County of Allegheny

Office of the Controller

Grant Oliver Corporation
Report on Contract
Compliance Procedures
For the Period
January 1, 2013 through
December 31, 2013
(Non-Audit Service)

May 21, 2014

Chelsa Wagner
Controller

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April 9, 2014

Mr. James R. Gill
Acting Chief Executive Officer
Allegheny County Airport Authority
Landside Terminal, 4th Floor Mezzanine
P.O. Box 12370
Pittsburgh, PA 15231-0370

<u>Compliance Procedures Applied to Management Agreement #38891
Between Allegheny County Airport Authority and Grant Oliver
Corporation for the Period January 1, 2013 through December 31, 2013</u>

Dear Mr. Gill:

The Allegheny County Controller's Office performed contract compliance procedures to Management Agreement #38891 (the "Agreement") between Allegheny County Airport Authority ("Airport Authority") and Grant Oliver Corporation ("Grant Oliver"). We performed these procedures to determine whether Grant Oliver was in compliance with the scope and terms of the Agreement. Our procedures covered the period from January 1, 2013 to December 31, 2013. Our engagement was performed as a non-audit service. Therefore, our engagement was not performed in accordance with *Government Auditing Standards.*

The procedures we performed resulted in the identification of performance improvement opportunities for Grant Oliver. The results of our procedures are included in the attached report.

We would like to thank the Airport Authority as well as the management and staff of Grant Oliver and ALCO Parking Corporation for their courtesy and cooperation during the performance of our procedures.

Kind regards,

Chelsa Wagner
Controller

Lori A. Churilla

Lori A. Churilla
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council
Honorable Nicholas Futules, Vice President, County Council
Honorable Rich Fitzgerald, Allegheny County Executive
Mr. William McKain, County Manager, Allegheny County
Ms. Jennifer Liptak, Chief of Staff, County Executive
Mr. Warren Finkel, Budget Director, Allegheny County
Mr. Joseph Catanese, Director of Constituent Services, County Council
Mr. Walter Szymanski, Budget Director, County Council
Mr. David Minnotte, Board Chairman, Airport Authority Board
Ms. Jan Rea, Audit Committee Chair, Airport Authority Board
Mr. Eric Ruprecht, Director of Business Administration, Airport Authority
Mr. Steve Robinson, Controller, Airport Authority
Mr. Merrill Stabile, President, ALCO Parking Corporation
Mr. Michael G. Webb, Vice President of Finance, ALCO Parking Corporation
Mr. Dave Paga, General Manager, Grant Oliver Corporation

Purpose

The Allegheny County Controller's Office performed contract compliance procedures to assess whether Grant Oliver Corporation ("Grant Oliver") complied with the scope and terms of Management Agreement #38891 (the "Agreement") for the period January 1, 2013 to December 31, 2013, and to identify any performance improvement opportunities.

Background

Under Management Agreement #38891, Grant Oliver operates and manages the parking facilities at the Pittsburgh International Airport. The Agreement requires Grant Oliver to maintain and staff the Airport parking facilities within the approved operating budget, establish and maintain a computerized revenue control system, collect all parking fees and remit them to the Airport Authority, and to operate parking lot shuttle bus service. The initial term of the Agreement was October 1, 1997 to September 30, 2007. In July 2005, the term of the Agreement was extended ten years to September 30, 2017. In September 2011, the term of the Agreement was further extended five years to September 30, 2022, and the Airport Authority has the option to extend the Agreement an additional five years to September 30, 2027.

Grant Oliver Corporation ("Grant Oliver") and ALCO Parking Corporation are affiliated companies (under common ownership). Grant Oliver was initially created to keep the operations and management of the parking facilities at Pittsburgh International Airport separate and distinct from ALCO Parking Corporation's other parking operations. While the operations of the companies are separate and distinct, both companies benefit from the sharing of management expertise and overhead costs.

Under the Agreement, Grant Oliver is to be fully reimbursed for direct personnel costs, other direct non-personnel costs, and corporate overhead costs (capped at $450,000 per year). Grant Oliver is to be compensated for its services on an annual basis via payment of a management fee equivalent to 1.75% of net revenues. Net revenues are defined in the Agreement as gross receipts net of parking taxes less the aforementioned reimbursable expenses.

Analysis of Grant Oliver's annual audit for 2013 indicates that audited gross receipts net of parking taxes were $36,102,071, reimbursable expenses were $8,747,848, and net revenues were therefore $27,354,223. Based on this, Grant Oliver's compensation under the Agreement for 2013 was $478,699.

Results in Brief

The following is a listing of our findings and recommendations that resulted from the performance of our procedures:

***Finding #1*: Grant Oliver Has Not Adequately Addressed All Prior Findings**

During the performance of our procedures, we noted that some previously identified instances of noncompliance have not been remedied. Specifically:

- Internal audits required to be performed three times per year by the Agreement have not been performed by Grant Oliver for 2011, 2012, or 2013. The scope of the internal audits is to include the accounting for contract revenues and expenses, tickets not accounted for, staffing, and Grant Oliver's compliance with the Agreement.
- The manner in which corporate overhead costs are reported is not consistent with the manner prescribed in the Agreement. Exhibit C of the Agreement indicates that corporate overhead costs should generally be allocated among ALCO Parking Corporation and Grant Oliver based on their percentages of the combined annual gross receipts of both companies.
- Grant Oliver has not calculated and reported the number of tickets not accounted for in 2012 and has not yet calculated and reported the number of tickets not accounted for in 2013 to the Airport Authority. Grant Oliver is required to use its best efforts to account for all tickets purchased and used in the management of the Airport parking facilities, and to pay a penalty should tickets not accounted for exceed two tenths of one percent.

Management advised us that it intended to develop methodology to perform more comprehensive internal audits than the audits that were previously performed, but that other operational issues precluded management from pursuing this endeavor. Management did not perceive a need to modify its approach for reporting corporate overhead costs allocable to Grant Oliver, since the overhead costs exceed the $450,000 cap established by the Airport Authority on an annual basis. Management indicated that it has designated an employee to assist with the computation of unaccounted for tickets, but that other operational issues prevented the timely computation and reporting of tickets not accounted for. The effect of these conditions is that Grant Oliver is not in compliance with certain provisions of Agreement #38891.

Recommendations: We recommend that the management of Grant Oliver take appropriate and timely measures to remedy the instances of noncompliance. This should involve:

- Developing a more comprehensive internal audit plan that adequately addresses the audit objectives described in the Agreement.
- Conducting the internal audit at Grant Oliver's Airport field office to provide the best opportunity to evaluate the Airport parking operations.
- Communicating internal audit results to the Airport Authority in detail and in a timely fashion as prescribed by the Agreement.
- Allocating and reporting corporate overhead costs in the manner established by the Agreement. If an alternate method is believed to result in a more appropriate allocation of overhead costs, Grant Oliver should request written permission from the Airport Authority to modify the allocation methodology.
- Improving the methodology utilized to calculate tickets not accounted for on an annual basis.

- Instituting a review process to help identify any calculation errors. The review process should include tracing data used in the calculation of tickets not accounted for back to source documents.
- Calculating and reporting to the Airport Authority on tickets not accounted for in 2012 and 2013, and ensuring that annual reports on tickets not accounted for are submitted to the Airport Authority as required by the Agreement in future years.

I. Introduction

Under Management Agreement #38891, Grant Oliver Corporation ("Grant Oliver") operates and manages the parking facilities at the Pittsburgh International Airport. The Agreement requires Grant Oliver to maintain and staff the Airport parking facilities within the approved operating budget, establish and maintain a computerized revenue control system, collect all parking fees and remit them to the Airport Authority, and to operate parking lot shuttle bus service. The initial term of the Agreement was October 1, 1997 to September 30, 2007. In July 2005, the term of the Agreement was extended ten years to September 30, 2017. In September 2011, the term of the Agreement was further extended five years to September 30, 2022, and the Airport Authority has an option to extend the Agreement an additional five years to September 30, 2027.

Grant Oliver and ALCO Parking Corporation are affiliated companies (under common ownership). Grant Oliver was initially created to keep the operations and management of the parking facilities at Pittsburgh International Airport separate and distinct from ALCO Parking Corporation's other parking operations. While the operations of the companies are separate and distinct, both companies benefit from the sharing of management expertise and overhead costs.

Under the Agreement, Grant Oliver is to be fully reimbursed for direct personnel costs, other direct non-personnel costs, and corporate overhead costs (capped at $450,000 per year). Grant Oliver is to be compensated for its services on an annual basis via payment of a management fee equivalent to 1.75% of net revenues. Net revenues are defined in the Agreement as gross receipts net of parking taxes less the aforementioned reimbursable expenses.

Analysis of Grant Oliver's annual audit for 2013 indicates that audited gross receipts net of parking taxes were $36,102,071, reimbursable expenses were $8,747,848, and net revenues were therefore $27,354,223. Based on this, Grant Oliver's compensation under the Agreement for 2013 was $478,699.

The following is a summary of budget and actual revenues and expenses for 2013:

	Budget	Actual
Parking receipts, net of tax	$35,891,959	$36,102,071
Direct salaries & wages	1,296,930	1,295,515
Fringe benefits	1,069,400	935,808
Corporate overhead costs	450,000	450,000
Direct non-salary operating expenses		
Busing	2,909,000	2,779,314
Credit card processing fees	876,000	945,924
Equipment & vehicle maintenance	630,000	585,937
Salting & snow removal	385,000	547,079
Advertising & promotion	438,000	398,115
Insurance	396,000	258,941
Other direct non-salary expenses	963,900	551,215
Total expenses	9,414,230	8,747,848
Net revenues	$26,477,729	$27,354,223

II. Scope and Methodology

We performed contract compliance procedures to assess Grant Oliver's compliance with Management Agreement #38891 for the period January 1, 2013 through December 31, 2013. Specifically, we performed the following procedures:

- Reviewed the most recent contract compliance report issued by the Allegheny County Controller's Office to assist in determining the status of any prior findings and recommendations.

- Reviewed the Agreement, independent auditors' report, and other contracts and documents relevant to the operation and management of the parking facilities at the Pittsburgh International Airport.

- Interviewed various ALCO Parking Corporation and Grant Oliver personnel to update our understanding of the processes and controls utilized to operate and manage the parking facilities.

- Applied analytical procedures to 2013 parking revenues and reimbursable expenditures.

- Identified the aspects of Grant Oliver's operations that we perceived to represent the most significant compliance risks (based largely on the aforementioned procedures).

- Made additional inquiries, examined records of Grant Oliver and ALCO Parking Corporation, and performed various other procedures as deemed necessary to assess Grant Oliver's compliance with respect to the aspects of its operations that we perceived to represent the most significant compliance risks.

We performed these procedures from February through March of 2014. We provided a draft copy of this report to the President of ALCO Parking Corporation. His response to the findings and recommendations begins on page 10.

Finding #1
Grant Oliver Has Not Yet Adequately Addressed All Prior Findings

To facilitate future compliance and effective and efficient program operation, program managers should take appropriate measures to remedy any noncompliance identified, and should also take advantage of any performance improvement opportunities presented to them.

In our *Grant Oliver Corporation Report on Contract Compliance Procedures for the Period January 1, 2010 Through December 31, 2010* issued November 9, 2011, we identified a number of instances of noncompliance with Agreement #38891 as well as a variety of performance improvement opportunities. Grant Oliver's response to our findings and recommendations (included in the aforementioned report) indicated that action would be taken to address each instance of noncompliance and performance improvement opportunity that we had identified. During the performance of our procedures, we determined that some of the instances of noncompliance had been remedied and that the performance improvement opportunities had been capitalized upon. Specifically:

- A policies and procedures manual has been developed and implemented.
- Grant Oliver no longer requests reimbursement for additional charges associated with the purchasing, warehousing, and distribution of office and janitorial supplies.
- The format of the audited financial statement has been modified to conform to the financial reporting framework specified in the Agreement.
- Grant Oliver has worked with the Airport Authority to write off accounts deemed uncollectible and appears to be effectively monitoring aged parking receivables.
- Improvement has been made in Grant Oliver's monitoring of fuel usage.

However, we noted that some instances of noncompliance have not been remedied. Specifically:

- Internal audits required to be performed three times per year by the Agreement have not been performed by Grant Oliver for 2011, 2012, or 2013. The scope of the internal audits is to include the accounting for contract revenues and expenses, tickets not accounted for, staffing, and Grant Oliver's compliance with the Agreement.
- The manner in which corporate overhead costs are reported is not consistent with the manner prescribed in the Agreement. Exhibit C of the Agreement indicates that corporate overhead costs should generally be allocated among ALCO Parking Corporation and Grant Oliver based on their percentages of the combined annual gross receipts of both companies.
- Grant Oliver has not calculated and reported the number of tickets not accounted for in 2012 and has not yet calculated and reported the number of tickets not accounted for in 2013 to the Airport Authority. Grant Oliver is required to use its best efforts to account for all tickets purchased and used in the management of the Airport parking facilities, and to pay a penalty should tickets not accounted for exceed two tenths of one percent.

Management advised us that it intended to develop methodology to perform more comprehensive internal audits than the audits that were performed in previous years, but that other operational issues precluded management from pursuing this endeavor. Management did not perceive a need to modify its approach for reporting corporate overhead costs allocable to Grant Oliver, since the overhead costs exceed the $450,000 cap established by the Airport Authority on an annual basis. Management indicated that it has designated an employee to assist with the computation of unaccounted for tickets, but that other operational issues prevented the timely computation and reporting of tickets not accounted for. The effect of these conditions is that Grant Oliver is not in compliance with certain provisions of Agreement #38891.

Recommendations

We recommend that the management of Grant Oliver take appropriate and timely measures to remedy the instances of noncompliance. This should involve:

- Developing a more comprehensive internal audit plan that adequately addresses the audit objectives described in the Agreement.
- Conducting the internal audit at Grant Oliver's Airport field office to provide the best opportunity to evaluate the Airport parking operations.
- Communicating internal audit results to the Airport Authority in detail and in a timely fashion as prescribed by the Agreement.
- Allocating and reporting corporate overhead costs in the manner established by the Agreement. If an alternate method is believed to result in a more appropriate allocation of overhead costs, Grant Oliver should request written permission from the Airport Authority to modify the allocation methodology.
- Improving the methodology utilized to calculate tickets not accounted for on an annual basis.
- Instituting a review process to help identify any calculation errors. The review process should include tracing data used in the calculation of tickets not accounted for back to source documents.
- Calculating and reporting to the Airport Authority on tickets not accounted for in 2012 and 2013, and ensuring that annual reports on tickets not accounted for are submitted to the Airport Authority as required by the Agreement in future years.

Grant Oliver
Corporation

Management of the Parking at
Pittsburgh International Airport

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May 15, 2014

Ms. Lori A. Churilla, CPA
Assistant Deputy Controller
Allegheny County Controller's Office
219 County Courthouse
436 Grant Street
Pittsburgh, PA 15219

Dear Ms. Churilla:

As requested, we wish to respond to each of the findings expressed in your report concerning Grant Oliver's contract compliance procedures for the year ending December 31, 2013.

Our written responses are attached for your review. If you have questions concerning any of our responses, please feel free to call me at (412) 323-4480 ext. #251.

Sincerely,

Merrill P. Stabile

Merrill P. Stabile
Vice President

cc: Mr. James R. Gill, Acting Executive Director
Allegheny County Airport Authority

GRANT OLIVER RESPONSE

Finding #1:

- **Internal audits required to be performed three times per year by the Agreement have not been performed by Grant Oliver for 2011, 2012, or 2013. The scope of the internal audits is to include the accounting for contract revenues and expenses, tickets not accounted for, staffing, and Grant Oliver's compliance with the Agreement.**

- To facilitate future compliance with this requirement, Grant Oliver will hire a professional internal audit company to develop a comprehensive internal audit plan and to conduct internal audits at our field office. Results of these audits will be communicated to the Airport Authority in a timely fashion as prescribed by the Agreement.

Finding #2:

- **The manner in which corporate overhead costs are reported is not consistent with the manner prescribed in the Agreement. Exhibit C of the Agreement indicates that corporate overhead costs should generally be allocated among Alco Parking Corporation and Grant Oliver based on their percentages of the combined annual gross receipts of both companies.**

  We believe our method of allocating corporate overhead results in a fair allocation to the Airport Authority. Furthermore, we believe the agreement allows for some flexibility in this area. We do not believe the formula included in Exhibit C of the agreement was put in place to strictly define the methodology for calculating corporate overhead but rather, to establish an upper limit concerning the corporate overhead reimbursement.

Finding #3:

- **Grant Oliver has not calculated and reported the number of tickets not accounted for in 2012 and has not yet calculated and reported the number of tickets not accounted for in 2013 to the Airport Authority. Grant Oliver is required to use its best efforts to account for all tickets purchased and used in the management of the Airport parking facilities, and to pay a penalty should tickets not accounted for exceed two tenths of one percent.**

  Grant Oliver will complete and submit the unaccounted for ticket reports for 2012 and 2013 on or before July 31, 2014. We will also establish and submit for approval a written methodology to calculate unaccounted for tickets that can be easily followed and will provide an adequate degree of accuracy. Grant Oliver will assign a supervisor to perform the functions necessary to see that the unaccounted for ticket reports are kept current so we can submit the reports to the Authority as required by the agreement.