



DATE: April 1, 2009

TO: RUSSELL C. WIDMAR, Director of Aviation, Airport
BRENDAN CARMODY, Assistant Director, Airport
MATT GRIESHEIMER, Vice President, ACE Parking Management, Inc.
JOE POOL, Manager, ACE Parking Management, Inc.

THROUGH: RENENA SMITH, Budget Director
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor
Budget and Management Studies Division - Internal Audit

SUBJECT: AIRPORT/ACE PARKING MANAGEMENT, INC. CONTRACT AUDIT

Attached is the Final Audit Report for the Airport/ACE Parking Management, Inc. Contract Audit. This audit was performed in accordance with AO 1-12 and Government Auditing Standards. Audit Exit Meetings were held with the Airport and ACE management personnel to discuss the audit findings and recommendations.

Both the Airport and ACE Parking Manager are commended for their cooperation during the course of the audit. Some areas for improved contract compliance, accountability and enhanced parking revenues for the City were noted by Internal Audit in the performance of this audit and are reflected in this audit report.

We wish to thank the Airport Director and his staff and the ACE Parking Manager for their assistance and cooperation provided during the course of this audit. If you have any questions, please contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachments

cc: Ashley Swearengen, Mayor
Council Members
Andrew T. Souza, City Manager
Bruce Rudd, Assistant City Manager
Margaret Arechiga, Deputy City Manager
Michael Lima, MAIII, Airports Finance Manager
Vince Cantu, Budget Analyst, Budget and Management Studies Division



INTERNAL AUDIT

FINAL AUDIT REPORT

**Contract Audit
Airport and ACE Parking Management, Inc.**

**Performed By:
Bob Koury, Principal Internal Auditor
Budget and Management Studies Division – Internal Audit**

Issued on April 1, 2009

Executive Summary

Based on the results of this internal audit of the Airport/ACE Parking Management Contract, the more significant audit findings are summarized below. This audit report is intended to assist Airport Management in the performance of their responsibilities, administration, oversight and contract compliance related to the current and any future Parking Management Contracts entered into by the Airport.

Key Audit Findings

- Noncompliance with various contract provisions and requirements by ACE which created inconsistency and ineffectiveness in the performance of contractual obligations and responsibilities throughout the contract period. This finding has possibly impacted parking fee revenue for the Airport, e.g. Daily Cash Shortages, Insufficient Funds Transactions, and Ticket Accountability and Related Penalties.
- Lack of sufficient monitoring and oversight of the ACE Parking Management Contract by Airport Management throughout the entire term of the contract which would have helped ensure compliance by the Contractor for the submission of various required documents, reports, schedules, cash shortage and ticket accountability calculations, etc.
- Lack of formalized and timely communication between Airport Management and the ACE Parking Manager throughout the term of the contract related to non-submitted daily, monthly and annual reports, budgets, schedules, various calculations, etc. by ACE.

Key Audit Recommendations to Airport Management

- Any subsequent Parking Management Contract entered into by the Airport should be closely monitored on an ongoing basis by Airport Management for adequate and consistent compliance with all terms and required provisions and reporting by the Contractor. This administration and oversight of such contracts by Airport Management will ensure proper and timely reporting, accountability, compliance, good internal controls and enhanced parking fee revenues for the Airport. Ongoing communication between the Airport and new Parking Management Contractor related to contract requirements must also occur and be adequately documented throughout the term of the Contract.
- Airport Management should immediately review and calculate all cash shortages incurred by ACE (between the daily Gross Receipts amount and the Daily Deposit amount) for the entire term of this Contract. The Airport should then pursue either reimbursement from ACE for the shortages or "offset" these shortages against any monies still due to ACE, in accordance with, and supported by, all applicable sections of the Contract.

- Airport Management should immediately pursue the collection of as much of the \$5,500 in parking fee receivables as possible or “offset” these receivable amounts against any monies still due to ACE, in accordance with, and supported by, all applicable sections of the Contract. For any subsequent Parking Management Contract, this section of such contract should be more closely monitored and acted upon for enhanced and timely payment of delinquent parking fee revenues due the Airport.
- Airport Management should immediately review and calculate any "net penalties due" by ACE for "unaccounted and/or lost" tickets for the entire term of this Contract. If determined appropriate, then pursue either reimbursement from ACE of such penalties or "offset" these penalties against any monies still due to ACE, in accordance with, and supported by, all applicable sections of the Contract.
- Airport Management, ACE Parking Management, Inc. and Standard Parking Corporation should immediately commence to work together for an effective and efficient transition of Parking Management Contract services at FYI from ACE to Standard effective April 1, 2009. This should include, but not be limited to, transition of gate attendants for proper collection of parking fees, recordkeeping and day's transactions “cut-offs” (from ACE to Standard), operational and financial reporting from Standard to Airport Management, and the documentation of FYI parking lot equipment and fixtures (assets) to be managed and maintained by Standard, in accordance with the newly executed Parking Management Contract.

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INTRODUCTION

Background

The City of Fresno Airport entered into a Parking Lot Management Services Agreement with ACE Parking Management, Inc., effective March 1, 2004. The initial term of this contract was for a three-year period ending on February 28, 2007, with the option to extend such contract for up to two (2) additional and consecutive one (1) year renewal terms. At the time of this audit, the contract was in its fifth and final year, ending February 28, 2009.

Effective March 1, 2004, ACE Parking Management, Inc. has been responsible for the management, operation, records-keeping, accounting, auditing, revenue control and providing services to users of such automobile parking facilities and the public. There have been no other written Amendments or revisions to the current Airport/ACE contract effecting the terms, provisions and requirements of said contract.

It should be noted that the ACE Parking Management Contract technically expired, effective March 1, 2009. However, ACE was allowed to continue to operate and manage the Airport Parking Lots through the end of March 2009. On March 17, 2009, the City Council approved Standard Parking Corporation as the Fresno Airport's new Parking Management Contractor, effective April 1, 2009.

Audit Objectives

The primary audit objectives of this contract audit were to determine and provide assurances that:

- ▶ The Contractor has established and maintains an adequate system of internal controls to assure that all Airport parking fees are received, accounted for, documented, deposited and accurately reported, and all parking lot assets and fixtures are accounted for;
- ▶ Both Contractor and Airport responsibilities, as stipulated and required by the contract, have been adequately complied with by both parties;
- ▶ Contractor's "Operating Expenses", in conjunction with the Contractor's management of the Airport's Parking Lots, are appropriate and allowable per the Contract and approved budget, adequately documented and approved by the Airport Director prior to reimbursement; and
- ▶ All applicable laws, regulations, policies and procedures have been adequately complied with by the Contractor in the performance of this contract for the City of Fresno Airport.

Audit Scope and Methodology

Internal Audit performed this contract audit during February and March 2009, in accordance with AO 1-12 and Generally Accepted Government Auditing Standards.

To accomplish our audit objectives, we thoroughly reviewed the Airport/ACE contract; observed the Airport Parking Lots being managed by ACE under this contract; interviewed the ACE Parking Manager and Airport staff involved with the operations and management of the Airport Parking Lots; reviewed available documents and policies and procedures to gain an understanding of the ACE processes; and tested applicable and sufficient records and documentation in order to form conclusions on the adequacy and accuracy of such records for audit purposes. We performed other audit procedures as considered necessary and within limited time constraints due to the recent expiration of this Contract.

During the course of the audit, the Internal Auditor discussed and communicated audit findings of a more significant nature with both Airport Management and ACE Parking Manager. Audit Exit Meetings were held with Airport Management on March 16, 2009 and with the ACE Parking Manager on March 18, 2009, to discuss all audit findings and audit recommendations.

Conclusion

Throughout the course of this audit, both the Airport staff and the ACE Parking Manager were very cooperative and provided assistance to Internal Audit as needed.

Internal Audit has identified some areas within this report related to the Airport/ACE contract and the overall administration and oversight of this contract by Airport Management. These specific areas need to be addressed as soon as possible for improved internal controls, contract clarity and compliance, monitoring and enhanced parking fee revenues for the Airport for the current Parking Management Contract as well as for the new Parking Management Contract with Standard Parking Corporation, effective April 1, 2009.

Internal Audit believes the complete implementation of our audit recommendations by both Airport Management and the Parking Management Contractor, will aid in accomplishing improved customer satisfaction and financial management.

REPORT SECTIONS – AUDIT RESULTS AND RECOMMENDATIONS

I. Noncompliance With Various Contract Terms, Provisions and Requirements

The Airport/ACE Contract, which became effective March 1, 2004, is approximately fifty-five pages in length. Upon initial review of the contract by Internal Audit, this contract was considered to be a very comprehensive, thorough and well-written contract, with good accountability, controls, reporting, and record-keeping requirements established for compliance by ACE. However, as the audit commenced and interviews of both Airport and ACE staff were conducted, it quickly became apparent that much of the contract, as written, was not being complied with by ACE nor adequately monitored by the Airport. Formalized communication between Airport Management and the ACE Parking Manager regarding contract reporting requirements was also minimal throughout the term of this contract.

As there was a significant number of areas of this contract which were not being complied with by ACE, an attempt to list all sections in this audit report was not considered necessary. However, a schedule of most of the significant items of noncompliance was prepared by the Airport's Senior Accountant-Auditor and reviewed and verified by Internal Audit. This schedule is attached to this report as **EXHIBIT A** for reference purposes. All areas of noncompliance have been discussed and communicated with both the Airport and ACE Parking Manager during the course of the audit.

Audit Recommendation

1. Any subsequent Parking Management Contract entered into by the Airport should be closely monitored on an ongoing basis by Airport Management for adequate and consistent compliance with all terms and required provisions and reporting by the Contractor. This administration and oversight of such contracts by Airport Management will ensure proper and timely reporting, accountability, compliance, good internal controls and enhanced parking fee revenues for the Airport. Ongoing communication between the Airport and new Parking Management Contractor related to contract requirements must also occur and be adequately documented throughout the term of the Contract.

Airport Management Response to Recommendation 1:

Airports Management concurs with the recommendation for improved monitoring and communication with the parking management contractor on an ongoing basis. The Airports Department has recently revised electronic monitoring tickler/checklists in our revenue management software to include daily, monthly and annual monitoring of cash shortages, parking lot ticket accountability, promissory notes, annual budget and financial information to be submitted by parking lot management contractor. Failure to obtain said information from contractor will result in immediate pursuit by Airports staff to ensure compliance of the provisions of said contract.

ACE Management Response to Recommendation 1:

Page 19, Article 3, Section 3.15(E)2, 3: This information is included daily to the Airport via the combined DCR. Additionally, the Airport has never requested Ace to provide the report.

Page 26, Article 5, Section 5.04(B)5: The ticket inventory is maintained and kept on-site. The quarterly inventory was never requested by Airport management, although Ace Parking did perform it.

Page 27, Article 5, Section 5.04(C)1: Provided on daily report to Airport Management

Page 27, Article 5, Section 5.04(D): Monthly report never requested by Airport management. All access card/permit accounting kept on-site and managed via Ace Parking's proprietary AcePark program. This system is verified monthly to produce accurate invoicing.

Page 30, Article 5, 5.04(B): Annual independent audit provided to Airport Management annually by Meir & Hoffman. Airport Management received copy as it was required prior to Ace Parking receiving their annual incentive fee.

Page 30, Article 5, 5.04(C): Provided annually to Airport Management along with independent audit.

Page 34, Article 7, 7.02A,B: Provided daily on combined DCR to airport management.

II. Daily Bank Deposits – Contractor's Liability for Shortages

Per Section 3.15 H. of the Airport/ACE Contract, "Contractor is strictly accountable and liable to City for any shortage or difference between the Daily Gross Receipts and the corresponding amount of the daily deposit that is credited to City's account by City's bank. City may deduct the cumulative monthly total of any unpaid shortages from the amount of compensation that is otherwise due and payable by City to Contractor under the Contract."

Based on interviews conducted with both ACE and Airport staff and review of applicable records, no deductions to ACE's monthly compensation was made by the Airport for any shortages incurred by ACE during the entire term of this Contract.

Audit Recommendation

2. Airport Management should immediately review and calculate all cash shortages incurred by ACE (between the daily Gross Receipts amount and the Daily Deposit amount) for the entire term of this Contract. The Airport should then pursue either reimbursement from ACE for the shortages or "offset" these shortages against any monies still due to ACE, in accordance with, and supported by, all applicable sections of the Contract.

Airport Management Response to Recommendation 2:

Airports Management concurs with the above recommendation and has calculated the cash shortages incurred by ACE (between the daily Gross Receipts amount and the Daily Deposit amount) during the term of said contract in the amount of \$16,999.79. Airports Department has calculated the shortages in accordance with Section 3.15(H) of the agreement with ACE, and will notify the contractor of said shortages and offset against monies still due to ACE or collect against the performance bond. On March 19, 2009, the issuer of the performance bond was notified in writing that the bond should remain in effect until such time that the audit is complete and all financial obligations resulting from this contract have been fulfilled. Future monitoring of cash shortages will be on a monthly basis and netted against future monthly payments to parking contractor.

ACE Management Response to Recommendation 2:

Shortages and overages were included with the combined DCR provided to airport management on a daily basis. During 2008, the total shortage was \$1,160 for total revenue collected of \$4,109,734. This equates to 0.03% (three hundredths of one percent) shrink, far below the expected average goal of 1.8% for a high volume location.

III. Insufficient Funds Transactions

Sections 3.15 E. and 5.04 C. of the Airport/ACE Contract basically require the Contractor to complete a "Promise to Pay Within Thirty (30) Days" form for any patrons exiting the Airport who do not have sufficient funds to satisfy the full amount of the parking fee due, i.e. Accounts Receivable due to the Airport. These Sections required ACE to immediately submit to the City (Airport), thirty days following the date thereof (e.g. 31st day), all "Promise to Pay Within Thirty (30) Days forms for which Contractor has not received a corresponding acceptable payment of the fees due to City for such subsequent collection efforts as City may deem appropriate. Copies of these forms were to also have been submitted to the City (Airport) for their records. These forms/Accounts Receivable were never provided to the Airport during the entire Contract term.

These Sections go on further to state "Contractor shall be fully and strictly liable to City for any loss(es) of revenue as a result of Contractor not processing Insufficient Funds transactions in accordance with the Contract requirements. As of February 26, 2009, the total unpaid and delinquent "Promise to Pay" receivables due to ACE (the Airport) for the period March 2004 through February 2009 was approximately \$5,500.

Audit Recommendation

3. Airport Management should immediately pursue the collection of as much of the \$5,500 in parking fee receivables as possible or "offset" these receivable amounts against any monies still due to ACE, in accordance with, and supported by, all applicable sections of the Contract. For any subsequent Parking Management

Contract, this section of such contract should be more closely monitored and acted upon for enhanced and timely payment of delinquent parking fee revenues due the Airport.

Airport Management Response to Recommendation 3:

Airports Management concurs with the recommendation to pursue \$5,326 in receivables/promissory notes that were not submitted to Airports staff by ACE until February 17, 2009. Contractor is fully liable to the Airports Department for any loss(es) of revenue as a result of Contractor not processing said "promise to pay" in a timely fashion. Collection of funds will be offset against monies still due to ACE in the form of reduction of Base Management Fee or against the performance bond as per Section 3.15(E) of the contract between the parties. Future monitoring of promises to pay will occur on a monthly basis and collection of said obligations will be pursued by the Airports Finance Section.

ACE Management Response to Recommendation 3:

Ace Parking sent notification via mail to collect on "Promise to Pay"; however, Ace Parking does not have access to individual DMV records to pursue collection of payments. This procedure was agreed upon in the contract and with Airport Management at the beginning of the term of our tenure. Our limitations were clearly stated which would hamper any business entity to appropriately enforce collection actions. Additionally, "Promise to Pay" transactions were included with the daily DCR provide to airport management on a daily basis.

IV. Parking Ticket Accountability and Related Penalties

Section 7.02 of the Airport/ACE Contract basically establishes financial penalties to the Contractor for failure to maintain sufficient accountability for the issue and collection of parking access tickets in the public parking areas at the Airport. Section 7.02 B. details the specific penalty amounts per tickets "unaccounted for", within certain percentage ranges, from \$5 up to \$20 per ticket. Both a monthly and annual computation was to be completed by ACE related to this Section of the Contract to determine "net penalties due", if any. During the entire term of this Contract, no such ticket computations were completed by ACE nor by the Airport to determine any "net penalties due" for "unaccounted and/or lost" tickets.

Audit Recommendation

4. Airport Management should immediately review and calculate any "net penalties due" by ACE for "unaccounted and/or lost" tickets for the entire term of this Contract. If determined appropriate, then pursue either reimbursement from ACE of such penalties or "offset" these penalties against any monies still due to ACE, in accordance with, and supported by, all applicable sections of the Contract.

Airport Management Response to Recommendation 4:

Airports Management concurs with the above recommendation and is in the process of calculating financial penalties for unaccounted and/or lost tickets for the term of

the contract due from ACE Parking. The amount calculated shall be netted against the Annual Percentage Management Fee or the Base Management Fee in accordance with Section 7.02(C) of the contract. If said amount is not sufficient to compensate Airports Department for this penalty, then Airports Department will pursue payment from the Contractor's performance bond. Future monitoring of unaccounted and/or lost tickets will be on a daily basis, and penalties assessed monthly and annually by the Airports Department.

ACE Management Response to Recommendation 4:

Lost ticket ratio for Fresno International is below industry standards (0.29% vs. 0.3% goal) for the scope of this audit. The contract clearly states that Missing Tickets below 0.3% are within an acceptable range and without penalty. It should be noted that airport management never requested a copy of the lost ticket report, since lost tickets were provided daily to Airport Management. Ace Parking's audit department on a daily basis tracks tickets issued, overnight car counts and tickets collected this information is compiled on the ticket reconciliation form. For the duration of the contract the lost tickets were minimal; however, in 2007 we saw a spike in lost tickets (1.03%) , which were due to the following:

3/30/07 staff member was given Verbal Warning on his car counts because his counts were off for a total of 460 cars.

6/01/07 same staff member was given a Written Warning because his counts were off 317 cars.

7/22/07 same staff member was given a final warning because his counts were off 843 cars and was suspended for 3 days and subsequently terminated.

9/1/07 different staff member was given a Verbal Warning because her counts were off by 460 cars.

10/07/07 same staff member was given a written warning because her counts were off again 300. She was removed from the graveyard position.

These discrepancies accounted for 62% of the total missing tickets and were discussed with Airport Management. Removing these discrepancies from the reporting, the Missing Ticket ratio achieved a rate of 0.39% for 2007, which would have further reduced our rate for the entire term of the contract.

V. New Parking Management Contractor Effective April 1, 2009

On March 17, 2009, the Fresno City Council approved Standard Parking Corporation to assume the operation and management of the public and employee parking lots at the Fresno Yosemite International Airport (FYI), effective April 1, 2009.

Audit Recommendation

5. Airport Management, ACE Parking Management, Inc. and Standard Parking Corporation should immediately commence to work together for an effective and efficient transition of Parking Management Contract services at FYI from ACE to

Standard, effective April 1, 2009. This should include, but not be limited to, transition of gate attendants for proper collection of parking fees, recordkeeping and day's transactions "cut-offs" (from ACE to Standard), operational and financial reporting from Standard to Airport Management, and the documentation of FYI parking lot equipment and fixtures (assets) to be managed and maintained by Standard, in accordance with the newly executed Parking Management Contract.

Airport Management Response to Recommendation 5:

Airports Management has already commenced the process of effective transition from ACE Parking to Standard Parking on April 1, 2009 as evidenced by the transition plan that was included in Standard's response to our Request for Proposal and various transition meetings that have transpired since City Council approval of contract. The transition meetings have included discussions of internal controls, staffing, fixed asset inventory, revenue handling and reporting. Standard Parking enters all the data from their parking operations into their password protected website in near "real time" –a site to which certain Airports Department staff will have access 24/7. We are working now with Standard on the format of their computer generated reports, statistical analysis and summaries. Transition teams are scheduled to be on site commencing Monday, March 30, 2009 through the date necessary to implement transition and ending no sooner than April 1, 2009.

ACE Management Response to Recommendation 5:

Ace Parking will ensure a professional and seamless transition with the parking operations.

**Fresno Yosemite International Airport
Schedule of Documents to be Submitted/Approved
ACE Audit February 2009**

Page	Article	Section	Contract Party	Action Req	Document	Location	Approved? Submitted?
9	III	3.05(B)	Director	Approve	Schedule Hrs of Operation	Listed in Agreement.	Signed by all Parties 24/7 approved
10	III	3.06	Director	Approve	Compr Mgmt Ops Plan/Man	RFP (2004) Section A3	Y
13	III	3.07(D)	Director	Approve	Personnel Policies/Procedure:	RFP (2004) pgs. 54-59	Y
17	III	3.15(E)2,3	Contractor	Submit	Promise to Pay w/Daily Rec	Not Submitted	
17, 18	III	3.15(H)	Contractor	Submit	Overages/Shortages - separate on daily receipt rpt	Daily Report- Over not dep on separate dep tkt see 7/6/08, short not pd by ACE	Y
18	III	3.16	Director	Approve	Manual Oper Contin Plan part of 3.06	Could not locate in RFP (2004)	N
19	IV	3.23	Director	Approve	Abandoned Vehicle Proc	RFP (2004) pg 27	Y
23	IV	4.04(A-D)	Director	Approve	Annual Budget	Correspondence file / RFP Proposal	Yr 1 & 2 approved by Severo, no others submitted or approved.
26	V	5.04(B)5	Contractor	Submit w Mnthly Rpt	Quarterly inventory of unused ticket stock by serial no	Not Submitted	
26	V	5.04(B)6	Contractor	Submit w Daily Rpt	Recon of car count, tickets issued/coll, end car count	Daily Reports	Y

**Fresno Yosemite International Airport
Schedule of Documents to be Submitted/Approved
ACE Audit February 2009**

Page	Article	Section	Contract Party	Action Req	Document	Location	Approved? Submitted?
26	V	5.04(B)7	Contractor	Submit w Mthly Rpt	Recon of car count, tickets issued/coll, end car count incl lost/retracted/spoiled tickets	Daily Reports	
27	V	5.04C1	Contractor	Submit	Acct of Insuff Funds balances- Recon	Not Submitted	
27	V	5.04C2	Contractor	Submit 30 days	Outstanding Rec Promise to Pay -Unpaid balances	Not Submitted	
27	V	5.04(D)	Contractor	Submit w/Mthly Rpt	Acct for access cards/permits or decals w/monthly report	Not Submitted	
27	V	5.04(E)	Contractor	Submit by 3pm daily	Daily Operating Report incl ticket recon, financial transactions items 1a-x	Daily reports are received - location filing cabinet in ppties dept. excludes items h, k, p, q, t	Approved
29	V	5.04(F)	Contractor	Submit by 20th of each month	Monthly Rpt items 1-16	Mthly reports are received - location filing cabinet in ppties dept., excl items 11-16	Approved
30	V	5.04(G)	Contractor	Submit w/in 45 days end of year	Annual Financial Report by CPA incl Gross Rec, Oper Exp, Mgmt fees, compensation by City, ins proceeds, pymts to suppliers	Not Submitted Per Airport staff - Submitted Per ACE Parking Manager.	
30	V	5.04(B)??	Contractor	Submit w/in 45 days end of year	Annual Oper Rpt items 1-7	Reports file in ppties filing cabinet/scanned attached in ABM	Submitted

**Fresno Yosemite International Airport
 Schedule of Documents to be Submitted/Approved
 ACE Audit February 2009**

Page	Article	Section	Contract Party	Action Req	Document	Location	Approved? Submitted?
30	V	5.04©??	Contractor	Submit w/in 120 days of Contr Fiscal YE	Corporate Annual F/S Consolidated GAAP CPA	RFP (2004) mentions f/s but not enclosed, not submitted thereafter	N
34	VII	7.02A,B	Contractor	Submit	Monthly ticket computation, loss of ticket, penalty	Not Submitted	