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Pinellas County, Florida

AUDIT OF AIRPORT CONCESSION SERVICES AGREEMENT WITH REPUBLIC PARKING SYSTEM

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Thomas Jewsbury, Executive Director

Per management's request, we have conducted an audit of the Concession Services Agreement with Republic Parking System, Inc. for paid public parking and shuttle bus service at the St. Pete-Clearwater International Airport.

Opportunities for Improvement are presented in this report.

We appreciate the cooperation shown by the staff of the Airport during the course of this review. We commend management for their responses to our recommendations.

Respectfully Submitted,

Hector Collazo Jr.
Inspector General/Chief Audit Executive

Approved:

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cc: The Honorable Chairman and Members of the Board of County Commissioners
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TABLE OF CONTENTS

INTRODUCTION **4**

Executive Summary *4*
Background *6*

SCOPE AND METHODOLOGY **8**

OBJECTIVES AND OUTCOMES **9**

OPPORTUNITIES FOR IMPROVEMENT **10**

1. *The Airport's Control Activities For Monitoring Reported Revenue Should Be Strengthened.* *10*
2. *The Airport Does Not Monitor Shuttle Bus Activities.* *13*
3. *Cash Receipts Are Not Always Deposited At The Bank Daily.* *15*
4. *The Internal Controls Over The Change Fund Are Not Sufficient.* *16*
5. *All Remote Parking Lot Rates Are Not Publicly Displayed.* *17*
6. *The Contract Contains Conflicting And Unclear Language.* *18*
7. *There Are No Formal Policies And Procedures For Monitoring The Concession Contract.* *24*
8. *The Concessionaire's Standard Operating Procedures Are Incomplete.* *25*

INTRODUCTION

Executive Summary

At the request of the Pinellas County (County) Administrator, we conducted an audit of the concession services agreement (CSA or contract) between St. Pete-Clearwater International Airport (PIE or Airport) and Republic Parking System, Inc. (Concessionaire). The objectives of the audit were to ensure contract compliance in the following areas:

1. Revenue reporting and payment terms
2. Parking lot operations
3. Shuttle bus operations

Our audit disclosed the Airport should more closely monitor the Concessionaire's activity related to revenue reporting. The Airport and the Concessionaire share revenue collected for paid parking at the Airport. Each month the Concessionaire submits a Gross Revenue report to the Airport, followed by payment for the Airport's share of the revenue. The Concessionaire does not submit required supporting documentation to the Airport when submitting the monthly Gross Revenue report. We reviewed the Concessionaire's accounting records, and found that generally, the accounting records support the revenue amounts reported and submitted by the Concessionaire, and the Concessionaire pays the reported amounts to the Airport. However, the Airport should verify the amounts reported to ensure the Concessionaire's continuous compliance.

We noted the Airport should monitor the Concessionaire's shuttle bus activity to ensure the amounts the Concessionaire charges the Airport are appropriate. The Concessionaire deducts the shuttle bus service fees charged from the parking concession revenues before submitting payment to the Airport. In support of the service fees charged, the Concessionaire provides a report of the shuttle bus drivers' labor hours with the monthly Gross Revenue report. However, the Airport does not verify the labor hours reported.

We also found contract inconsistencies and ambiguities that require clarification. For instance, one contract clause requires the Concessionaire to submit monetary penalties to the Airport in cases where the Concessionaire cannot account for parking tickets issued to patrons for using the parking lots. However, the language is unclear, and neither the Airport nor the Concessionaire has a sufficient understanding of the clause. Due to a lack of understanding and a lack of monitoring, the clause is not enforced. Consequently, the Airport may be missing an opportunity to collect additional revenue.

In addition, the Concessionaire does not consistently follow best practices for cash handling and cash security. Specifically, the Concessionaire does not deposit cash receipts at the bank every day as required by the Concessionaire's policies and procedures. In addition, the Concessionaire keeps two change funds, one of which the Concessionaire does not count

regularly. The Concessionaire does not secure one of the change funds while in use, nor record the change fund transactions for either fund.

Overall, our review determined the Concessionaire is diligent in scrutinizing revenue records to ensure it reports accurate revenue received to the Airport. The revenue sharing agreement incentivizes the Concessionaire to maintain control of revenue collections. However, there is very little control over shuttle bus service fees, which are essentially reported and deducted from the Airport's revenue share using an honor system. The Airport can begin to implement controls to ensure shuttle bus service fees are charged appropriately. In addition, the Airport and the Concessionaire can work together to strengthen cash controls. Our report contains eight opportunities for improvement.

Background

The Airport is responsible for operating the runways, buildings, equipment, and vehicles belonging to the Airport, and providing fire protection services for aviation operations. The Airport provides a full range of high quality customer, aviation, and facility services to support the transportation and commerce infrastructure used by airlines, passengers, tenants, the Transportation Security Administration, and the United States Customs Service.

The annual $1 billion+ economic impact of the Airport is associated with the tenants and businesses located at the Airport and Airport construction projects, in addition to spending from visitors arriving via the Airport to the Tampa Bay area. The Airport is entirely self-supporting by user fees, leases, concessions, and federal and State grant revenue. County property tax revenue is not used for Airport operations.

In fiscal year (FY) 2017-2018, the Airport collected $29,572,678 in revenues, of which, concession income accounted for $9,960,272, or 33.7%. Concession revenues include paid parking, car rentals, food and beverage, news and gifts, and other miscellaneous concessions. The Airport recently entered into a master concession services agreement for new food, beverage, and retail services, which the Airport expects to open in late 2019.

Revenue Source	Revenue	Percentage of Revenue
Intergovernmental Revenue	$ 327	0.0%
Private and Commercial Airline Fees	4,161,643	14.1%
Interest	536,549	1.8%
Concession	9,960,272	33.7%
Terminal Leases and Fees	267,060	0.9%
Land Leases	3,333,070	11.3%
Miscellaneous	11,782	0.0%
Federal Grants and Fees	10,038,088	33.9%
State Grants	1,263,886	4.3%
Total	**$ 29,572,678**[1]	**100.0%**

1 There is a $1 variance between the total and the sum of all revenue sources due to rounding.

The Airport's current CSA with the Concessionaire commenced on July 1, 2014. However, the Airport has had an agreement with the Concessionaire since 2002 to operate the public parking concession at the Airport for its short-term, long-term, and remote parking lots. The Concessionaire also provides shuttle bus service for passengers and employees that park in the remote parking lots. For the past 18 months, while some of the Airport's parking lots have been under construction, shuttle bus activity has increased. However, the Airport expects shuttle bus activity to decrease in the spring of 2020, when construction is complete, which may alleviate some of the improvements recommended in this audit.

The Concessionaire collects all parking fees from customers, and shares the revenue on a sliding scale with the County, as follows:

Annual Gross Receipts	Concession Fees to Airport
Up to $1 Million	80%
Over $1 Million - $2 Million	85%
Over $2 Million	90%

Each month, the Concessionaire deducts shuttle bus service fees from the concession fees owed to the Airport before submitting payment. The Airport's revenue share of total gross receipts for paid parking for contract year 2017-2018 (July 1, 2017 – June 30, 2018) was $3,350,670. Shuttle bus service fees charged in contract year 2017-2018 accounted for $401,957. Net of shuttle bus service fees and other allowable deductions, paid parking concession revenues submitted to the Airport in contract year 2017-2018 were $2,944,665.

SCOPE AND METHODOLOGY

The scope of the audit included Concessionaire compliance in the following areas:

- Revenue reporting and payment process
- Parking lot operations
- Shuttle bus operations

The audit covered contract year 2017-2018, which included the period of July 1, 2017 – June 30, 2018. However, transactions and processes reviewed were not limited by the audit period and scope. In order to meet the objectives, we performed the following during the audit:

- Interviewed Airport staff and Concessionaire staff to obtain an understanding of the contract and the related internal control environment.
- Evaluated and tested the revenue and payment information reported and paid by the Concessionaire.
- Evaluated parking ticket control and reporting for contract compliance.
- Evaluated parking lot operations and shuttle bus operations for contract compliance and efficiency.

Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and the Principles and Standards for Offices of Inspector General and accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances.

OBJECTIVES AND OUTCOMES

The objectives of the audit were to ensure contract compliance in the following areas:

1. Revenue reporting and payment terms
2. Parking lot operations
3. Shuttle bus operations

As a result of the audit, we determined:

1. The Concessionaire is not complying with the revenue reporting contract terms. The Concessionaire is required to submit accounting records with the monthly revenue reports, and has not submitted the required reports. Additionally, the Airport should strengthen its review of the revenue reporting contract provisions for compliance. However, our review disclosed that, in contract year 2017-2018, the Concessionaire's accounting records supported the revenue amounts reported.

2. Parking lot operational controls require improvement. Specifically, the Concessionaire does not secure cash according to best practices. The Concessionaire does not always deposit cash at the bank daily, as required by the Concessionaire's policies and procedures. Additionally, controls over the change funds are needed to ensure proper accounting of cash on hand.

3. The Concessionaire is complying with most shuttle bus operations requirements. However, the Concessionaire does not submit weekly shuttle bus schedules to the Airport as required by the contract. In addition, the Airport does not continuously monitor shuttle bus activity to ensure the amounts deducted from revenue reported are appropriate.

OPPORTUNITIES FOR IMPROVEMENT

Our audit disclosed certain policies, procedures, and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. The Airport's Control Activities For Monitoring Reported Revenue Should Be Strengthened.

The Airport should strengthen its monitoring activities to validate the Concessionaire's internal control effectiveness or the Concessionaire's compliance with the contract. The Airport receives monthly Gross Revenue reports from the Concessionaire, which indicate the gross receipts for the month, various deductions, and the County's revenue share, which is referred to as the concession fee. The Airport subsequently verifies the payment amounts from the Concessionaire agree to the concession fee reported. However, the Airport does not review supporting documentation for the Gross Revenue reports to ensure the revenue reported is accurate. Although the Airport analyzes revenue trends, additional control activities are needed to ensure continued compliance with contract terms.

Additionally, the contract requires the Concessionaire to submit to the Airport the following two reports with the Gross Revenue reports each month:

- Monthly Ticket Reconciliation
- Lost Ticket Report

The Concessionaire generates these reports, but it does not submit them to the Airport. These reports are added controls to ensure the Concessionaire can account for tickets issued and fraudulent activity is not occurring.

The Concessionaire generates internal reports on a daily and monthly basis. The Concessionaire does not prepare a separate Monthly Ticket Reconciliation report; it prepares the monthly ticket reconciliation as part of its Monthly Report, which is a summary of the Concessionaire's Daily Reports prepared during the month. The Daily Reports include revenue collected, as well as ticketing information needed for the monthly ticket reconciliation. The Concessionaire's ticket reconciliation compares issued and collected parking tickets to determine if there are any unaccounted for parking tickets.

During the audit, we reviewed Monthly Reports, Daily Reports, and the accounting records that supported the Daily Reports to ascertain the accuracy of reported revenue and ticket reconciliations. We reviewed all 12 Monthly Reports for contract year 2017-2018, and compared the revenue documented with the revenue reported on the Gross Revenue reports submitted to the Airport. We noted 11 minor variances in the gross revenue (less than 1% of gross receipts) between the Gross Revenue reports and the Monthly Reports. After working with the Concessionaire's accounting staff to understand the variances, we found two of the variances were due to manual data entry errors, and nine variances were due to various timing adjustments. We concluded the Concessionaire is generally reporting revenue accurately; however, the Concessionaire should submit the ticket reconciliations monthly to the Airport, as required.

As noted above, during our review of the Gross Revenue reports, in order to understand the variances and causes of each, we had to request and review additional documentation provided by the Concessionaire's corporate accounting office. We found the Concessionaire's staff summarizes many adjusting entries on the Gross Revenue reports, which does not allow the reviewer to understand the adjusting entries without following up with Concessionaire staff. The Airport should work with Concessionaire accounting staff to revise the reports to ensure the Airport can efficiently monitor the contract.

As noted in OFI #6, the Airport is not enforcing a contract clause related to the monthly ticket reconciliations due to a lack of understanding of the contract language, coupled with the Concessionaire failing to submit the ticket reconciliations to the Airport. The ticket reconciliations need to be submitted to the Airport monthly going forward so the Airport can start to enforce the contract and potentially collect additional revenue, through penalties assessed on unaccounted for parking tickets. See OFI #6 for additional details about the contract language.

In addition to reviewing the Monthly Reports in contract year 2017-2018, we also selected one Daily Report from each month and traced the information to the Concessionaire's accounting records. Accounting records include the following:

- Cashiers' reports, which indicate each cashier's till amount at the beginning and end of his or her shift
- Credit card and cash transaction reports from the parking ticket fee computers
- Credit card receipts signed by customers
- Processed parking tickets
- Daily Worksheets, which Concessionaire management uses to summarize daily transactions in a format that can be transferred to the Daily Reports

We verified the following during our review of the Concessionaire's accounting records:

- Cash revenue reported on the Daily Reports agreed with the Daily Worksheets, the parking ticket fee computers' cash transaction reports, and the cashiers' reports

- Credit card revenue reported on the Daily Reports agreed with the Daily Worksheets, credit card transactions from the parking ticket fee computers, and credit card receipts

During our review, we relied on notes made by Concessionaire management and cashiers to explain variances between certain reports, such as the fee computers malfunctioning and requiring the use of a backup credit card transaction device. We validated all reported revenue amounts and concluded the Concessionaire is effectively managing its revenue receipts. However, the Airport should periodically monitor activity to ensure continued compliance and accuracy.

The Concessionaire is required to submit the Lost Ticket Report to the Airport monthly. This is a list of all customers who lost their parking ticket and received an exception ticket in its place during the month. As an added control, the contract requires the Concessionaire to contact 20% of the customers listed on the Lost Ticket Report and verify they lost their ticket. We reviewed the reports for all 12 months during contract year 2017-2018, and noted in nine months, less than 20% of the customers were called (between 14% – 18%). We concluded the Concessionaire should comply with contract provisions or work with the Airport to determine what percentage of the customers the Concessionaire should contact each month.

Effective contract monitoring provides management with assurance the Concessionaire is abiding by contract terms and reporting accurate gross revenue amounts. Limited staff resources have prevented the Airport from monitoring the contract and enforcing the contract terms. Although the variances noted between revenue reported and the accounting records were not significant, the Airport is not monitoring sufficiently to periodically validate the Concessionaire's internal control effectiveness, compliance with contract terms, and to assess the reasonableness of variances and adjustments.

We Recommend Management:

A. Ensure the Concessionaire submits a ticket reconciliation and Lost Ticket Report monthly with the Gross Revenue report.

B. If necessary, work with the Concessionaire to revise its percentage requirement for contacting customers listed in the Lost Ticket Report and enforce it accordingly by performing periodic reviews.

C. Review the Concessionaire’s Gross Revenue report format for potential improvements, such as clearly identifying all adjusting entries, so the Airport can easily review the reports for accuracy.

D. Determine an appropriate frequency and begin reviewing the Concessionaire’s detailed accounting records and monthly ticket reconciliations.

Management Response:

A. **Management Concurs.** The Airport has requested the ticket reconciliation and Lost Ticket Report each month going forward.

B. **Management Does Not Concur.** When discussing this item with the Concessionaire, they indicated that they in fact call more than 20% of customers listed on the Lost Ticket Report. However, because of Caller ID, they only reach between 14-18% of those 20% of customers. The Airport is satisfied that the Concessionaire is following this provision in good faith.

C. **Management Concurs.** Airport Finance is reviewing the Gross Revenue Report with the Concessionaire to determine if there are reporting areas that can be improved.

D. **Management Concurs.** Airport Finance will review detailed accounting records and monthly ticket reconciliations at pre-determined times during the year.

Airport Finance, while needing to strengthen its review of the Concessionaire's monthly reports, does review the Concessionaire's revenues and notes trends and discusses each month's revenues with the Airport Director. Any excessive increases or decreases in revenues triggers discussions with the Concessionaire, which has not occurred thus far.

The Airport Director recommended the audit of this Concessionaire due to the extensive parking lot and roadway construction since December 2017 and its small Airport Finance division's inability to perform in-depth review of this CSA and assessing whether the Concessionaire was following its provisions.

2. The Airport Does Not Monitor Shuttle Bus Activities.

The Concessionaire operates shuttle buses to transport passengers and Airport employees from Airport parking lots to the terminal building. The contract allows the Concessionaire to deduct a service fee for shuttle bus operations from the concession fee before submitting payment to the Airport. The Airport Director or Deputy Director assesses the quantity of shuttle buses needed during the Airport's busier periods during the year and works with the Concessionaire to determine the best combination of customer and employee shuttles based upon flight schedules and forecasted passenger usage. When the Concessionaire submits the monthly Gross Revenue report to the Airport, it also submits a monthly Labor Allocation report to validate the charges for the shuttle bus drivers' time. However, the Airport does not verify any reported charges.

We noted the shuttle buses have a global positioning system (GPS) installed, and the Airport has purchased reporting functionality from the GPS provider. Reviewing GPS reports and comparing them to amounts billed for service fees may provide assurance about the service fees

deducted. In addition, the primary purpose for the GPS platform is providing a public-facing application, which passengers can utilize when planning their trip through the Airport.

Effective contract monitoring provides management with assurance the Concessionaire is abiding by contract terms and any deductions to the concession fees are accurate. However, limited staff resources have prevented the Airport from monitoring the daily shuttle bus activity.

We reviewed the shuttle bus service fees deducted for contract year 2017-2018, and although there were no variances noted between the amounts deducted and the Labor Allocation reports, we cannot establish that the Labor Allocation reports were accurate. The Airport does not conduct periodic validation of the Concessionaire's internal control effectiveness, compliance with contract terms, and revenue amounts received from the Concessionaire. The Airport expects shuttle bus service to be greatly reduced in the spring of 2020, when much of the parking lot construction will be completed. Nonetheless, the Airport should determine an appropriate method for monitoring shuttle bus activity to validate charges.

We Recommend Management:

A. Develop an understanding of the reporting functionality in the GPS application.

B. Develop and implement procedures for periodically validating shuttle bus billings using GPS data.

C. Market the public-facing GPS application to customers so they can view and track the shuttle bus service at the Airport.

Management Response:

A. **Management Does Not Concur.** The Airport already has an understanding of the reporting functionality of the Ride Systems (GPS) application. The application is primarily being used by Airport staff to respond to customer concerns that shuttle buses are taking too long to pick up or drop off customers, as well as tracking the various shuttle bus routes. In order to check the labor allocation usage, Airport staff would have to watch the application “real time” since the Airport would not have access to meaningful data from the application.

B. **Management Does Not Concur.** Airport Staff does not believe that utilizing the Ride Systems application will produce the information needed thirty to sixty days after the

shuttle bus operations take place. The Airport believes that occasionally requesting copies of shuttle bus drivers' time cards would produce more accurate information.

C. **Management Concurs.** The Airport already has the Ride Systems application advertised at the Baggage Claim area, which was not being used when the Auditor was at the Airport. The construction had closed that area temporarily, so the Ride Systems application was not visible to Airport customers. However, the Airport agrees that it should look for ways to promote it more.

IG Reply:

The IG encourages Airport Management to reduce the risk of shuttle bus fee over reporting by developing and implementing procedures for periodic validation of the shuttle bus service fees billing.

3. Cash Receipts Are Not Always Deposited At The Bank Daily.

The Concessionaire does not always deposit cash receipts daily at the bank. The Concessionaire's Standard Operating Procedures (SOPs) require daily bank deposits, but the contract does not. Average daily cash receipts for contract year 2017-2018 were approximately $2,700, with a daily high of approximately $8,800.

The Concessionaire's SOPs indicate Concessionaire staff should utilize "night drops" when the bank is closed. However, Concessionaire management indicated staff does not deposit cash receipts on Sundays due to the bank being closed. In addition, sometimes Concessionaire staff keeps cash receipts overnight to have sufficient change for the cash drawers. Maintaining cash receipts at the Airport overnight could result in theft or loss of funds.

We Recommend Management:

Ensure the Concessionaire follows the SOPs and deposits cash receipts daily.

***Management Response*:**

Management Does Not Concur. Under the CSA, the Concessionaire is responsible for the protection and depositing of the revenues collected. The Airport is "made whole" in the unfortunate event of missing or lost revenues and has no exposure. Concessionaire deposits at a local bank during the banking days of operation Monday through Friday. Weekend deposits are maintained in a locked safe and deposited on the next available banking day following Sunday. Concessionaire has revised its Standard Operating Procedures (SOP) to reflect this specific process.

4. The Internal Controls Over The Change Fund Are Not Sufficient.

Each parking lot attendant has a cash drawer for accepting cash payments and making change. In addition, the long-term parking lot attendant keeps a $700 change fund in the booth in order to make change for other cashiers, as needed. Since the cash drawer in the long-term booth does not lock, Concessionaire staff is unable to secure the $700 change fund during operational hours.

In addition, during a walkthrough of the long-term parking lot booth, we reviewed the contents of the safe, which included a box of dollar bills. Concessionaire management was not immediately aware of the amount in the cash box, but later confirmed it was $1,000. Concessionaire management indicated the box of money was a second change fund, and used as needed. When asked why the Concessionaire did not increase the initial change fund, as opposed to having two change funds, Concessionaire management indicated staff does not consistently need additional funds.

We also noted Concessionaire staff counts the $700 change fund each morning when it counts the cash drawers; however, it does not routinely count the $1,000 change fund. In addition, Concessionaire staff does not document transactions to make change in and out of either change fund.

Cash handling best practices recommend cash custodians secure cash at all times and document transfers of cash between employees.

Concessionaire management has not implemented a proper cash handling system, such as maintaining one change fund and ensuring the change fund is stored in a locked drawer when not in the safe. The Concessionaire maintains two separate change funds, which may be unnecessary and redundant. Concessionaire staff keeps one change fund of $700 in an unlocked drawer during operational hours. Another change fund of $1,000, in loose bills, is stored in a cash box in a safe, but is not accounted for daily. The lack of physical controls over both funds could results in an opportunity for mishandling or theft.

We Recommend Management:

A. Work with the Concessionaire to assess change fund procedures and increase the $700 change fund, if needed, while eliminating the second change fund. Deposit at the bank any cash not needed for the change fund.

B. Work with the Concessionaire to secure the long-term booth change fund during operational hours.

C. Work with the Concessionaire to develop a system to record the transfer of funds between employees when the change fund is used.

Management Response:

Management Does Not Concur for Recommendations A., B., or C. Under the current CSA, all change funds are the sole property of the Concessionaire. Therefore, the Airport has no exposure related to practices and processes surrounding the retention or issuance of these funds. Concessionaire has elected to control and issue change funds in a manner that serves the current operations. Concessionaire will review internal change processes once the current construction of the parking lots, toll plazas, and roadway system is completed. Concessionaire will update the SOP if there are any internally-elected revisions to its processes.

IG Reply:

The IG understands Airport Management's position that there is no risk of monetary loss to the Airport. However, the Airport will benefit from reducing the risk of fraud opportunities on its property. The IG encourages Management to promote effective internal controls with the Concessionaire.

5. All Remote Parking Lot Rates Are Not Publicly Displayed.

The daily maximum rate for the remote parking lot is $8.00, which is posted on a sign at the entrance to the parking lot. However, the following additional rate details are not displayed on the parking sign:

- The first hour of parking is $2.00
- Each additional 20 minutes is $1.00

The Airport indicated that although the contract requires the Concessionaire to maintain the parking signs, due to ongoing construction within the Airport's parking lots, the Airport has been providing the signs. The contract, Article 9 Parking Rates, requires:

"Public parking rates shall be prominently displayed on signs and maintained at all entrances and exits to the public parking lots by Concessionaire at their sole expense, which shall be subject to the approval of the Airport Director."

Not having the parking rate information posted at the remote parking lot results in a lack of price transparency for the passengers. It may cause confusion and inconsistency in the rates charged, up charging unaware passengers, and could lead to fraudulent activities.

We Recommend Management:

Update the parking lot signage to reflect all parking rates in the remote parking lots.

Management Response:

Management Concurs. Because the construction of the parking lots and roadway system is nearing its two-year mark, the Airport has elected to provide temporary signage as parking lots and roadways change several times during the project. There have been many changes of parking signage during the project and the large signs with the detailed parking rates were removed to save until the project is completed in the first quarter of 2020. One of the removed signs was for the Short-Term parking lot which does not currently exist. When the lots are in their permanent locations again, the former signage will be re-installed.

6. The Contract Contains Conflicting And Unclear Language.

During our review of the contract, we noted four areas of the contract that contained inconsistent or ambiguous language. In two of the four areas, Gross Revenues and Audit Reports, the Airport understands the contract intent and is able to enforce the contract requirements. However, Airport staff is not enforcing the other two areas, Unaccounted Tickets and Document Retention, due to a lack of understanding between the Airport and the Concessionaire. The Airport should improve the contract language in the following areas for clarity:

1. Gross Revenues

The contract, Article 4 Concession Fee, Section 4.2 Payment, indicates the following:

> *"Concessionaire's Gross Revenue shall not be reduced by any payment required of the Concessionaire for business expenses, including but not limited to ...operating expenses ...other taxes."*

We noted the Concessionaire reduces the concession fee due to the Airport by the cost of sales tax and credit card fees. Article 1 Definitions, Section 1.9 "Gross Revenues" includes the following language:

> *"Credit/debit card fees and sales tax shall not be included in 'Gross Receipts'*."

Airport staff indicated Article 1 of the contract was correct, in that deducting the sales tax and credit card transaction fees was allowable. Airport staff assumes that Article 4 was not updated appropriately to reflect Article 1 modifications allowing these deductions. The Airport should consider modifying the language in Article 4 if a contract amendment is executed. In the interim, the Airport should document internally that Article 1 language supersedes Article 4 language, with regard to allowable deductions.

2. Unaccounted Tickets

Article 7 Lost and Unaccounted Tickets Written, Section 7.2 Unaccounted Tickets, includes the following language:

> *"Concessionaire shall deliver to the Airport Director, with its submission of the Concessionaire's Gross Revenue report:*
>
> *A Monthly Ticket Reconciliation Report which performs the above reconciliation, by area, based on the vehicle inventory counts at the beginning of the month, all tickets issued during the month, all ticket transactions performed during the month and the vehicle inventory count at the end of the month. The report shall compare the number of tickets for which the Concessionaire is accountable against the number of transactions reported for the month, by area, and compute the number of tickets not accounted for, if any. Concessionaire shall be liable for penalties which shall be paid to the Airport within fifteen (15) days of the end of the accounting month, if the number of 'unaccounted tickets' which exceed one half percent (1/2%) of gross revenue computed by each area (Short-Term, Long-Term, Remote Lot if applicable) according to the following schedule:*

> *The maximum daily rate for the number of 'Unaccounted Tickets' which are greater than one half percent (1/2%) but less than one percent (1%) of Gross Revenue.*
>
> *Twice maximum daily rate for the number of 'Unaccounted Tickets' which are greater than one percent (1%) but less than two percent (2%) of Gross Revenue.*
>
> *Three times the maximum daily rate for the number of 'Unaccounted Tickets' which are greater than two percent (2%) but less than five percent (5%) of Gross Revenue.*
>
> *Five times the maximum daily rate for the number of 'Unaccounted Tickets' which are greater than five percent (5%) of Gross Revenue."*

The Concessionaire currently performs monthly ticket reconciliations as part of their Monthly Reports. As noted in OFI #1, the Concessionaire does not submit the reconciliations to the Airport monthly as required by the contract. We reviewed all monthly ticket reconciliations for contract year 2017-2018 and noted the Concessionaire's Monthly Reports include a calculation, which highlights when the number of unaccounted for tickets is larger than one-half percent of tickets issued (not gross revenue as indicated in the contract). However, Concessionaire management does not report this information to the Airport.

Airport management is not aware of how to enforce the contract penalties, as the penalties are assessed when the number of unaccounted for tickets surpasses one-half percent of gross revenue. As noted above, the Concessionaire is calculating the unaccounted for tickets based on the tickets issued. Since the value of unaccounted for tickets is unknown, it is not possible to compare the quantity of unaccounted for tickets with a percentage of gross revenue. Neither Airport staff nor Concessionaire staff understands the intent of the contract language and, consequently, does not enforce it.

We also reviewed the source documents for four of the reconciliations performed during the contract year, and noted minor variances between ticket counts and source data. The Concessionaire reported that the variances are likely manual data entry errors, but they could also be required adjustments. Since the reasons for the variances were not documented on the ticket reconciliations, we could not conclude on the appropriateness of the variances.

In five months, during contract year 2017-2018, the Concessionaire documented the number of unaccounted for tickets as greater than one-half percent of tickets issued. This could have resulted in fees due to the Airport. It is difficult to quantify the potential missed revenue opportunity, as the contract language is not clear. Assumptions would be required to calculate potential penalties based on the percentage of tickets issued. This further illustrates the need for the contract language to be clear and for the Airport to actively monitor and enforce the contract. In addition, the Airport must require the Concessionaire to document a

thorough explanation of unaccounted for tickets so the Airport can use this information during the monitoring process.

3. Audit Reports

Article 4 Concession Fee, Section 4.2 Payment, includes the following language:

> *"The Concessionaire shall submit a certified, sworn statement of the annual gross receipts by an officer of the Concessionaire on or before the 21st day of the month immediately after the contract year."*

For this contract, based on a contract end date of June 30, the due date is July 21 of each year. Article 8 Audit states the following:

> *"Concessionaire shall provide to the County an annual audit report on all Gross Revenues....All audit reports shall be filed with the County within ninety (90) calendar days after the end of each calendar year."*

Per Airport staff, the annual sworn statement of the annual gross receipts is the cover page of the audit. Therefore, both are received at the same time, precluding the Concessionaire from complying with both requirements. In contract year 2017-2018, the Concessionaire submitted both documents on September 26, 2018. Therefore, the cover page and audit submittal met neither requirement. However, the Concessionaire submitted both documents within 90 days of the contract year end. We conclude the submittal is reasonable and meeting the intent of the contract. Nonetheless, the Airport should revise the contract language to ensure clarity. In the interim, the Airport should document internally the current accepted practice.

4. Document Retention

Article 6 Records and Reports includes the following language:

> *"The Concessionaire shall maintain and make available to the County for inspection, upon twenty-four (24) hours notice and within normal business hours, the following:*
>
> A. *Records of all tickets purchased and used including dispenser number and date used.*
>
> B. *All used parking tickets, lost ticket forms, and validations for a period of three (3) years.*

C. *A log to include incidents occurring such as power outages, complaints, etc, for the current contract period or one (1) year, and previous three (3) years.*

D. *Any and all other accounting records maintained locally which pertain to the receipt of parking revenues."*

However, immediately following this section, the language conflicts with item B. above:

> *"All other records, including processed parking tickets, shall be retained and stored, at an off-airport location, and at Concessionaire's expense, for the term of the Agreement and any extension …as required by law."*

Concessionaire management believes that all records are required to be maintained offsite. However, the Concessionaire currently stores approximately three years of accounting records and tickets in the Concessionaire's office at the Airport, which is not an optimum use of space. Airport management is not aware of, or enforcing, the document retention requirements. When the Airport executes a contract amendment, the Airport should modify the language to state clearly the Concessionaire's obligations. In the interim, the Airport should work with the Concessionaire to assess the Airport's needs for document retention and enforce the contract accordingly.

Shawn Burton, general counsel of GE Aviation's Business & General Aviation and Integrated Systems businesses stated in a Harvard Business Review Article:

> *"Business leaders should not have to call an attorney to interpret an agreement that they are expected to administer. We should live in a world where contracts are written in accessible language....A world where disputes caused by ambiguity disappear."*

Airport staff believes that inconsistencies developed as modifications were made to the contract, and contract language was not updated consistently. Contracts that are inaccurate, unclear, or contain conflicting language prevent the users from properly executing and the administrators from properly enforcing the contract. The Airport is unable to enforce the contract clause related to unaccounted for tickets due to a lack of understanding of the contract language. In addition, neither the Airport nor the Concessionaire understands the document retention requirements.

We Recommend Management:

A. Document the inconsistencies noted and, if the Airport executes a contract amendment in the future, consider removing any inconsistencies and ambiguities.

B. Develop a methodology for the Concessionaire to calculate the unaccounted for tickets and enforce the contract.

C. Develop a methodology for the Concessionaire to retain contract documents and enforce the contract.

Management Response:

A. **Management Concurs.**

B. **Management Does Not Concur.** The intent of this language is to offer the Airport an opportunity to receive revenues (penalties) when and if unaccounted-for tickets defined as a negative/loss meet two measurements: (1) unaccounted-for tickets exceed one-half percent (0.5%) or greater of total tickets issued; and (2) when the monthly percentage does exceed this threshold, a calculation is performed by multiplying the number of unaccounted-for tickets above the 0.5% by the maximum daily rate. That total is then compared to the gross revenues. If the total estimated dollar loss exceeds 0.5% of gross revenues, Concessionaire would reimburse said dollar amount.

If both the unaccounted-for percentage of tickets and the estimate total loss does not exceed 0.5%, Concessionaire shall not be liable for penalties.

An example of the calculation follows. The first scenario requires no penalty and the second scenario requires a penalty.

Total tickets	10,000
Total gross revenue	$315,000.00
Unaccounted-for tickets	70 (.7%) (divide 70 by 10,000)
Tickets above 0.5%	20
First calculation	20 X $10.00 (maximum daily rate) = $200.00
Second calculation	$200.00 divided by $315,000.00 = .063% (does not exceed 0.5%)

Total tickets	10,000
Total gross revenue	$250,000.00
Unaccounted-for tickets	95 (0.95%) (divide 95 by 10,000)
Tickets above 0.5%	45
First calculation	45 x $30.00 (maximum daily rate) = $1,350.00
Second calculation	$1,350.00 divided by $250,000.00 = 0.54% (exceeds 0.5%)

Third calculation	$250,000 X 0.5% = $1,250.00 (the amount of tickets over the 0.5%)
Amount of penalty	$1,350.00 - $1,250.00 = $100.00

Airport staff has not been using this formula because of how cumbersome the process is and the fact that the Airport had not been receiving the unaccounted-for ticket report each month. This formula also would not be advantageous to use in months where we have "Honor Flights" or other airport events that give customers free parking. The Airport typically has several hundred tickets that are unaccounted for during Honor Flights and enforcing this language would mean that we can no longer offer free parking to Airport-sponsored events.

After construction of the parking lots is completed, the Airport will consult with the Concessionaire to discuss possible solutions. The Airport does not wish to amend the CSA, as it would open us to renegotiation on other items from both parties that have nothing to do with this audit.

C. **Management Concurs.** Concessionaire has relocated records to an off-site storage facility. Concessionaire currently maintains ninety days or records in the parking office to accommodate Airport reviews when requested.

IG Reply:

The Airport has effectively illustrated the complexity of the calculation presented above. The IG's goal for recommendation B. was for the Airport to assess the contract language and determine a feasible method for assessing penalties and promote ticket accountability. The IG encourages Management to develop a process to enforce the contract provision.

7. There Are No Formal Policies And Procedures For Monitoring The Concession Contract.

The Airport does not have formal policies and procedures for concession contract monitoring activities. The Committee of Sponsoring Organizations of the Treadway Commission states the following regarding control activities:

> *"Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out."*

The Airport has not created nor implemented formal policies and procedures for concession contract monitoring. Without formal concession contract monitoring policies and procedures, the Airport cannot ensure the Concessionaire has effective internal controls and its personnel are performing their duties consistently to reduce the risk of financial loss and contract noncompliance.

We Recommend Management:

Develop and implement formal policies and procedures for contract monitoring activities.

***Management Response*:**

Management Concurs.

8. The Concessionaire's Standard Operating Procedures Are Incomplete.

During an interview, Concessionaire management indicated some of its procedures were outdated due to using a new revenue processing system. The procedures have not been updated for the new system. Additionally, there are no procedures for abandoned vehicles, as required by the contract. During a parking lot walkthrough with the Inspector General, Concessionaire management noted an abandoned vehicle requiring removal. Management stated that after approximately six months of observing an abandoned vehicle in a parking lot, it reports the vehicle to Airport Operations, and the Airport arranges for the vehicle to be towed.

Article 14 Operational Procedures requires:

> *"Concessionaire shall submit to the County written Standard Operating Procedures (SOP) no later than three (3) days from the award of contract or prior to initiation of operation, whichever occurs first. The SOP is to include the following:*
>
> *…E. Procedures for dealing with vehicles left in the Assigned Area over different time periods. If a vehicle remains parked in any of the paid public parking lots in excess of ninety (90) days, Concessionaire shall notify the Airport in writing."*

The Concessionaire installed new revenue control equipment, and the Concessionaire did not submit corresponding procedures to the Airport. The Concessionaire also did not submit abandoned vehicle procedures to the Airport when the contract began. Without current policies and procedures, Concessionaire staff may perform its duties inconsistently. Additionally, Airport contract administration staff is not aware of the required procedures.

We Recommend Management:

A. Ensure the Concessionaire provides current policies and procedures for PIE's Airport operations.

B. Assess the policies and procedures provided by the Concessionaire for appropriateness and compliance with the contract.

Management Response:

Management Concurs for Recommendations A. and B. Concessionaire has updated and revised their SOP since this audit and will make them available for Airport review.

Division of Inspector General

Ken Burke, CPA

Clerk of the Circuit Court
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Pinellas County, Florida

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