## City of Long Beach, Office of the City Auditor

## Long Beach Airport

Performance & Compliance Audit of the Airport Operating Agreement for Parking Facilities

The objectives of this audit were to review the parking facilities operating agreement and to assess whether the terms and provisions are current, competitive, and being met.

#### **Background**

The Long Beach Airport oversees the agreement with AMPCO System Parking, Inc. to operate city-owned parking facilities and related services at the airport, including two parking structures and a tenant and employee parking lot, which generated an average of \$9 million in parking revenue over the past three years.

Although parking operations significantly changed in 2012 with the opening of a new 2,400 space parking structure, the Airport continued to operate under the current agreement, which is over 23 years old and has been on a month-to-month status since April 2009.

For this reason, the City Auditor retained the firm BCA Watson Rice LLP (Consultant) to conduct an audit of the AMPCO System Parking Agreement. <sup>1</sup>

 $^{1}$  Information provided in this cover memo and report is based solely on the work performed by the Consultant.

While Airport Department (Airport) parking facility operations have significantly changed in recent years, the agreement covering operations has not. The current agreement is with AMPCO System Parking, Inc. (AMPCO) and is 23 years old.

The attached audit found that AMPCO is generally in compliance with agreement requirements even though certain terms and conditions of the agreement are outdated due to the age of the contract.

#### New Contract May Result in Higher Costs

Under the current agreement, AMPCO is paid based on actual hours worked by employees in a variety of agreed upon positions. The labor rates being paid result in minimal profits for the vendor.

Should the Airport issue a new RFP for parking facility operations, it would include updated requirements and possibly a wider range of services, such as analytical reporting, that could result in higher annual expenses. However, until pricing is solicited, it is unclear what services are available at current market pricing. At a minimum, Airport should update the current agreements terms and conditions to meet all standard City contract language and Federal security mandates.

#### Parking Revenue Continues to Decline

The Airport opened a new parking structure now known as Lot B in 2012. The new parking facility

was expected to increase parking revenue by approximately \$3 million per year based on the main assumption that enplaned passengers would grow by 1% annually. However, revenue in the last two fiscal years, 2012 through 2014, has declined 12% since Lot B opened in 2012. The drop in revenue is consistent with a 13% drop in enplaned passengers during the same period.

The drop in revenue, combined with an increase of \$1.4 million annually in expenses due to required payments for debt issued to build the new parking facility, has resulted in net income declining from \$5.2 million in 2011 (prior to the opening of Lot B) to \$3.2 million in 2014.

According to Airport Management, besides focusing on increasing enplaned passengers, they have considered developing a variety of strategies to increase parking revenue, such as upgrading technology and improving customer service. However, no changes were implemented during the audit period.

#### Analysis of Revenue Components Limited

The audit report acknowledges that enplaned passengers are the primary driver of changes in parking revenue. However, there are areas of the parking operations that with increased analysis could potentially result in additional revenue, such as with the discounted ticket pricing or zero value tickets.

The audit found that discounted tickets (handicap, taxis, electric vehicles, etc.), accounted for 3.5% of the total tickets issued during an 11-month period. These tickets totaled over \$230,000. Management could not provide evidence that the volume and pricing of the discounted tickets is being analyzed by the vendor or Airport staff to determine if the pricing is still reasonable based on current operating conditions. There are also zero value tickets in which those parking for less than 20 minutes receive free parking. This policy has been in place for several years, even after the Airport opened a cell phone lot where people can wait for flights to arrive at no cost. Based on audit testwork, zero value tickets comprise approximately 21% of all tickets issued. Eliminating free parking in the structures would generate immediate revenue.

Because the Airport has elected to use the same vendor for 23 years without changes in the basic nature of the services provided, the agreement terms and conditions are outdated in many areas, including the vendor's role in improving operations. For example, the City-wide parking contract handled by the Department of Public Works requires the vendor to make recommendations on improving customer service, reducing costs, and increasing revenue. The Airport's operating agreement does not include such a requirement.

We want to extend our appreciation to the staff of the Airport for their cooperation during this audit. We respectfully request an update in six months on the Airport's efforts to implement the recommendations in this audit.

## **City of Long Beach – Office of the City Auditor**

Performance Audit of Contract No. 23135 – Long Beach Airport Operating Agreement for Parking Facilities

March 2015

**Final Report** 

Submitted by

## **BCA Watson Rice LLP**

Certified Public Accountants & Management Systems and Financial Consultants 21250 Hawthorne Blvd. Suite 150 Torrance, CA 90503 PH 310.792.4640 . FX 310.7924140 .



21250 Hawthorne Blvd. Suite 150 Torrance, CA 90503 www.bcawatsonrice.com Telephone: 310.792.4640 Facsimile: 310.792.4331

March 4, 2015

Ms. Laura L. Doud, City Auditor City of Long Beach 333 West Ocean Blvd., 8th Floor Long Beach, CA 90802

Re: Performance Audit of the Long Beach Airport's Management and Administration of Operating Agreement No. 23135

Dear Ms. Doud,

BCA Watson Rice LLP is pleased to submit this report on our performance audit of the Long Beach Airport's management and administration of Operating Agreement No. 23135. Our report provides recommendations on 1) improving and updating contract terms and conditions for the next airport parking facilities contract, 2) improving oversight and controls over the handling and management of exception tickets, zero value tickets, and lost tickets, 3) improving oversight and controls over review and approval of contractor invoices, and 4) improving contract administrative responsibilities and duties. Our report also provides a detailed analysis on the fluctuation of parking revenues and expenditures for the five-year period October 1, 2009 through September 30, 2014.

We appreciate the cooperation and assistance we received from Airport management and staff and the parking facility contractor management and staff.

Respectfully.

Michael de Castro

Managing Partner

## **Table of Contents**

	<u>Page</u>
Executive Summary	1
Background	3
Objectives, Scope and Methodology	3
Detailed Results	7
Attachment 1: Compensation Comparison with Other Parking Facility Contracts	24
Attachment 2-A: Flowchart of Ticket Management Process	27
Attachment 2-B: Flowchart of Revenue Collection Process	31
Attachment 2-C: Flowchart of Invoicing Process	37
Attachment 3: Airport Management Response	40

#### **Executive Summary**

The Long Beach City Auditor contracted with BCA Watson Rice LLP to conduct a performance audit of the Long Beach Airport's management and administration of Operating Agreement No. 23135 (or Contract) with AMPCO System Parking, Inc. an affiliate and wholly owned subsidiary of American Building Maintenance Industries, Inc. (ABM) (Operator) to operate city-owned parking facilities and related services at the airport. The parking facilities include Lot A, a 1,025-space parking structure; Lot B, a 2,422–space parking structure; and a 479-space surface lot for tenant and employee parking.

The Contract with ABM originated in June 1991 and has not been competitively bid since, over 23 years. In May 1996, an amendment to the Contract sets out a month-to-month term with an automatic extension for 30-day periods. In May 2008, a second amendment to the Contract extended the Contract term for one year through April 2009, and then to month-to-month thereafter. According to an Airport official, the decision for a prolonged month-to-month contract was not necessarily a planned decision, but one resulting from the fact that the service being provided was meeting expectations and being carried out pursuant to the terms of the Contract. Also, Airport management was challenged with other priorities such as construction of the new terminal building and resource allocation issues.

Given the length of the contract with the same vendor, the Long Beach City Auditor requested this audit to primarily determine whether Contract terms and provisions are current and complete, the cost, quantity and quality of services provided are competitive with current market conditions, and ABM is in compliance with the Contract. The audit also examined whether the Operator had adequate internal controls and processes in place to accurately account for and report the approximately \$8 to \$9 million in parking revenue collected annually.

Based on our audit, we found the following:

- ➤ Contracted labor rates being paid to ABM under the Operating Agreement appear to be reasonable, but plans to competitively rebid the Contract should go forward to ensure that 1) the City is obtaining the highest quality service at competitive market rates, 2) Contract provisions are current and complete, and 3) Operator performance measures are included in the Contract. (See pages 7-9)
- > Our analytical review of Airport parking revenues and expenses found that parking revenue has been on the decline and parking operational expenses have increased. (See pages 9-13).
- ➤ Internal controls over parking facility activities including ticket management and collection of revenues were found to be adequate and operating as intended. However, oversight and periodic review of exception tickets, zero value tickets, and lost tickets could be strengthened. (See pages 13-19).

- > Internal controls over the reliability of data from revenue control devices and the completeness and accuracy of reported parking facility revenues were found to be adequate. (See page 20).
- > The Airport's contract administration duties and responsibilities could be improved. (See pages 20-21)
- > ABM was found to be in general compliance with key terms and conditions of the Airport Operating Agreement. (See pages 21-23).

### **Background**

The Long Beach Airport management oversees Operating Agreement No. 23135 with AMPCO System Parking, Inc. an affiliate and wholly owned subsidiary of American Building Maintenance Industries, Inc. to operate city-owned parking facilities and related services at the airport. The parking facilities include Lot A, a 1,025-space parking structure; Lot B, a 2,422–space parking structure; and a 479-space surface lot for tenant and employee parking.

The Contract originated in June 1991 between the City of Long Beach (City) and System Parking, Inc. and was later assigned and transferred to ABM in October 1993. In May 1996, an amendment to the Contract sets out a month-to-month term with an automatic extension for 30-day periods. In May 2008, a second amendment to the Contract extended the Contract term for one year through April 2009, and then to month-to-month thereafter.

The City provides and maintains the airport parking structures and lots as well as parking facility equipment while the Operator manages the operation of public and employee airport parking facilities and collects parking fees on behalf of the City.

Parking operations require a manager, supervisor, cashiers, traffic personnel, maintenance crew, ground transportation staff and a driver, which are hired and managed by the Operator. Monthly, the Operator submits invoices and is compensated by the Long Beach Airport based on hours worked at specified, approved hourly rates and reimbursable expenses allowed under the Contract.

In August 2012, the Long Beach City Auditor contracted with a consulting firm to conduct a performance audit of the Long Beach Airport's leasing and concession activities, including restaurants and bars, gift shops, car rental agencies, and FBO and airport services, among others. The Airport parking facility contract was excluded from review because airport management thought it would be included in the scope of a Request for Proposal released in January 2012 for the operation and management of parking facilities city-wide. However, the Airport parking facility contract was not included in the scope of the City-wide parking facility audit.

### **Objectives, Scope, and Methodology**

In May 2014, the City of Long Beach contracted with BCA Watson Rice LLP to perform an independent performance audit of the Long Beach Airport management's administration, oversight, and compliance with the airport parking facility Contract with ABM. Our audit period was from October 1, 2009 through May 30, 2014. Our analysis of revenue and expenses was from October 1, 2009 through September 30, 2014.

The primary audit objectives included:

 Evaluating whether current Contract terms, including the cost, quantity and quality of services provided, are competitive with current market conditions and provide the City of Long Beach with the lowest possible costs.

- Reviewing the internal controls over parking facility activities, such as ticket management, assessment and collection of payments/revenues, and invoice billing, to determine whether the operator's oversight of revenues generating activities are effective.
- Verifying the reliability of data from revenue control devices, and the completeness and accuracy of reported parking facility revenues.
- Evaluating the operator's compliance with Operating Agreement terms and conditions.
- Reviewing the effectiveness of the City's contract administration responsibilities.
- Identifying any necessary modifications or changes to the Operating Agreement for the City's consideration in future renegotiations of the Contract.

To accomplish the audit objectives, our audit approach and methodology included the following:

- 1. We analyzed the Operating Agreement, including amendments and supplements, to obtain an understanding of the key terms and conditions of the Contract.
- 2. We inquired of Airport management of any prospective plans on future bids for parking services by interviewing Airport personnel responsible for initiating the bid process.
- We reviewed the scope of services set forth in the Contract and compared the services to contracts for airports similar in size to determine if the range of services are too broad or narrow and ascertained if Contract provisions clearly address roles and responsibilities for execution and monitoring of services.
- 4. We performed an evaluation of the current pricing increase structure. By using the last increase as a study sample, we confirmed the base value subject to the increase, identified the index applied to the increase and the time intervals used to calculate the adjustment. We also evaluated the process used for implementing the increase, as compared to the similar cities/airports that apply the same standards.
- 5. We reviewed the reasonableness of contractor personnel labor rates contained in the Contract for the various labor positions provided.
- 6. We assessed the adequacy of Contract language regarding dispute settlement, bank charges, right to audit, insurance requirements and bonds and compared the Contract language to other similar city/airport parking operating agreements.
- 7. We reviewed provisions for adherence to state laws, city charter, and administrative code.

- 8. We conducted a comparative analysis of the Operating Agreement terms to other operating agreements/contracts for parking facilities including the City of Long Beach, Los Angeles World Airports, City of Los Angeles, and the San Jose International Airport.
- 9. To obtain an understanding of the parking facilities' operations, we obtained and reviewed written policies and procedures regarding ticket management, assessment and collection of revenues, and invoice billing.
- 10. We interviewed parking facilities' management and staff to understand the ticket management, assessment and collection of revenues, and invoice billing processes to determine if proper controls are in place. We also conducted a walkthrough of the ticket management, assessment and collection of revenues, and invoice billings processes to determine if procedures were being followed. We developed a flowchart of these processes to document our understanding of the processes.
- 11. We verified that the operator uses system generated consecutively numbered tickets to identify the lot for which the tickets were dispensed.
- 12. We identified all instances where the ticket amount can be changed, and we identified the percentage of exception payments to the total tickets. We also judgmentally selected 10 days of exception tickets and verified that proper documents were prepared and supported.
- 13. We identified the percentage of zero value ticket payments to the total ticket population.
- 14. We determined whether internal controls were sufficient to account for issued tickets and ticket inventory since the last replenishment by judgmentally selecting a sample of one month out of each fiscal year (5 months total in our audit period) and verified that the Operator is logging and inventorying the tickets by reviewing the Daily Master Report, Daily Report, Daily Cashier Shift Report, and Daily Cashier's Total.
- 15. We tested the revenue collection process by selecting two days out of each fiscal year, totaling 10 days of revenue collected, and tied out the revenue collected per the general ledger to the source documents (Daily Master Report, Credit Card Worksheet, Daily Cashier Report, Credit Card Summary Report, Daily Cashier Shift Report, Cashier Summary Report and daily deposit slips). We also verified that all daily reports (Daily Master Report, Credit Card Summary Report, Daily Cashier Report, Systems Report, and etc.) were reviewed, reconciled and properly approved.
- 16. We verified whether or not the airport parking revenues were timely recorded with the City Treasury.
- 17. We tested monthly invoices by judgmentally selecting one month out of each fiscal year, totaling five months and agreed hours for each employee invoiced to time cards, verified that the time cards were properly reviewed and approved, agreed labor rates used to the labor rates approved by the Airport, and verified that the staff charged on the invoice were in accordance with staffing requirements approved by the Airport.

- 18. We verified reimbursable expenses to supporting invoices, and determined if the type of expenses were reimbursable and allowable per the operating agreement, if the expenses were incurred during the proper period, if the expenses were reviewed and approved by the Operator and Airport Management prior to payment, and if the expenses were actually incurred for and paid by the Operator.
- 19. We determined if the invoices were submitted timely within 15 days of the subsequent month for the five months in our audit period and determined if the monthly invoices were paid by the Airport no later than 30 working days after receipt by the Airport.
- 20. We interviewed ABM personnel and observed controls over the Payment on Foot (POF) Machines to determine if the controls were adequate. We also verified the level of access that ABM staff has in relation to unused tickets, ticket replenishment, and daily reporting of revenue from POF machines.
- 21. We performed analytical reviews of parking transaction data (revenues and expenditures) and identified key operating and price factors that have attributed to annual fluctuations for our audit period.
- 22. We verified that debt was issued to fund the new parking structure, Lot B, and we identified how the debt service expenditures were accounted for and reported.
- 23. We verified the Operator's compliance with key terms and conditions of the contract.
- 24. We reviewed existing controls to ensure that practices related to performance monitoring of the parking agreement are sufficiently adequate to prevent fraud, waste and abuse. We also evaluated the Contract Administration processes for efficiency and effectiveness with regard to reporting, invoicing, site inspections, and general administrative oversight.
- 25. We identified best practices and contract management with similar organizations, and developed recommendations for improvements and incorporation of best practices into contract cost analysis, risk management, contract language, contract administration and performance monitoring.
- 26. We developed a checklist of items for contract administrators to enhance adherence to the terms of the agreement, standardize administration practices, centralize information, and assist with approvals and division of responsibilities as needed.

#### **Detailed Results**

Finding No. 1 – Contracted labor rates being paid to ABM under the Operating Agreement appear to be fair and reasonable, but plans to competitively rebid the Contract should go forward to ensure that 1) the City is obtaining the highest quality service at competitive market rates, 2) Contract provisions are current and complete, and 3) Operator performance measures are included in the Contract.

#### **Review of Contract Compensation Terms**

Based on our review of four (4) other contracts for comparable parking facility operators, we found that the Long Beach Airport contract is the only contract that compensates the Operator based on hourly pay (by position) only. Per the Operating Agreement for the Long Beach Airport, Operator compensation is hourly pay at established rates for various agreed upon positions. The Operator shall receive no other compensation unless otherwise provided for in the Contract. Other comparable parking facility Operator contracts we reviewed generally compensate the Operator for operational expenses, including labor and maintenance costs, plus a monthly fee (i.e. management fees, profit). (See Attachment 1 – Comparison with Compensation Terms of Other Comparable Parking Facility Contracts)

In order to assess the reasonableness of the hourly rates being paid to ABM under this Contract, we compared the hourly rates being paid under this Contract to the hourly direct labor rates being paid by ABM to its employees working under this Contract. ABM is required by the labor union collective bargaining agreement to pay its employees working under this Contract specified direct labor rates as stipulated under the labor union agreement. ABM labor union direct labor rates being paid for the positions in the Contract range from \$9.25 to \$11.00 per hour for a cashier to \$15.25 to \$30.00 per hour for a supervisor. ABM's fully-burdened labor rates (includes overhead and payroll costs) being charged under the Contract range from \$17.94 per hour for a cashier to \$31.04 per hour for a supervisor. As mentioned above, ABM receives no other profit or fees under the Contract other than certain reimbursable expenses specifically identified in the Contract. Thus, given ABM's actual labor cost compared to the Contract labor rates being paid, ABM's hourly profit margin is very small.

We inquired with ABM management as to why they were willing to continue working under the current Contract given the small profit margin being realized. ABM management stated that in prior years, the Contract had several more positions and thus was more profitable because of shuttle service driver positions and more cashier positions. However, since the closing of Lot D, construction of Lot B, and the conversion to hybrid automation for payment of parking, all shuttle service driver positions and several cashier positions have been eliminated.

#### **Review of Contract Provisions**

Based on our review of the Contract's provisions and comparison of certain provisions to other similar parking operator contracts, we noted certain provisions that were missing in the Contract that we believe increases the City's risk exposure. These include safety training, ownership of data, Equal Benefits Ordinance, and compliance with security mandates of the Transportation Security Administration (TSA) and the Department of Homeland Security.

The Contract with ABM does not contain a provision requiring mandatory employee safety training. Other comparable contracts reviewed contain provisions that the Operator train its employees. For example, In addition to general customer service and cash management training, the Long Beach City-wide agreement requires that the vendor train its employees on how to deal with disabled persons. Similarly, the San Jose Airport agreement and Los Angeles City-wide agreement also require similar formal training for vendor employees. Absent a provision that requires vendor employees to be trained (particularly on activities that impact safety), the City of Long Beach/Airport has increased risk exposure for accident and injury related claims brought by the general public and/or employees.

Other comparable parking operator contracts reviewed such as LAWA, Long Beach City-wide Parking, and San Jose Airport contracts all contain provisions that address ownership of all data (reports, schematics, accounting records), by expressly stating that such information is the exclusive property of the City. The Long Beach Airport Contract does not contain such a provision. The "best practice" guidelines of contract management suggest that service contracts contain provisions that protect information that may be needed for litigation and that clearly defines ownership rights of the information/data.

In addition, given that the Contract with ABM was executed back in June of 1991, certain ordinances or laws enacted subsequent to 1991 are missing from the Contract, the most significant of which is the local Equal Benefits Ordinance, enacted in January of 2010 and TSA and the Department of Homeland Security compliance requirements enacted after 9/11.

The Equal Benefits Ordinance requires that contractors who conduct business with the City of Long Beach provide the same benefits to registered domestic partners as they provide to their married partners. The ordinance applies to contracts of \$100,000 or more. Both the San Jose Airport and LAWA Operator contracts include a provision that specifically requires the Contractor comply with the security mandates of the Department of Transportation, the FAA, the TSA, the Department of Homeland Security, and with other governmental and administrative rules and regulations relating to airports.

#### **Review of Contract Performance Measures**

Based on our review of the Contract, we found no reference to contractor performance measures. Best practices for contract management suggest that performance measure criteria be included in contracts so contractor performance can be measured and evaluated. Examples of contractor performance measures for this Contract given the scope of work could include the cleanliness and maintenance of the parking facilities (based on routine inspections), the accuracy and timeliness of revenue and expense reporting to the City (based on review and submittal of reports), and number of safety and/or security violations (based on reported violations).

Also, we noted that the City of Long Beach City-wide parking agreement has a provision that requests the Operator make recommendations on how to improve customer service, reduce costs, and enhance revenues. Given the decline in parking revenues in the past few years, including performance measure criteria in the contract would enable the City to evaluate and measure the extent that the Operator is improving customer service, reducing costs, and enhancing revenues.

Based on our interview with the Manager of Airport Finance & Administration, she confirmed that the Airport plans to re-bid the parking facilities contract. She stated that although Airport staff are pleased with the

level of service provided by ABM and believes the current pricing is competitive, it makes good business sense to re-bid the contract to ensure that the City and Airport are receiving the highest quality service at the most competitive price, and that contract terms and conditions are complete and current.

#### **Recommendation No. 1:**

Although it may cost the Airport more than their current parking facilities contract, the Airport should consider re-bidding the airport parking facilities contract and ensure that the future contract contains current and thorough contract provisions, including required safety training and contractor performance measures.

Finding No. 2 – Our analytical review of Airport parking revenues and expenses found that parking revenue has been on the decline and parking operational expenses have increased.

Based on our analytical review of Airport parking revenue and expenses for the Fiscal Years 2010 through 2014, we noted that parking revenues increased from FY 2010 to FY 2012 by \$1.6 million or 19%, but decreased from FY 2012 to FY 2014 by \$1.2 million or -12%. Moreover, expenses increased by \$1.2 million (35%) in FY 2012 and by \$740,073 (15%) in FY 2013. The increase in expenses was primarily attributable to bond interest expenses. Senior Airport Revenue Bonds were issued in November 2009 to fund the new Lot B parking structure. The debt service expenditures are accounted for in the Airport Enterprise Fund. The debt service expenditures were also reported in the Long Beach Airport's Financial Statements for FY 2010 and FY 2011 and in the Comprehensive Annual Financial Reports from FY 2010 through FY 2013. Interest expense on the 2009 Senior Airport Revenue Bonds is included in our analytical review of the Airport parking expenses on the following page.

As a result of a decline in parking revenue and an increase in parking operational expenses, net income decreased by \$1.6 million (-31%) in FY 2013 and decreased another \$345,204 (-10%) in FY 2014 (See table on following page).

#### ANALYTICAL REVIEW OF PARKING REVENUES AND EXPENSES FROM FISCAL YEAR 2009 TO FISCAL YEAR 2014 **ACTUAL REVENUES AND EXPENSES** VARIANCES, CURRENT YEAR VERSUS PRIOR YEAR Ε F G Α D М FY 09-10 % FY 10-11 FY 11-12 FY 12-13 FY 13-14 09/10 vs. 10/11 10/11 vs. 11/12 % 11/12 vs. 12/13 % 12/13 vs. 13/14 % [B-A] [F/A] [C-B] [H/B] [D-C] [J/C] [E-D] [L/D] Revenue 6,192,257 \$ 5,415,523 \$ 4,043,626 \$ 3,598,017 \$ 3,445,328 (776,734) -13% \$ (1,371,897) -25% \$ (445,609) -11% \$ (152,689)Parking Lot A -4% 5,434,780 Pakring Lot B 1,331,702 5,809,936 5,214,686 1,331,702 100% 4,478,234 336% (375, 156)-6% (220,094)-4% Parking Lot D 2,013,382 1,978,946 (34.436) -2% (1.978.946) -100% 0% 0% 9,853,562 9,032,797 520,532 8,205,639 8,726,170 8,660,014 6% 1,127,391 13% (820,765) -8% (372,783)-4% Total Revenue Expenses **Program Management Services** 2.713.126 2.081.638 1.481.949 1.448.760 1,396,596 (631,488) -23% (599,688)-29% (33,189)-2% (52, 164)-4% **Building and Land Rentals** 883,497 1,047,456 163,959 19% (1,047,456) -100% 0% 0% Other Taxes and Assessment 45,191 0% 0% (45,191) -100% 0% 30,143 387% 5% 6,682 5% Power 27,971 136,170 143,656 150,338 (2,172) -7% 108,199 7,487 21,985 36,583 92,882 422% 531 1% Machinery and Equipment Repair Services 114,867 68,434 68,965 (78, 284)-68% 31,850 87% Voice and Data Network 7,729 6,212 6,287 7,729 7,999 75 1% (6,287) -100% 100% 271 4% Other Contractual Services 3,000 30,780 (3,000) -100% 30,780 100% (30,780)-100% 0% 3,997 2,673 (1,324) 0% **Electrical Contracts** -33% (2,673) -100% **Disposal Services** 3,976 4,308 1,325 331 8% (2,982)-69% (1,325) -100% 0% -0% **Construction Contracts** 263 (263) -100% 0% 0% Other Building Materials and Supplies 9,966 1,350 0% 9,966 100% (8,616) -86% (1,350) -100% Office Supplies 179 131 136 277 (49) -27% 4% 141 103% (277)-100% Fencing 21,470 21,470 100% (21,470) -100% 0% Computer Supplies 104 0% 104 100% (104) -100% 0% 3,711,569 3,306,800 1,670,206 1,623,898 (404,770) (26,808) Total Expenses Before Interest and Depreciation 1,697,014 -11% (1,609,786) -49% -2% (46,308)-3%

453,288

2,290,819

2,744,106

85,380

1,029,202

1,114,581

5,528,894

446,888

2,325,169

2,772,057

85,380

1,019,979

1,105,359

5,501,314

0%

0%

0%

0%

-6%

17% \$

100%

162,456

162,456

(242,314)

762,846

\$

344,916 100%

100%

100%

0%

100%

100%

35%

1,678,792

2,023,707

820,264

820,264

1,234,186

(106,794)

31%

36%

36%

0%

5%

4%

15%

-31% \$

108,372

612,027

720,399

46,482

46,482

740,073

-2% \$ (1,560,838)

-1%

1%

1%

0%

-1%

-1%

-0.5%

-10%

(6,400)

34,351

27,951

1

(9,223)

(9,222)

(27,579)

(345,204)

344,916

1,678,792

2,023,707

85,380

982,720

1,068,099

4,788,820

4,408,690 \$ 5,171,536 \$ 5,064,741 \$ 3,503,903 \$ 3,158,700

\_

85,380

162,456

247,835

3,554,635

85,380

85,380

3,796,949

Interest

Series 2009A Bonds (\$9.795 M)

Series 2009C Bonds (\$44.890 M)

Total Interest Expense

Depreciation Parking Lot A

Parking Lot B

**Total Expenses** 

Net Income

**Total Depreciation Expense** 

LONG BEACH MUNICIPAL AIRPORT

#### **Analysis of Revenues**

Total parking revenue increased by \$520,532 in FY 2011, a 6% increase over FY 2010 revenues. The increase coincided with the opening of parking Lot B and the closing of Lot D in July 2010. In FY 2012, parking revenues also increased by \$1,127,391, a 13% increase over FY 2011 revenues, despite the fact that parking Lot D was not operational during that fiscal year. The increase in revenue was primarily attributable to parking in Lot B because there was a significant decline (\$1.4 million) in parking Lot A revenues. The daily rate at Lot B is \$17 versus \$19 for Lot A.

However, beginning in FY 2013, revenue began to decline. In FY 2013, revenue decreased by \$820,765, an 8% decrease over FY 2012 revenues. This decrease was attributable to the decline in revenue in both parking Lot A and B. For FY 2014, revenue further decreased by \$372,783, a 4% decrease over FY 2013 revenue.

Airport parking revenue projections for FY 2012 through FY 2014 were prepared by an outside consultant (Ricondo & Associates) in preparation for the sale of bonds to fund construction of Lot B. Actual airport parking revenues have fallen short of these projections due primarily to lower actual enplanements compared to projected enplanements. We also noted that monthly revenues are seasonal, with the summer month's consistently registering higher amount of revenues due to increased summer flight activity. (See parking revenue table on following page).

Long Beach Airport management stated that airport parking is highly influenced by airline service changes. Given that the Long Beach Airport's number of flights is slot regulated with no increase to the number of slots for many years, parking levels are generally expected to remain constant. Coupled with JetBlue's reduction in flights to pre-2012 service levels, airport parking revenue has also decreased. This decrease mirrors a nation-wide decline in airport revenue due to a shift to alternate travel modes encouraged by a green airport environment.

We noted that the decline in revenue is primarily due to the decline in enplanements. For example, in FY 2013 and FY 2014, enplanements decreased by 9% and 4%, respectively. Parking revenue also declined comparably by 8% and 4%, respectively.

To increase parking revenue, Long Beach Airport management indicated that they are primarily focusing on strategies to increase enplanements. Management has also considered implementing value added parking strategies to improve customer service and improve operating efficiency. Some of these strategies include sustained marketing (promotions/coupons), a frequent parking program, reserved zone or guaranteed space, and naming and branding. Other strategies being considered include technological improvements such as real time parking information and a parking reservation system.

#### Airport Parking Enplanements and Revenue Projections Versus Actual

		2010	2011	2012	2013	2014
<u>Enplanements</u>						<u> </u>
Projection		1,482,200	1,502,800	1,514,100	1,527,400	1,540,700
Actual		1,460,041	1,532,442	1,643,383	1,497,503	1,433,273
Variance		22,159	(29,642)	(129,283)	29,897	107,427
Gross Revenue - Projection						
Pre-Construction Period (October 1, 2009 - February 28,						
2010) & On-site Work Period (March 1, 2010 - July 22, 2010)						
Lot A (FY 2008: \$17/day and \$1/hour) & (FY 2009:						
\$17/day and \$2/hour)	\$	2,943,000	\$ -	\$ - \$	- \$	-
Lot B (FY 2008: \$14/day and \$1/hour) & (FY 2009:						
\$15/day and \$2/hour)		1,676,000	-	-	-	-
Lot C (FY 2008: \$11/day and \$1/hour) & (FY 2009:						
\$13/day and \$2/hour)		770,000	-	-	-	-
Lot D (FY 2008: \$8/day and \$1/hour) & (FY 2009:						
\$11/day and \$2/hour)		1,161,000	-	-	-	-
Construction Period (July 23, 2010 - November 11, 2011)						
Lot A (\$17/day, \$2/hour)		718,000	4,253,000	352,518		
Lot D (\$11/day, \$2/hour)		707,000	3,439,000	285,062		
Post-Construction (November 12, 2011 - September 30, 2016,	)					
Lot A (\$20/day, \$2/hour)		-	-	3,230,000	3,550,000	3,581,000
New Garage (\$18/day, \$2/hour)		-	-	6,184,000	6,798,000	6,857,000
New Surface (\$18/day, \$2/hour)		-	-	411,000	451,000	455,000
		7,975,000	7,692,000	10,462,580	10,799,000	10,893,000
Gross Revenue Adjustments						
Lot D Revenue to City or Boeing		(1,868,000)	(3,439,000)	-	-	-
Total Gross Revenue Projections	\$	6,107,000	\$ 4,253,000	\$ 10,462,580 \$	10,799,000 \$	10,893,000
Actual Total Parking Revenue	\$	8,205,639	\$ 8,726,170	\$ 9,853,562 \$	9.032.797 \$	8,660,014
Variance	\$	2,098,639	\$ 4,473,170	\$ (609,018) \$	(1,766,203) \$	(2,232,986)

#### **Analysis of Expenses**

In FY 2011, total expenses decreased by \$242,314 (-6%) compared to FY 2010 total expenses. The decrease was primarily from the reduction in Program Management Services costs of \$631,488 (-23%) as a result of a decrease in the use of shuttles/drivers from Lot D to the airport terminal due to the opening of Lot B. However, in FY 2012 total expenses increased by \$1,234,186 (35%) compared to FY 2011 total expenses. The substantial increase in expenses was due to the increase in interest expense of \$2,023,707 (100%) for the debt service on Lot B construction bonds. Other significant expense activity included an increase in depreciation expense of \$820,264 (505%) for parking Lot B, which was offset by a decrease in Program Management Services of \$559,688 (-29%) due to the closing of Lot D and the termination of shuttle service from Lot D to the airport terminal. Building and land rental expenses also decreased by \$1,047,456 (-100%) due to the closing of Lot D. FY 2013 total expenses again increased by \$740,073 (15%) compared to FY 2012 expenses. The increase was primarily from an increase in interest expense for the debt service on bonds of \$720,399 (36%).

FY 2014 total expenses decreased by \$27,579 (-0.5%) over FY 2013 expenses. The decrease is primarily attributable to a continued decrease in Program Management Services of \$52,164 (-4%) and increase in interest expense for debt service on Lot B construction bonds of \$27,951 (1%) compared to FY 2013 expenses.

#### **Recommendation No. 2:**

Given the declining parking revenues and increase in expenditures (mainly due to the debt service on Lot B construction bonds), Airport management should aggressively pursue its options to increase parking revenues by 1) continuing its focus on strategies to increase enplanements, and 2) considering strategies for changing exception ticket pricing such as eliminating the "under 20 minutes" no parking fee policy.

Finding No. 3 - Internal controls over parking facility activities including ticket management and the assessment and collection of revenues were found to be adequate and operating as intended. However, oversight and periodic review of exception tickets, zero value tickets, and lost tickets could be strengthened.

Based on our assessment of internal controls in place over parking facility activities including ticket management, the assessment and collection of revenues, and the review of invoice billings, we found that the internal controls in place were adequate and operating as intended. To assess the adequacy of internal controls, we reviewed the Contract scope of work to understand the parking facility operations, identified the controls over key processes, reviewed written policies and procedures of parking facility activities, interviewed ABM's management and staff, and conducted a walkthrough of the key processes. We then documented our understanding of the key processes by developing detailed flowcharts depicting the internal controls in place (See Attachment 2-A, 2-B and 2-C for detailed flowcharts of the process in place for ticket management, revenue collection, and invoicing).

#### A. Ticket Management

ABM uses pre-numbered tickets that are ordered from the vendor (Skidata) and boxed in lots of 18,000 tickets, with 3 boxes of 6,000 tickets in each lot. Upon receipt, the pre-numbered tickets are maintained by ABM in a locked storage room, which also contains the Skidata system hardware. The tickets are assigned to each parking lane in Lots A and B based on average usage and are stored in that manner. A number of tickets are also assigned for usage as "receipt only" tickets which are used for the Payment on Foot Machines. The pre-numbered blank tickets in lots of 6,000 are attached to each other; therefore, management would be aware if a ticket was missing from the lot. In addition, blank tickets cannot be used to exit the parking lots without paying. The Automated Parking Machines record the appropriate information such as lot number, entry date and time when the ticket is dispensed. The same ticket issued is used to exit the lot either by paying at the Payment on Foot machines or using the Cashier Booth exit lane. If an individual loses a parking ticket, he/she must exit through the Cashier Booth exit lane where another ticket is assigned. Controls are in place to determine if the lost ticket represents a short-term or long-term parking lot patron. Based on the individual's status, they will either pay the maximum daily rate or the rate for the actual number of days they occupied a parking space based on the nightly car count report (daily inventory log) maintained by ABM. To confirm this process, we selected a sample of ten days and verified that ABM was logging and inventorying the tickets by agreeing the beginning and ending ticket numbers on the Daily Management Report and also agreeing the total tickets issued and collected. No exceptions were noted.

#### Review of Exception Tickets

Parking fee amounts can be reduced for a lower amount or at zero cost (exception tickets). For instance, vehicles with a handicap placard can park in either Lot A or Lot B for a reduced rate of \$11 per day. Taxis are free and do not pay. Patrons also do not incur a parking fee for Lot A or Lot B until 21 minutes after entry into the lot. Therefore, all patrons parking for "under 20 minutes" are not charged a fee. The Skidata Parking Management System tracks zero charge tickets daily by Cashier location. The number of zero charge ticket occurrences is reported on each Cashier's daily revenue report. All exception tickets must exit the parking lot through the Cashier Booth exit lane.

The following lists all instances where the ticket amount can be reduced or results in zero charge.

Validation				
Code	Type	Description		
0001	ABM Staff	ABM Staff Employees and Vendors for Airport/ABM		
0002	Tow Truck	Tow Trucks at no charge, vehicle being towed is charge based on length of time in lot (Hours/Days)		
0003	Handicap	Reduce Rate: Charged \$11/day regardless of Lot (A or B)		
0004	Staff	ABM employees and/or ABM vendors. This validation code is only used in special circumstances/special events (charged validations for events at Jet Blue, Gulfstream, Hertz, etc.)		
0005	Taxi	Taxis are not charged. They either use keycard or pull ticket to enter staging near lot A.		
0006	Airport Bureau	Long Beach Airport Security		
0007	Service	Maintenance, service workers (rarely used)		
0008	Police	City of Long Beach Police not Airport Police		
0010	Emergency	City of Long Beach Police vehicles, Paramedics, etc.		
0011	Electrical Vehicle	Must be on list of approved electrical vehicle that qualify for free parking. (Approximately 48 vehicles are currently on list)		
0013	Special Event	Tenants such as Jet Blue and Gulfstream host special guest events at Airport. ABM collect attendees parking tickets and bill back the hosting tenant for payment.		
0501	XeVal501	Validation machine located in the Airport Bureau Offices- use and charges at their discretion.		
0502	XeVal503	Validation machine located in the Airport Bureau Offices- use and charges at their discretion.		
0503	XeVal503	Validation machine located in the Airport Bureau Offices- use and charges at their discretion.		

Based on our analysis of the percentage of exception payments to total tickets, we found that exception tickets represent 3.54% of the total tickets collected and 2.89% of the total dollars collected during the period July 2013 through May 2014, as detailed below. Our analysis of exception tickets did not cover the period from October 1, 2009 through June 30, 2013 because monthly exception ticket reports were not available prior to July 2013.

				Percentage of To	tal Tickets
Exception Category	No. of Exception Tickets	Discounted Value of Exception Tickets		Exception Tickets	Value
ABM Staff	1,142	\$	9,661	0.33%	0.12%
Airport Bureau	338		3,503	0.10%	0.044%
Electric Vehicle	1,072		71,667	0.31%	0.89%
Emergency	8		15	0.002%	0.0002%
Handicap	3,992		112,511	1.14%	1.40%
Police	92		313	0.03%	0.004%
Service	4		14	0.001%	0.0002%
Special Event	0		-	0.00%	0.00%
Staff	8		36	0.002%	0.0004%
Taxi	2,306		5,077	0.66%	0.06%
Tow Truck	47		122	0.01%	0.0015%
XeVAL501	1,154		9,435	0.33%	0.12%
XeVAL502	1,477		11,826	0.42%	0.15%
XeVAL503	734		8,483	0.21%	0.11%
Total	12,374	\$	232,664	3.54%	2.89%

The total value of discounted revenue from exception tickets was \$232,664 during the period from July 2013 through May 2014, as detailed in the table above. Exception tickets for electric vehicles and handicap vehicles make up the majority of the discounted parking revenue. Exception tickets for electric vehicles totaled \$71,667 in discounted revenue. Exception tickets for handicap vehicles totaled \$112,511 in discounted revenue. The total value of discounted revenue for handicap and electric vehicles was \$184,178 or 79% of the \$232,664 total value of discounted revenue due to exception tickets during the eleven months from July 2013 through May 2014. The handicap vehicles pay a discounted rate of \$11/day at both Lot A and Lot B rather than the full cost of \$19 at Lot A and \$17 at Lot B. Electric vehicles pay no parking fee to park at either Lot A or Lot B.

In addition to the exception tickets detailed in the table above, there are also zero value exception tickets for "under 20 minutes". A parking fee is charged in both Lot A and Lot B after 21 minutes in \$2 per hour increments until the maximum per day fee is reached. ABM does not have monthly reports that provide the information on "under 20 minutes" exception tickets from October 1, 2009 through April 30, 2014. However, ABM was able to provide the "under 20 minutes" exception ticket information for the four month period from May 2014 through August 2014. Based on our analysis of the percentage of exception tickets for "under 20 minutes" to the total ticket population for the four months from May 2014 through August 2014, we calculated approximately 28,000 zero value "under 20 minutes" exception tickets out of 134,000 total tickets, which represents approximately 20.9% of the total ticket population for the four months. We determined the value of the discounted revenue for "under 20 minutes" exception tickets to be approximately \$18,666 or \$55,998 annualized for the 28,000 zero value "under 20 minutes" exception tickets.

#### **Review of Lost Ticket Management**

For the period from July 2013 through May 2014, there were 1,728 lost tickets processed out of a total ticket population of 349,258 tickets. Thus, lost tickets represented 0.49% of the total ticket population.

We tested ten days of exception tickets to verify that proper procedures and controls were in place to control and monitor exception tickets. For lost tickets, we verified that the blank ticket was completed by the cashier and a yellow ticket form was properly completed by the patron with his/her information (name, address driver's license number, license plate number, make and model of vehicle). We reviewed the daily inventory log to determine whether the vehicle was parked for more than one day, verified that the amount charged and collected was correct, and verified that the lost ticket processed was entered on the lost ticket log. No exceptions were found. For reduced tickets - handicap tickets, we verified that a yellow ticket was properly completed by the patron and that the cashier wrote down the handicap placard number and expiration date on the yellow tickets. We also verified that that the amount charged and collected was correct. We found no exceptions.

Moreover, the Daily Master Report and original tickets collected are submitted to the Long Beach Airport on a daily basis. In addition to the revenue information on the Daily Master Report, ticket information (issued, collected, exception tickets processed, and lost tickets processed), are included in the Daily Master Report. Based on our inquiry with Airport management, it appears that the exception ticket information is only being filed away and no analysis or oversight is being performed with the exception ticket information.

#### **Recommendation No. 3:**

Given the recent decline in parking revenues as discussed above, we recommend that Airport management consider strategies for changing exception ticket pricing such as eliminating the "under 20 minutes" no parking fee policy. We also recommend that Airport management consider conducting periodic reviews of exception ticket and lost ticket reporting information to determine if the number of exception tickets, zero value tickets, and lost tickets are reasonable and whether the procedures for handling and reporting exception tickets, zero value tickets, and lost tickets are being followed.

#### B. Revenue Collection

ABM operates three (3) parking lots: Lot A, Lot B and Tenant and Employee parking lots. Lot A has two (2) Automated Ticket Dispenser Machines where tickets are issued with date and time stamped, one (1) Payment on Foot (POF) machine where tickets are processed for payment and a receipt issued, and one (1) cashier booth. Lot B has four (4) Automated Ticket Dispenser Machines, two (2) POF machines and one (1) cashier booth. All transactions are processed with a ticket and no one can exit the parking lots without going through the cashier booth or POF machines. Payments at POF machines are by credit/debit cards only. Payments at the cashier booth can be cash, credit/debit cards or checks.

For the period from July 2013 through May 2014, a total of 342,150 patrons exited the parking lots A and B. Of the 342,150 patrons, 133,800 (39.1%) patrons exited the parking lots through the cashier booths whereas 208,350 (60.9%) exited the parking lots using the automated ticket machines. In addition, \$1,310,914 (16.2%) in revenue was collected by the cashier out of the total revenue of \$8,105,512. Of the \$1,310,914 revenue collected by the cashier, \$854,711 (10.5%) was collected in cash, \$3,074 (0.04%) was

collected in checks, and \$453,129 (5.6%) was collected in credit cards.

There are two cashier booths (one in Lot A and one in Lot B) and there are three 8 hour shifts per booth each day. If the cashier collects more than \$200 in cash, a cash drop is processed. Daily, a cashier can make 1 to 12 cash drops per shift. The cashier keeps track of how much cash they have by a manual count and a subtotal report through the system. Drops are prepared by the cashier by counting the money, writing the dollar amount of each denomination and each check on the drop envelope, and initialing the envelope. The supervisor re-counts the cash and checks separately and initials the drop envelope verifying that the amount is correct. The total amount of the drop is entered on the Daily Cashier Shift Report and the Daily Cashier Shift Report is initialed by the supervisor. Then the supervisor takes the cash envelope to the "money room", fills out the drop log and drops the envelope in the safe box. At the end of the cashier's shift, a report of transaction totals is printed and attached to the Daily Cashier Shift Report, and the cashier completes a Daily Cashier Shift Report documenting the cashier's name, employee number, date, shift, booth number, opening register number, opening gate count, and the amount of cash and check by each denomination. Nightly, the Graveyard Supervisor prints all POF Summary Reports and Credit Card Summary Reports and tallies up all Daily Cashier Shift Reports and generates/completes the Daily Master Report.

The next morning, two supervisors retrieve the cash from the locked safe and count the cash, verifies to the cash drop envelope and log, and initials the cash drop envelope verifying that the amounts are accurate. A different supervisor then counts the cash again, verifies the totals to the previous day's Cashier Shift Reports and the Daily Master Report, and prepares the deposit slip and the deposit bag for the armored carrier pick up. This same supervisor reviews the Daily Master Report with all supporting reports for accuracy and forwards the Daily Master Report with all supporting reports to the ABM General Manager. Once the ABM General Manager reviews and approves the report, he sends them back to the supervisor who makes copies of the approved Daily Master Report and all supporting documents and forwards the originals, including all the tickets collected, to the Long Beach Airport. The Long Beach Airport reviews and reconciles the Daily Master Report and all supporting documents and posts the daily revenues in the City of Long Beach accounting system.

To verify the accuracy of revenue collected and reported, we verified ten (10) days of revenue collections reported on the Daily Master Report to the supporting documents (bank deposit slips, Credit Card Settlement Report, POF Summary Report, Cashier Shift Reports, Skidata Revenue and System Total Report) and verified that all reports were reviewed, reconciled and properly approved. No exceptions were noted. In addition, for the same ten days sampled, we agreed airport parking revenue collections to the general ledger of the City of Long Beach without exception.

However, we found that it took from five (5) to twenty-six (26) days from when the Daily Master Report and all supporting documents were received by the Long Beach Airport to be recorded in the general ledger of the City of Long Beach, as shown in the table below.

	Date	FY	Total Revenue Per Daily Master Report	Date Posted in City of Long Beach's General Ledger	No. of Days it took Before it was Posted
1	April 1, 2014	2014	\$ 16,213	April 9, 2014	8
2	April 20, 2014	2014	30,066	May 1, 2014	11
3	August 9, 2013	2013	27,801	August 16, 2013	7
4	August 13, 2013	2013	23,575	August 20, 2013	7
5	July 2, 2012	2012	31,058	July 18, 2012	16
6	July 6, 2012	2012	20,984	July 18, 2012	12
7	November 24, 2010	2011	8,933	December 13, 2010	19
8	November 30, 2010	2011	25,660	December 13, 2010	13
9	January 3, 2010	2010	40,238	January 29, 2010	26
10	January 20, 2010	2010	16,591	January 29, 2010	5

Airport management did not have any explanation as to why the daily parking revenues were posted late other than delays in the management review process. It is important that daily parking revenues are reviewed, reconciled and recorded timely to ensure timely financial management reporting.

#### **Recommendation No. 4:**

Airport management should review, reconcile and record daily parking revenues in the City's books timely to ensure timely financial reporting. Airport management should also consider conducting periodic spot audits of daily cash collected by ABM to ensure that cash collected is properly accounted for and safeguarded.

#### C. Invoice Billings

Monthly invoices are prepared by ABM's Corporate Office for services rendered by ABM. There are two types of costs on the monthly invoices: labor costs and reimbursable expenses.

#### Review of Labor Costs

The monthly invoices for labor costs are based on ABM employee timekeeping records. Timecards are completed by each employee and verified by the Supervisor and approved by the General Manager. The Supervisor obtains the monthly payroll report (E-pay records) from their payroll system, reconciles E-pay records to timecards, and prepares the Billable Hours Report, which splits the labor hours for the previous month by labor categories. The General Manager then reviews the Billable Hours Report and timecards for accuracy and prepares the Summary of Hours Schedule for the month, and forwards it to the Accountant at ABM's Corporate Office. The Accountant prepares the monthly invoice based on the Summary of Hours Schedule and forwards the completed invoice to the General Manager. The General Manager reviews the invoice for accuracy and forwards it to the Long Beach Airport for payment.

To verify the accuracy of invoiced labor costs, we sample tested monthly labor costs from the monthly invoices to supporting documents including timesheets. Our sample included one (1) month out of each fiscal year, totaling five (5) months. We found \$6,689 in labor costs that were unsupported by timesheets or the hours claimed did not agree to the timesheets, as detailed below.

Missing timecards for two employees	\$ 5,112
Labor cost claimed on invoice was not supported by time cards.	1,577
Total unsupported labor costs	\$ 6,689

#### Recommendation No. 5:

ABM management should search for and provide the City with supporting documentation for the above missing or unsupported timecards. In addition, Airport management should periodically verify actual time worked by spot checking labor charges to actual timesheets.

#### Review of Reimbursable Costs

For the monthly invoices of reimbursable costs, all reimbursable vendor invoices received are reviewed and approved for payment by the ABM General Manager. The invoices are then forwarded to ABM's Corporate Office to prepare the monthly invoice to be forwarded to the Long Beach Airport. Once the monthly invoice is prepared by ABM's Accountant, the General Manager reviews it for accuracy and then forwards it to the Airport for payment. ABM's Accounting Department then processes the individual vendor invoices for payment after the monthly invoice to the Airport has been prepared and submitted.

To verify the accuracy of monthly invoices for reimbursable costs, we sample tested five (5) monthly invoices of reimbursable costs and found that two (2) out of five (5) monthly invoices sampled did not have proof of payment of vendor invoices attached to the monthly invoice to the Airport. The two monthly invoices that were prepared and submitted to the Airport without proof of vendor payment were for recent fiscal years (FY 2014 and FY 2013). The three (3) months of invoices tested in FY 2012, FY 2011 and FY 2010 did include copies of checks supporting vendor payments by ABM. Invoicing the Airport for reimbursable costs not yet paid increases the risk of overpayment if ABM does not pay the full amount of vendor invoices claimed.

#### **Recommendation No. 6:**

Airport management should not process payment of ABM invoices for reimbursable costs unless proof of vendor payments made by ABM is included with the invoice.

## Finding No. 4 – Internal controls over the reliability of data from revenue control devices and the completeness and accuracy of reported parking facility revenues were found to be adequate.

#### Review of Internal Controls over Payment on Foot (POF) Machines

As previously mentioned, ABM operates three (3) parking lots: Lot A, Lot B and tenant and employee parking lots. Lot A has one (1) POF machine and Lot B has two (2) POF machines. The customer inserts the ticket into the POF machine and the machine computes the fee, displays the fee due, accepts payment in credit card only, issues a receipt if requested, and issues the customer a ticket after the fee is paid allowing them to exit the parking facility.

To assess the internal controls over POF machines, we verified that access to POF machines was restricted to only the ABM Shift Supervisors and ABM General Manager. Access is also limited to only replenishing the pre-numbered blank tickets, to fix stuck tickets, or to print revenue reports. Once a transaction is completed in the system, no individual can go back and void any of the transactions. ABM personnel cannot make any changes to the amounts reported in the system or change/modify the report generated from the POF machines. These reports are preprogrammed by Sentry Control System (POF system maintenance operator) and no individual at ABM can reprogram the reports. Moreover, the POF server is located in a locked storage room with only the General Manager and Shift Supervisor having access to the room. Unused tickets are also locked up in the same room. The POF server is restricted and only the representative from Sentry Control System has access to the server when performing regular monthly maintenance on the entire Skidata System.

We examined the revenue features available in the Skidata Vendor system and ABM personnel access to the system. Based on our review, we noted that ABM personnel cannot make any changes to the amounts reported in the system. In addition, the credit card amount collected is reconciled to the bank account daily to determine if there are any discrepancies between the amount posted by the system and the amount reported by the bank. The discrepancies are included on the daily revenue report and noted as under or over charges, which are automatically credited within 1-3 days. The exceptions are primarily timing differences between the receipt of POF information and processing through the credit card clearing house. Sentry Control System, the primary Administrator for the Skidata system, also confirmed to us that the system is in compliance with the Payment Card Industry Security Standards for collection of credit card revenue and that no changes can be made to the revenue collected and reported.

#### Finding No. 5 – The Airport's contract administration duties and responsibilities could be improved.

The Contract and amendments do not include labor rates for all positions listed or utilized by ABM. Four (4) labor positions were designated in the original Contract, but labor rates for only 3 of the 4 positions were listed. Furthermore, 4 additional labor positions were subsequently added to the Contract but the Contract was never amended to add the additional positions and labor rates. The additional positions and labor rates were requested by ABM in writing and approved by the Airport, but the Contract was never formally amended to incorporate these changes.

Annual CPI adjustments are not made effective until seven (7) months after the time interval for the calculated adjustment ends. Per the Contract, compensation shall be adjusted annually by the percentage of change in the CPI for the Los Angeles-Long Beach Metropolitan Area (all urban consumers) for the last

12 months in which data is available, but not be reduced below amounts of established rates or increased in amounts to exceed 5% per year. Adjustments are currently being calculated by using the annual time interval of May; however, adjustments are not effective until January of the following year, which is seven (7) months after the adjustment time interval ends. The latest provided CPI adjustment (2012-2013) of 1.57% was not effective until March of the following year, which is nine (9) months after the adjustment time interval ended.

The City of Long Beach Auditor's Office issued an audit report in August 2012 entitled Long Beach Airport Leasing and Concessions Performance Audit. The 2012 audit's scope did not include the ABM airport parking facilities contract due to the fact that the contract was on a month-to-month basis and plans were to renegotiate or rebid the contract. However, the 2012 audit did include a review of the Airport's overall contract administration practices, specifically with respect to concession contract management policies and procedures.

The 2012 audit specifically recommended that the Airport develop formal policies and procedures (standardized, documented and tracked) for conducting audits and inspections of concessionaires. During our audit, we found that there are still no formal, documented policies and procedures that govern concessionaire inspections, reporting of observations/incidents, or routine communication between the Airport and ABM.

The 2012 audit also noted that the Airport needs to improve the consistency of its oversight for insurance requirements to ensure that concessionaires remain in compliance. During our audit, we found that the Airport now uses the City Law system to monitor insurance and surety bond requirements and to track expiration and renewal dates.

#### **Recommendation No. 7:**

The Airport should formally amend its Contract with ABM to reflect the new positions and labor rates added to the Contract, ensure the timely implementation of CPI increases, and develop formal policies and procedures for conducting audits and inspections of its concessionaires.

## Finding No. 6 – ABM was found to be in general compliance with key terms and conditions of the Airport Operating Agreement.

We tested ABM's compliance with the following terms and conditions and found no non-compliance matters:

- Required Services and Uses Operator's use of the Airport shall be limited to operating City's Parking Facilities solely for the convenience and use for transient parking of vehicles.
- Optional Service and Uses Subject to the prior written approval of Airport Manager, Operator
  is granted an option to provide those additional services and uses which are ancillary to the
  compatible with the required Parking Facilities operations.

- Restricted Services and Uses Both required and optional services and uses, shall be only services and uses permitted.
- <u>Pay on Foot Collection</u> Airport Manager may require Operator to stock and operate pay-on-foot parking receipts collection equipment. Operator shall provide, train and assign an employee with designation of shift supervisor. Operator shall list separately, on its monthly invoice, those Shift Supervisor/employee-hours worked on the above tasks.
- Compensation to Operators Invoices for labor costs should be based on approved labor rates.
- <u>Daily Staffing Schedule</u> Minimum number of staffs at various positions will be provided on a daily basis.
- Parking Rates Parking shall be subject to rates fixed by the City.
- Responsibility and Requirements of Operator Operator shall select and appoint a Parking Manager. Operator shall conduct its operations in an orderly and proper manner so as not to annoy, disturb, or be offensive to customers, patrons or tenants of the Airport. Operator shall take every precaution to protect City's money. Operator shall furnish, at Operator's expense, all necessary office supplies and equipment. Operator shall sell monthly employee parking permits on behalf of the City. Operator shall take a daily physical layover inventory and a daily license plate inventory of all parking lots.
- Parking Revenue Collections Operator shall collect all City established parking charges and fees, except for those charged to City employees or as otherwise directed by Airport Manager. Operator shall verify the maximum daily charge for a "lost ticket" in accordance with daily inventory sheets establishing the number of days the "lost ticket" vehicle has remained in the parking lot. Operator shall establish procedures to avoid losses from checks, credit cards, or promise to pay forms. Check cashing procedures as described in the Agreement are to be followed. Daily report of total revenues and total revenue by lots are to be forwarded to the Airport Manager on a daily basis.
- <u>Records and Accounts</u> Operator shall keep true and complete books, records and accounts of all parking revenues from operation of the Parking Facilities and employee hours worked in operation of the Parking Facilities.
- <u>Audited Statement of Parking Revenues</u> Operator shall at his own expense submit to City a Statement of Parking Revenues, audited by an independent Certified Public Accountant.
- <u>Utilities</u> Operator shall pay all telephone expenses incurred in performing this agreement. City
  agrees to pay and be responsible for all charges and expenses for electricity and water to the
  Parking Facilities.
- Operation Manual Operator shall provide an Operation Manual to the Airport Manager.

• <u>Insurance</u> - Operator shall maintain insurance coverage (comprehensive general liability, workers' compensation and blanket crime insurance) with an insurer admitted in California or having a minimum rating of or equivalent to A:VIII in Best's Insurance Guide.

Attachment 1

Comparison with Compensation Terms of Other Comparable Parking Facility Contracts

AGENCY	SERVICES	LOT DESCRIPTION	BUDGET/ Expenditures	PRICING STRUCTURE
Long Beach Municipal Airport	Operate City's Airport parking facilities     Ancillary services such as valet, shuttle, car wash, and auto detailing services     Stock and operate payon-foot parking receipts equipment	Overflow Lot - 97 Spaces; Monthly Permit Lot - 227 Spaces; Short-term Lot - 144 Spaces; Parking Structure - 1050 Spaces	Actual Compensation: FY 2010 - \$2,735,111; FY 2011 - \$2,217,975; FY 2012 - \$1,550,926; FY 2013 - \$1,514,194	Hourly pay at established rates for various agreed upon positions. Additional services may be added but only with written approval by City.  Per the Operating Agreement, compensation shall be adjusted annually by the percentage of change in the CPI for the Los Angeles-Long Beach Metropolitan Area (all urban consumers) for the last 12 months in which data is available, but not be reduced below amounts of established rates or increased in amounts to exceed 5% per year.
LAWA - Transportation Services and Operation of Employee Parking Lots (LAX)	Provide transportation services between the Central Terminal Area and airport employee parking lots and Metro's Green Line Station     Operate airport employee parking lots at Los Angeles International Airport	Employee Parking Lot West; Employee Parking Lot East; Employee Parking Lot South; Lot A; Lot E; Imperial Cargo Lot; Imperial Terminal Lot *Unable to determine number of spaces.	NTE of \$53,500,000 for 7 years.  FY 2014 - \$7,000,000 (estimate)	City shall pay to Operator the following:  (1) Monthly Management Fee; (2) Monthly Operational Expenses; (3) the Pass-thru Expenses for Facility Repairs; and (4) the Infrastructure Improvement Acquisition Cost The first year's estimated cost of \$7 million represents no change from the total of the existing operating contracts. Following installation of the ACS, operating costs reduced by an estimated 2% from Y1 to Y2. Of the total annual Agreement costs, approximately 75% is attributable to transportation services and the remaining is composed of costs for parking management and the new ACS.  \$139,913 - Monthly Management Fee shall be subject to increase by an amount equal to two percent (2%)  \$24.53- Parking Staff Hourly Rate shall be subject to increase by an amount equal to four percent (4%)  \$28.70 - Transportation Hourly Rate shall be subject to increase by an amount equal to four percent (4%)  \$24.48 - Cleaning Service Hourly Rate shall be subject to increase by an amount equal to four percent (4%)

Attachment 1

Comparison with Compensation Terms of Other Comparable Parking Facility Contracts

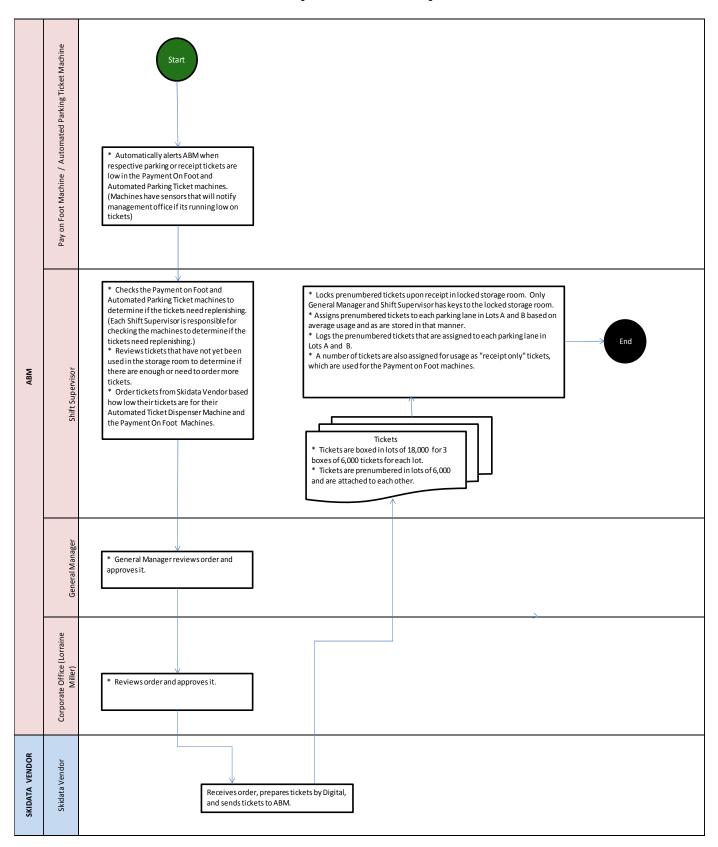
AGENCY	SERVICES	LOT DESCRIPTION	BUDGET/ EXPENDITURES	PRICING STRUCTURE
City of Los Angeles- 24 City-Owned Parking Facilities	Operation, management, and maintenance of 24 City-owned parking facilities	Valley Lot Group (9 parking facilities) - 1,544 Spaces;  Hollywood Lot Group (4 parking facilities) - 1,046 Spaces;  Downtown/Mid-City Lot Group (5 parking facilities) - 1,071 Spaces;  West L.A. Lot Group (5 parking facilities) - 1,068 Spaces	Actual Compensation:  FY 09/10 Valley Lot - \$838,300 Hollywood Lot - \$457,700 DT/Mid-City - \$314,700 West LA Lot - \$859,500  FY 10/11 Valley Lot - \$876,000 Hollywood Lot - N/A DT/Mid-City - \$365,000 West LA Lot - \$876,500	Fixed monthly compensation fee for operation, management and maintenance of parking facilities. Monthly compensation includes expenses such as labor costs (including direct and overhead costs), operating and maintenance expenses, and fees for each parking facility. Each year, monthly compensation and cost of supplementary services shall be revised to account for most recently published CPI adjustment. Annual adjustment shall not exceed 6%.
San Jose International Airport	Operate and manage parking facilities     Operate and manage intra-lot parking shuttle services	Several lots  Unable to determine number of spaces.	Maximum Compensation: \$13,801,420 for 3 years beginning in April 2012.  Y1 - \$4,459,271  Y2 - \$4,598,152  Y3 - \$4,743,997	Not-to-exceed amount established by year. City compensates Operator:  1) Management fee  2) Authorized reimbursable expenses. Authorized reimbursable expenses include fringe benefits, wages and salaries, credit card transaction fees, minor repair expenses, armored transport services, operating supplies and materials.  The management fee and reimbursable expenses shall be due and payable monthly in arrears.  Compensation rates shall be adjusted at the beginning of each option term to reflect change in CPI. The adjustment of any monthly compensation rate for any extension term shall not exceed five percent (5%) of the previous term's monthly compensation rate.

### Attachment 1

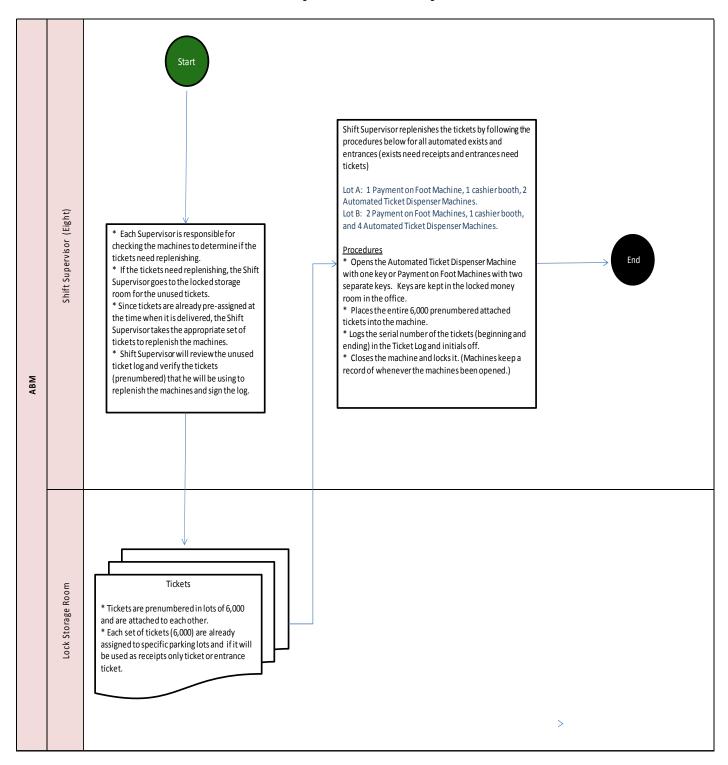
## **Comparison with Compensation Terms of Other Comparable Parking Facility Contracts**

			BUDGET/	
AGENCY	SERVICES	LOT DESCRIPTION	EXPENDITURES	PRICING STRUCTURE
	All parking management services necessary to	23 Lots varying in size from 21 spaces to 1434 Spaces	Annual Fixed Fee:	Annual Not-to-Exceed amount of \$2,213,219.
<b>Municipal</b> r	manage, maintain and operating parking facilities		2013 - \$2,213,219	Contingency of \$772,819 for special events staffing, marketing, supplies, non-Tidelands facility maintenance. One-time payment of \$750,000 for capital costs for beach parking lots.  NTE includes direct labor, overhead, operating costs and profit. Fixed fee shall increase by 3% or CPI rate increase (whichever is higher) annually.

Ticket Management Process - Ordering Tickets

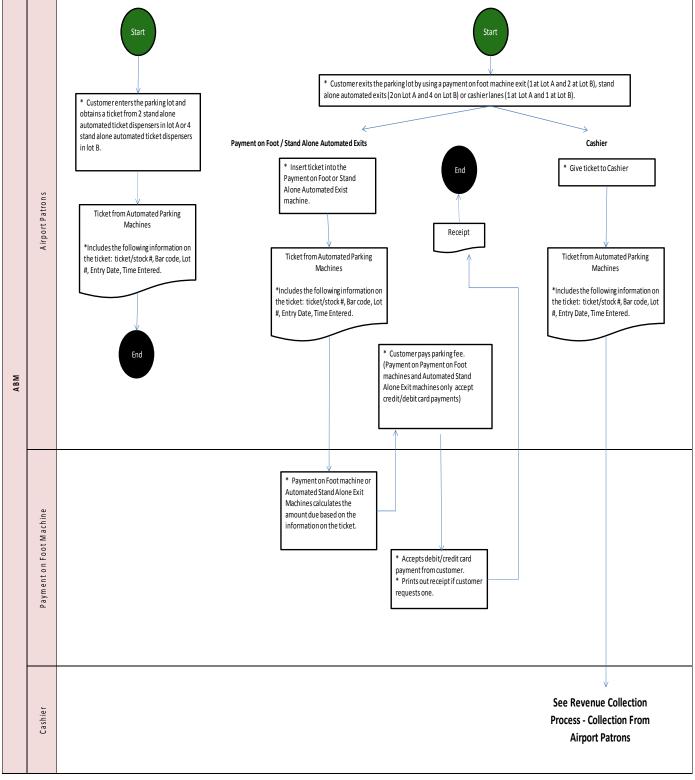


Ticket Management Process - Ordering Tickets

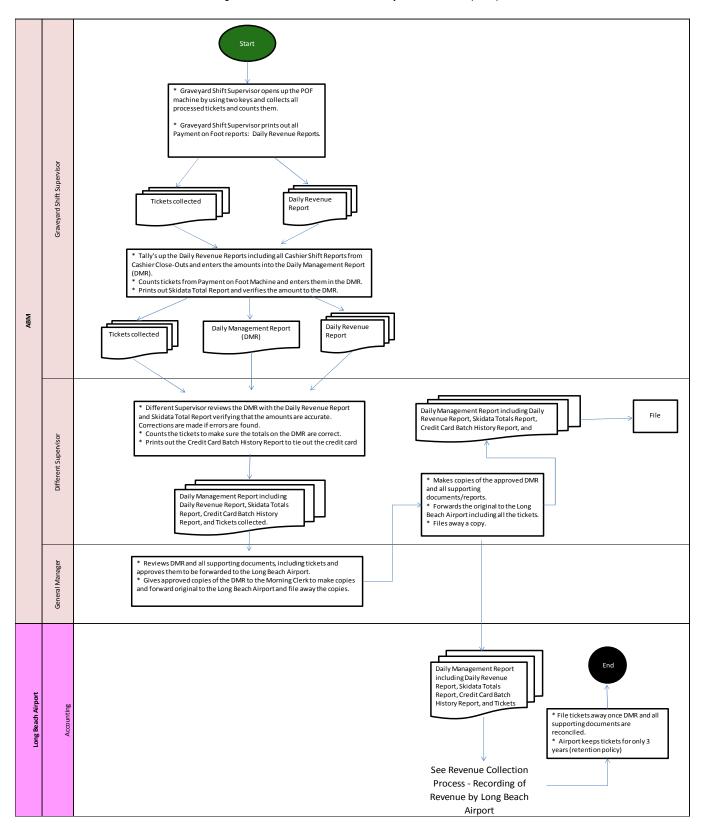


Ticket Management Process – Airport Patrons Entering and Exiting Parking Lots

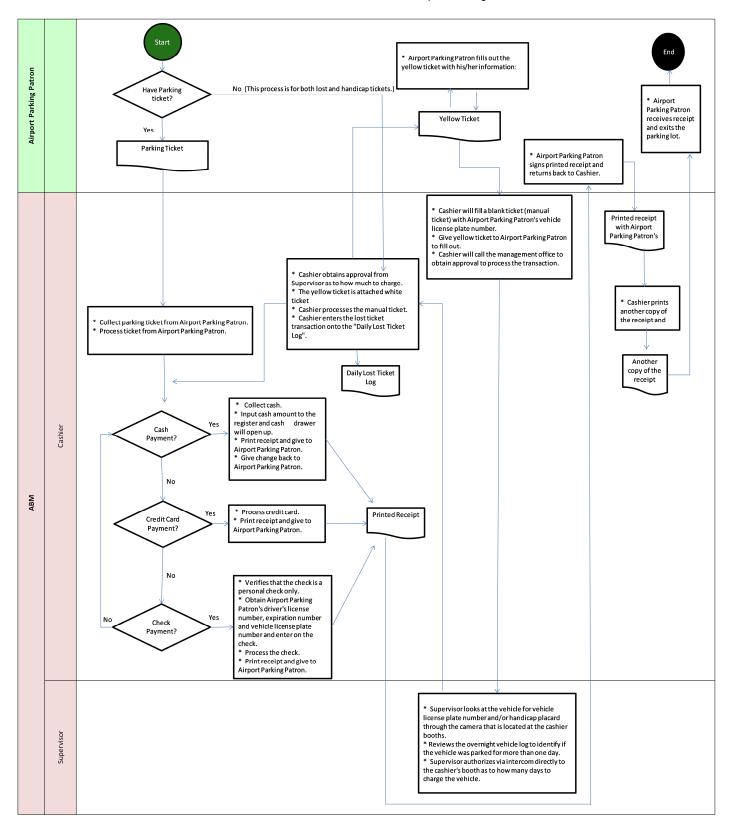
## **Entering Parking Lot Exiting Parking Lot**



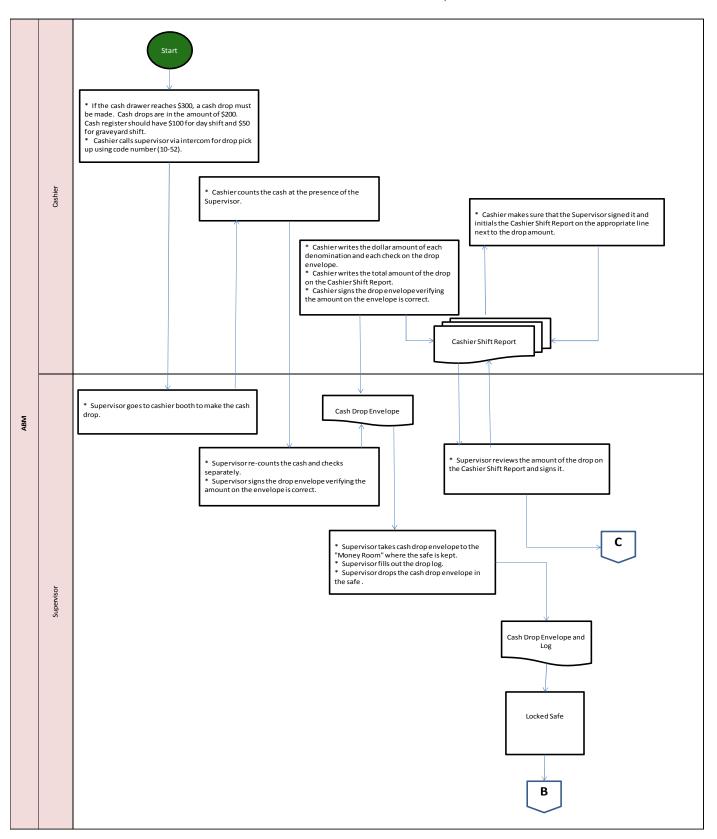
Ticket Management Process - Close-Out of Payment-On-Foot (POF) Machines



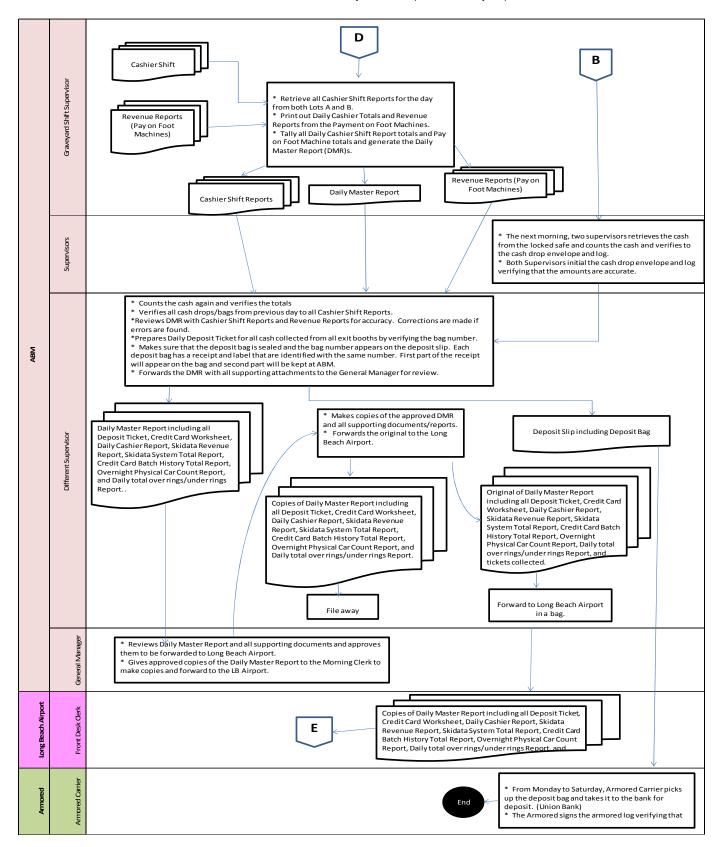
Revenue Collection Process - Revenue From Airport Parking Patrons



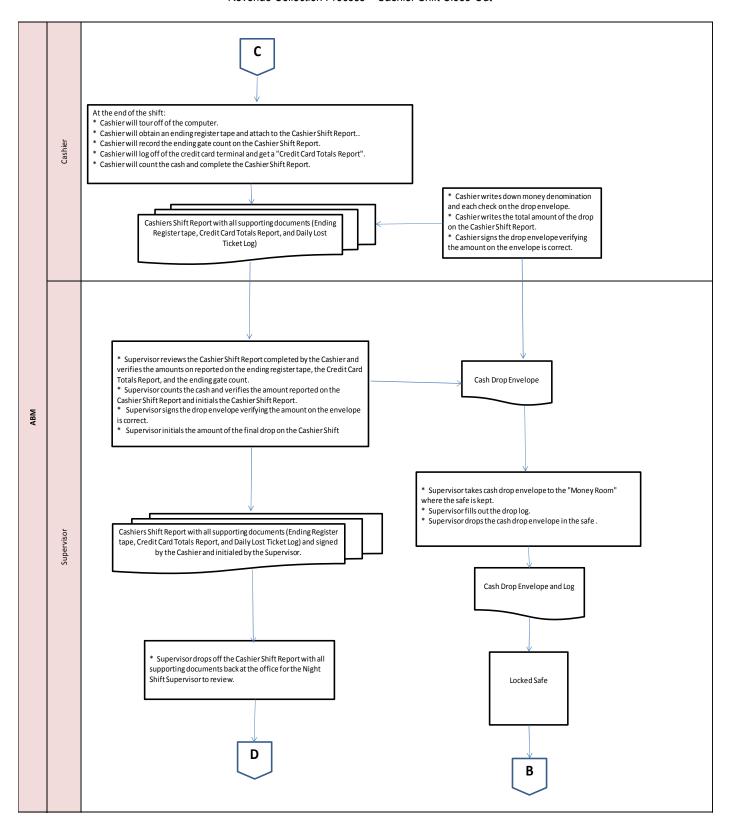
Revenue Collection Process - Cash Drops



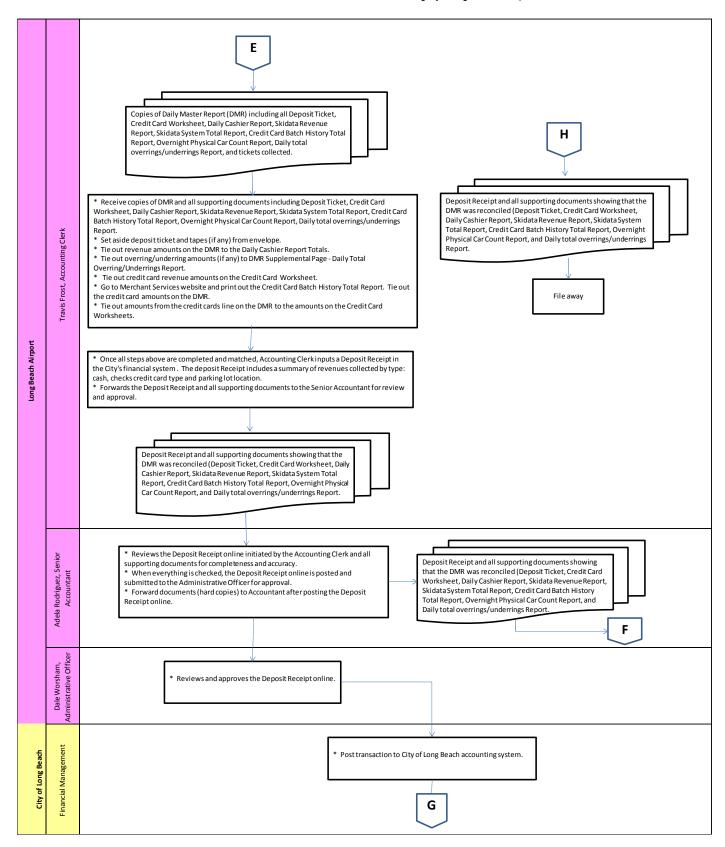
Revenue Collection Process - Daily Master Reports and Daily Deposits



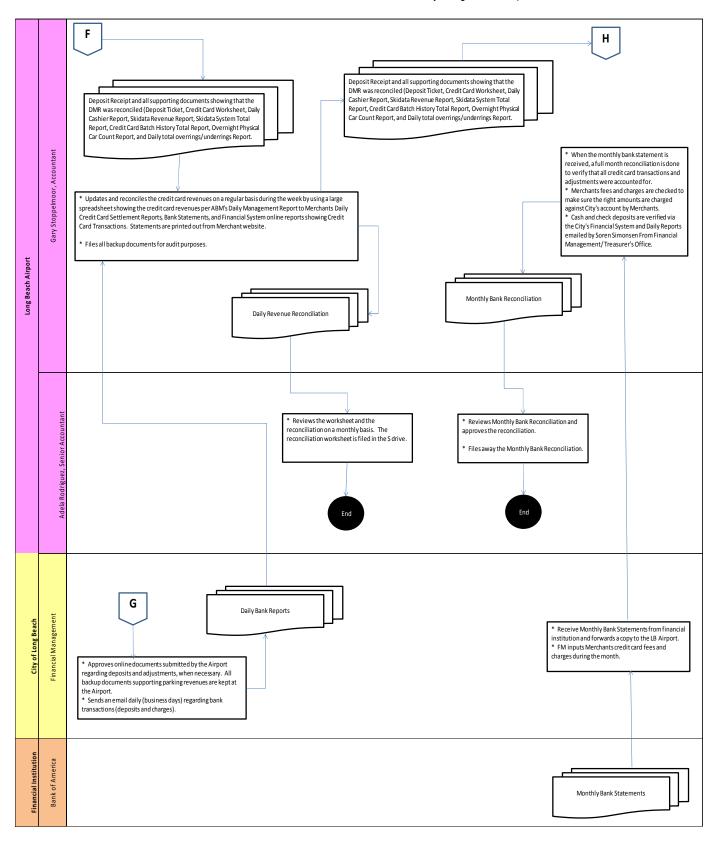
Revenue Collection Process - Cashier Shift Close-Out



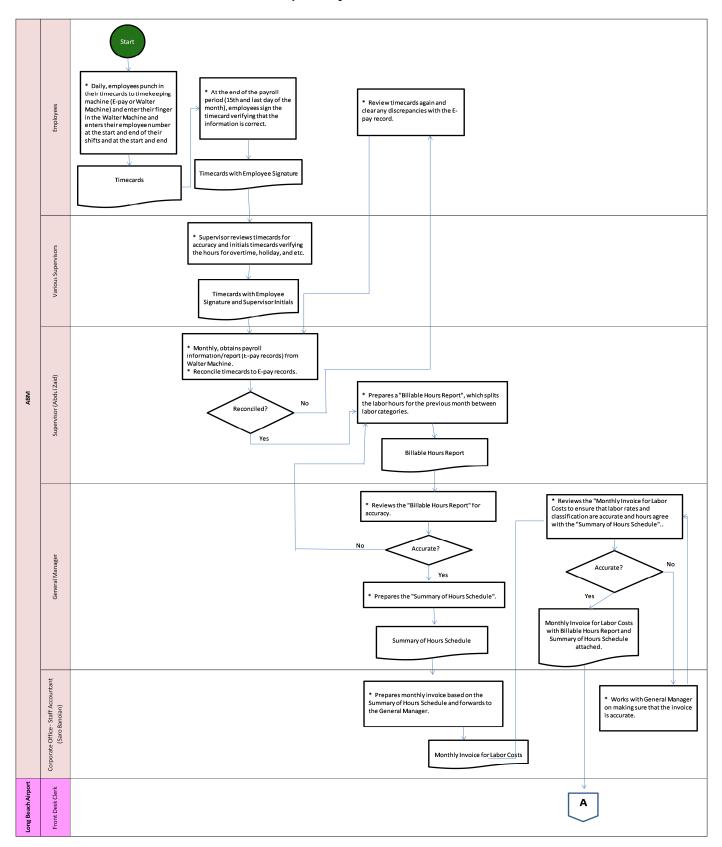
Revenue Collection Process - Revenue Recording by Long Beach Airport



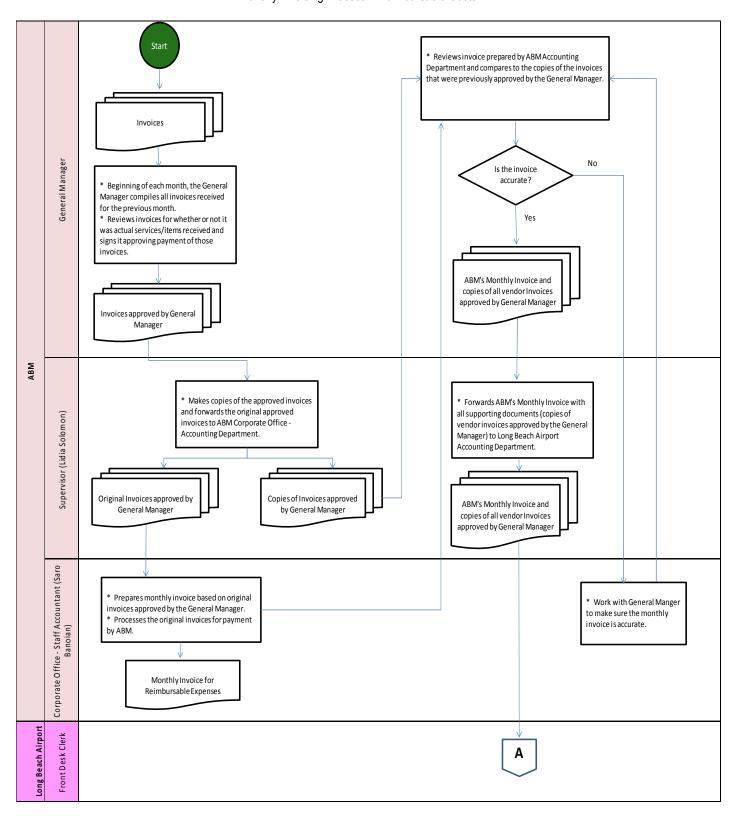
Revenue Collection Process - Bank Reconciliation by Long Beach Airport



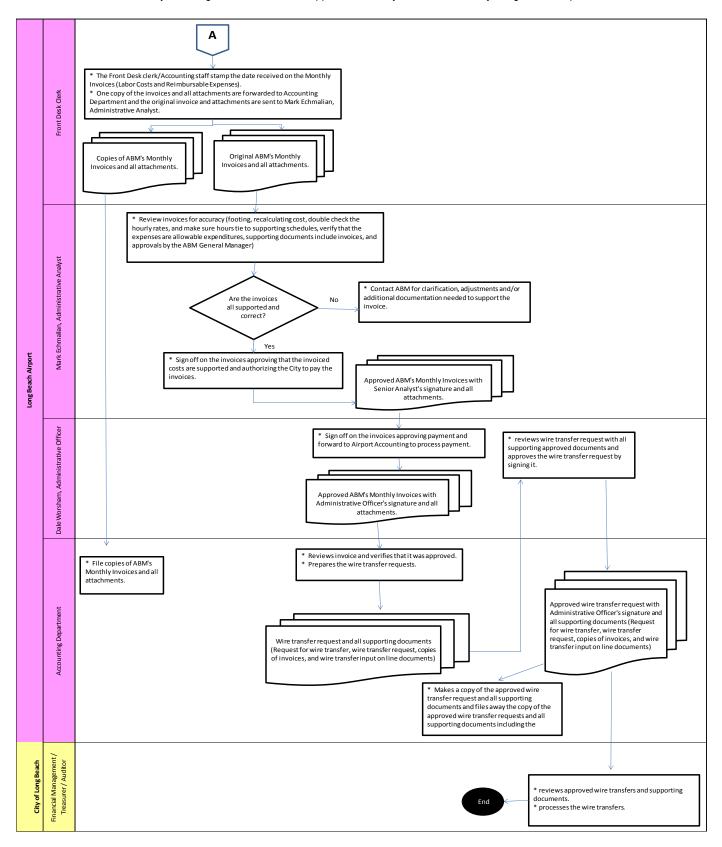
Monthly Invoicing Process - Labor Costs



Monthly Invoicing Process - Reimbursable Costs



Monthly Invoicing Process - Review, Approval, and Payment of Invoices by Long Beach Airport







4100 E. Donald Douglas Drive, Floor 2 Long Beach, CA 90808 Tel 562.570.2619 Fax 562.570.2601 www.lgb.org

Date:

March 18, 2015

To:

Fatrick H. West, City Manager Full:

From:

Bryant L. Francis, C.M., Director, Long Beach Airport /s/ BLF

For:

Laura L. Doud, City Auditor

Subject:

Management Response to the Performance and Compliance Audit of the Airport Operating Agreement for Parking Facilities

The Long Beach Airport Department (Department) would like to thank the Office of the City Auditor (City Auditor), their staff and the auditing firm of BCA Watson Rice, LLP, for conducting this review of the performance and compliance of the Department's agreement with AMPCO System Parking, Inc. (ABM).

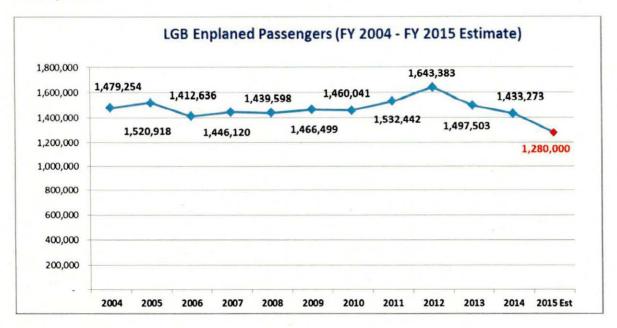
The audit was performed in a transparent and professional manner. City Auditor staff and their consultant were very respectful of the Department's time and were able to conduct the audit without impeding operations.

Management is pleased that the audit report finds the contractor in compliance with the terms of the agreement and the Department's administration of the agreement to be adequate, with some room for improvement.

The audit report appropriately emphasizes that Airport parking operations revenue has been on the decline since 2013 and is forecasted to continue declining through 2016. This decline in revenues is not limited to parking revenues but is identified in all of the Airport's indirect airline revenues, i.e. car rental, ground transportation and restaurant/concession revenues.

Like every airport, Long Beach Airport's financial performance is a function of the enplaned passenger activity or enplanements. Enplanements are the number of passengers boarding an aircraft at an airport. This does not include arriving or through passengers. Given the Airport Noise Compatibility Ordinance, the Airport's financial plans have assumed stable annual enplanements in the range of 1.45 million to 1.55 million. However, the Airport is now experiencing its third consecutive year of declining traffic, as FY 2015's estimated enplanements will fall to 1.28 million, the Airport's lowest since FY 2002, prior to the commencement of service by JetBlue.

This would represent a 22.1 percent decline in passengers over the past three years.



This drop is driven primarily by JetBlue's underutilization of its 32 air carrier slots. JetBlue is utilizing its slots only 71 percent of the time in FY 2015. Alaska's decision to end service at Long Beach Airport in January 2015 also had an impact. Traffic from Delta Air Lines and US Airways has been stable in recent years.

The Department's strategy for reversing this downward revenue trend is focused on increasing enplanements, identifying new revenue sources and reviewing rates and fees charged to passengers and airport operating partners.

Management's response to this parking audit will focus on the seven recommendations provided in the audit report.

### Recommendation No. 1:

Although it may cost the Airport more than their current parking facilities contract, the Airport should consider re-bidding the airport parking facilities contract and ensure that the future contract contains current and thorough contract provisions, including required safety training and contractor performance measures.

### Management Response:

The Department is currently preparing an RFP to go out for bid for the Airport's parking management services. The Department will submit said RFP to the City's Purchasing Division within the next 90 days. It should be noted that a new contract/vendor may not provide better terms than the Department is currently receiving. The Department will consider

experience, overall costs and ancillary services in evaluating the proposals it receives.

#### Recommendation No. 2:

Given the declining parking revenues and increase in expenditures (mainly due to the debt service on Lot B construction bonds), Airport management should aggressively pursue its options to increase parking revenues by 1) continuing its focus on strategies to increase enplanements, and 2) considering strategies for changing exception ticket pricing such as eliminating the "under 20 minutes" no parking fee policy.

### Management Response:

The Department will continue to focus on strategies to increase all indirect airline revenues which are a function of passenger enplanements. Parking fees are part of the City of Long Beach's Master Fee and Charges Schedule that can only be amended by City Council Resolution. The process to amend fees occurs at least twice annually and includes community outreach, consultation with industry and Department experts and dialogue with the City Manager's Office. The Department does and will continue to review all of its fees and analyze the impact of fee increases or decreases. The Department will specifically look at the exception tickets, under 20minutes free tickets, disabled parking discounted tickets and free electric vehicle parking tickets. It should be noted that these exception tickets exist as part of the "customer experience" at the Long Beach Airport and are not entirely driven by profit motive. The Long Beach Airport is a community airport that serves the region in general, and the residents of Long Beach in particular. Increasing fees on the Airport's users solely for the sake of increasing profits may have an adverse effect on the outstanding community goodwill that the Airport Department has cultivated over the last several years. Furthermore, the free electric car parking was initiated by the City to encourage the use of alternative fuel vehicles, and eliminating the free 20-minute parking would result in an increased number of vehicles circling the airport, intensifying traffic congestion and causing safety concerns.

#### Recommendation No. 3:

Given the recent decline in parking revenues as discussed above, we recommend that Airport management consider strategies for changing exception ticket pricing such as eliminating the "under 20 minutes" no parking fee policy. We also recommend that Airport management consider conducting periodic reviews of exception ticket and lost ticket reporting information to determine if the number of exception tickets, zero value tickets, and lost tickets are reasonable and whether the procedures for handling and reporting exception tickets, zero value tickets, and lost tickets are being followed.

### Management Response:

Please see the Department's response to Recommendation No. 2 above for ticket pricing strategies. The Department will expand its written procedures to specifically address the oversight and control of exception tickets, zero value tickets, and lost tickets. These procedures will include a periodic review and analysis of comparative data to determine if exception tickets are reasonable and whether proper procedures are being followed by the contractor.

#### Recommendation No. 4:

Airport management should review, reconcile and record daily parking revenues in the City's books timely to ensure timely financial reporting. Airport management should also consider conducting periodic spot audits of daily cash collected by ABM to ensure that cash collected is properly accounted for and safeguarded.

### Management Response:

The Department concurs and will include periodic spot audits of daily cash collected in its updated procedures mentioned in the Management Response to Recommendation No. 3.

#### Recommendation No. 5:

ABM management should search for and provide the City with supporting documentation for the above missing or unsupported timecards. In addition, Airport management should periodically verify actual time worked by spot checking labor charges to actual timesheets.

#### Recommendation No. 6:

Airport management should not process payment of ABM invoices for reimbursable costs unless proof of vendor payments made by ABM is included with the invoice.

### Management Response to Recommendations 5 and 6:

The Department will work with the contractor to provide the supporting documentation requested in Recommendation No. 5. Management will establish a check-list to review contractor invoices. This check-list will include proof of contractor payments prior to Management approving contractor invoices and a spot check of labor charges vs. timesheets.

#### Recommendation No. 7:

The Airport should formally amend its Contract with ABM to reflect the new positions and labor rates added to the Contract, ensure the timely

implementation of CPI increases, and develop formal policies and procedures for conducting audits and inspections of its concessionaires.

### Management Response:

After the RFP process is concluded, and if no suitable proposal is received that will meet the Department's needs, Management will work with the City Attorney's Office and Purchasing on options to update and amend its contract with ABM to reflect new positions, labor rates and provide enhanced services. The Department will develop formal policies and procedures for conducting audits of its contracts with parking operations, car rental agencies and its food & beverage concessionaire.

Should you have any questions, please contact Bryant L. Francis, Airport Director, at extension 8-2605.

BF:CL:DW:km

cc: Tom Modica, Assistant City Manager Arturo Sanchez, Deputy City Manager Jyl Marden, Assistant to the City Manager