contracts in effect for the period generated revenue of approximately \$23 million for fiscal year 2006-2007.

The Contract Compliance Section also reviews the annual independent audit reports for concessionaires with Minimum Annual Guarantees (MAGs) of more than \$100,000 per year. In addition, an annual review of the MAG is completed by the Contract Compliance Section to determine subsequent year MAG and monthly MAG thresholds.

#### Objective, Scope and Methodology

This audit was conducted under the authority of City Charter, Chapter IX, Section 3, and in accordance with generally accepted government auditing standards.

The audit objective was to evaluate AVI's cash receipts processes and monitoring controls for concessionaires' cash receipts processing.

The scope of the audit covered AVI's cash receipts processes and concession contract monitoring procedures for the period of October 2006 to September 2007.

The methodology included the following:

- Gained an understanding of AVI's controls and monitoring procedures for cash receipts and concession contracts

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- Reviewed policies and procedures
- Interviewed AVI and concessionaire personnel
- Conducted observations and walkthroughs of the cash receipts processes
- Reviewed cash receipts documentation which outlined the flow of transactions, including receipting, recording, safekeeping, depositing, and reconciling of cash receipts
- Reviewed selected concessionaire contracts
- Traced daily cash activity to the general ledger and bank statements

## Appendix II

### Major Contributors to this Report

Carol Smith, CPA, CIA, CFE, Audit Manager  
Reisha Hall, Auditor  
Kevin Hannigan, CIA, Auditor  
Theresa Hampden, CPA, Quality Control Manager

## Management's Response

### Memorandum

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CITY AUDITOR'S OFFICE



CITY OF DALLAS

DATE: August 1, 2008

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report:  
Audit of Cash Receipts and Contract Monitoring Controls at the Department of Aviation

Our responses to the audit report recommendations are as follows:

#### **Recommendation 1:**

We recommend that the Department's Contract Compliance Section develop and incorporate procedural steps to monitor controls for concession contracts with MAGs of less than \$100,000 per year.

Additionally, the Department should request concessionaires with an annual MAG of less than \$100,000 provide an annual certification representing that controls over cash receipts exist and are adequately monitored.

#### **Management Response / Corrective Action Plan**

Agree       Disagree       Partially Agree

The Contract Compliance Section monitors all aspects of the concession contracts, including contracts with MAGs less than \$100,000 annually. This monitoring includes monthly sales review and analysis, historical sales and payment comparisons, annual MAG adjustments, departmental audits, concession accountant meetings and procedural reviews. Contract Compliance in association with the Aviation Accounting Department has previously audited both concession contracts having MAGs less than \$100,000.

Contract A, the subject of this audit, will submit an annual independent audit, in accordance with generally accepted standards, to indicate a reasonable assurance that reported sales are accurate and that principles and methodologies used in the accounting of revenues are adequate.

Contract B provides a Minimum Annual Guarantee of \$11,000. All customer transactions are self service through the use of vending equipment. As there are no direct customer to contractor cash transfers, the accuracy of reported revenues will be verified in the periodic review of the operational integrity and mechanical accuracy of the machines which accept payment, dispense carts and accept cart returns. The electronic accuracy of the unit's revenue acceptance mechanisms will be tested and compared to previous months counts to insure the reporting methodology is correct and equates to the proper payment to the City. In addition, contractor will submit, on an annual basis, a certification representing that controls over cash receipts exist and are adequately monitored.

"Dallas: The City That Works: Diverse, Vibrant, and Progressive."

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**Implementation Date**

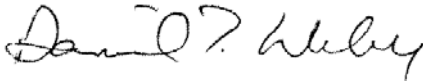
Contract A will submit a partial year independent audit review (February, 2008 through June, 2008), by September, 2008, then submit subsequent independent annual audits.

Contract B will submit their initial monthly revenue report by the end of July, 2008. The reporting methodology will be reviewed and revised as necessary to insure traceable electronic data relating to sales, refunds, coin returns and revenue received is adequate and accurate. Contractor will submit a certification within 60 days following the end of each contract year that cash controls exist and are adequately monitored.

**Responsible Manager**

Robert Miville – Contract Compliance Section Manager

Sincerely,



Daniel T. Weber, A.A.E.  
Director of Aviation