County of Allegheny

Office of the Controller

**GRANT OLIVER CORPORATION
REPORT ON CONTRACT
COMPLIANCE PROCEDURES
FOR THE PERIOD JANUARY 1, 2010
THROUGH DECEMBER 31, 2010**

NOVEMBER 9, 2011

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Office of the Controller
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MARK PATRICK FLAHERTY
CONTROLLER

GUY A. TUMOLO
DEPUTY CONTROLLER

October 25, 2011

Mr. Bradley Penrod
Executive Director
Allegheny County Airport Authority
Landside Terminal, 4th Floor Mezzanine
P.O. Box 12370
Pittsburgh, PA 15231-0370

SUBJECT: Compliance Procedures Applied to Management Agreement #38891 Between Allegheny County Airport Authority and Grant Oliver Corporation for the Period January 1, 2010 through December 31, 2010

Dear Mr. Penrod:

We have applied 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 compliance procedures to ensure that Grant Oliver was in compliance with the scope and terms of the Agreement. Our compliance procedures covered the period from January 1, 2010 through December 31, 2010. Our engagement was performed as a non-audit service, and therefore was not conducted in accordance with *Government Auditing Standards*.

We noted during the application of our compliance procedures that Grant Oliver appears to be effectively operating and managing parking operations at the Pittsburgh International Airport. However, we did identify several instances of noncompliance, and a number of performance improvement opportunities. The most significant items we identified as problematic are a lack of written policies and procedures, the manner in which internal audits are conducted, the process for requesting reimbursement of certain supply costs, and weaknesses in the methodology and procedures utilized to calculate unaccounted for parking tickets.

Grant Oliver's management should develop and implement written policies and procedures, modify the manner in which internal audits are conducted, ensure that requests for reimbursement of supply costs are supported by adequate documentation, take steps to improve the methodology and procedures utilized to calculate unaccounted for parking tickets, and consider implementing changes in response to the other performance improvement opportunities we have identified.

We believe that the implementation of our recommendations will improve Grant Oliver's compliance with the Agreement and operating effectiveness. The results of the application of our compliance procedures are provided in the attached report. We would like to thank the management and staff of Grant Oliver and ALCO Parking Corporation for their courtesy and cooperation during the performance of our procedures.

Very truly yours,

Lori A. Churilla
Assistant Deputy Controller, Auditing

Mark Patrick Flaherty
Controller

cc: Mr. Glenn R. Mahone, Board Chair, Airport Authority
Mr. Richard Shaw, Audit Committee Chair, Airport Authority
Mr. James Gill, CFO & CAO, Airport Authority
Mr. Steve Robinson, Controller, Airport Authority
Mr. Eric Ruprecht, Director – Bus. Adm. & Prop., Airport Authority
Mr. Merrill Stabile, President, ALCO Parking Corp.
Mr. Michael G. Webb, Vice President of Finance, ALCO Parking Corp.
Mr. Dave Paga, General Manager, Grant Oliver Corporation
Mr. Guy A. Tumolo, Deputy Controller
Mr. Robert J. Lentz, Assistant Deputy Controller, Accounting

Purpose of Procedures:

We performed our 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, 2010 through December 31, 2010, and to identify any potential 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 services. The initial term of the Agreement was October 1, 1997 to September 30, 2007, but the term has been extended another ten years to September 30, 2017.

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 2010 indicates that audited gross receipts net of parking taxes were $35,000,298, reimbursable expenses were $9,384,457, and net revenues were therefore $25,615,841. Based on this, Grant Oliver's compensation under the Agreement for 2010 was $448,277.

Results in Brief:

While performing our procedures, we observed that Grant Oliver has not developed and implemented written policies and procedures, does not conduct the internal audits it performs in the manner established by the Agreement, does not use an appropriate process to request reimbursement of certain supply costs, and does not utilize methodology and procedures to calculate unaccounted for tickets on an annual basis that result in an adequate degree of accuracy. We also identified other performance opportunities. Specifically, we found that:

Finding #1:

- Grant Oliver has not established and implemented written policies and procedures as required by the Agreement.

Finding #2:

- Internal audits are being performed but are not being conducted in the manner stipulated in the Agreement.

- Internal audit results are not being communicated to the Airport Authority in the manner prescribed.

Finding #3:

- The process utilized by Grant Oliver to accumulate costs to be submitted to the Airport Authority for reimbursement results in the submission of office and janitorial supply costs for reimbursement that are not supported by adequate documentation.

Finding #4:

- The methodology used to calculate unaccounted for tickets has several weaknesses which impact Grant Oliver's ability to report unaccounted for tickets on an annual basis with an adequate degree of accuracy.

- A number of errors were made in the 2010 calculation of unaccounted for tickets, and the calculation errors were not identified by Grant Oliver because an adequate review of the calculation process is not in place.

- The annual unaccounted for ticket report for 2010 was not submitted to the Airport Authority as required by the Agreement.

Finding #5:

- A communication process between Grant Oliver and the Airport Authority is not in place with respect to the monitoring of aged parking receivables. The Airport Authority is not involved in the evaluation of collectability, and therefore opportunities for the Airport Authority to assist in collection efforts may be missed.

- There are weaknesses in the design and implementation of the control procedures utilized by Grant Oliver to monitor fuel usage.

- The annual financial reports submitted by Grant Oliver do not report corporate overhead costs in the manner prescribed by the Agreement.

- The financial statement presentation utilized in the annual financial reports does not conform to the financial reporting requirements established in the Agreement.

Recommendations:

We recommend that management of Grant Oliver:

Finding #1:

- Take the steps necessary to develop and implement written policies and procedures. Management should focus on documenting key business processes and controls to help minimize significant disruptions in operations that could occur when key business personnel become unavailable.

Finding #2:

- Develop a more comprehensive internal audit plan that adequately addresses each of the audit objectives, seeking assistance if needed.

- Conduct internal audits at Grant Oliver's Airport field office to provide the best opportunity to evaluate the Airport parking operations.

- Communicate internal audit results to the Airport Authority in detail and in a timely fashion as prescribed by the Agreement.

Finding #3:

- Improve the process for documenting and reporting office and janitorial supply expenditures claimed for reimbursement. Consider including invoice numbers from original supply invoices and separately stating supply costs and any additional charges assessed for greater transparency.

Finding #4:

- Improve the methodology utilized to calculate unaccounted for tickets on an annual basis.

    - Provide for a more accurate accounting of beginning and ending outstanding tickets by deducting vehicles for which tickets were not issued from the public lot vehicle inventory counts.

    - Provide for a more accurate accounting of beginning and ending outstanding tickets by applying more personnel resources to speed up the December 31 public lot vehicle inventory count process each year.

    - Account for all $0 tickets as redeemed tickets.

    - Attempt to identify and remedy any other issues with the methodology being used that hinder the accurate calculation of unaccounted for tickets.

- Institute a review process to help identify any calculation errors. The review process should include tracing data used in the calculation of unaccounted for tickets back to source documents.

- Ensure that the unaccounted for ticket report for each year is submitted to the Airport Authority as required.

Finding #5:

- Communicate with the Airport Authority regarding the accounts receivable that are currently deemed to be uncollectible and obtain approval from the Airport Authority to write them off.

- Establish a process with the Airport Authority for evaluating the collectability of receivables in the future on a periodic basis (a monthly review would be reasonable).

- Maintain records of all receivables that are written off.

- Take steps to ensure that employees who refuel vehicles complete the Vehicle Gas Sheets and enter odometer readings at the pumps accurately on a consistent basis.

- Strengthen the process for monitoring fuel usage by incorporating more detailed analyses. The maintenance of records that more accurately reflect fuel usage by vehicle should make it easier to identify variations in usage that warrant further examination.

- Allocate and report corporate overhead costs in the manner established by the Agreement. If an alternate method is determined to result in a more appropriate allocation of overhead costs, request written permission from the Airport Authority to modify the allocation methodology.

- Work with the external auditors (external auditors routinely provide assistance with financial statement preparation) to draft financial statements that comply with the financial reporting requirements established in the Agreement, and have such statements audited in future years.

I. Introduction

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 services. The initial term of the Agreement was October 1, 1997 to September 30, 2007, but the term has been extended another ten years to September 30, 2017.

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 2010 indicates that audited gross receipts net of parking taxes were $35,000,298, reimbursable expenses were $9,384,457, and net revenues were therefore $25,615,841. Based on this, Grant Oliver's compensation under the Agreement for 2010 was $448,277.

II. Scope and Methodology

We performed contract compliance procedures to assess Grant Oliver's compliance with Management Agreement #38891 for the period January 1, 2010 through December 31, 2010. We also identified performance improvement opportunities. Specifically, we:

- 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, 2010 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 gain an understanding of and document the processes and controls utilized to operate and manage the parking facilities.

- Applied analytical procedures to 2010 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 May through August of 2011. We provided a draft copy of this report to the management of Grant Oliver for response (see page 27).

Finding #1

Written Policies and Procedures Have Not Been Established and Implemented

Article 6, Section L of the Agreement requires Grant Oliver to distribute to its employees a Policy & Procedure Manual for operation of the Airport parking facilities. Adopting formal written policies and procedures is also a prudent and generally accepted business practice. Written policies and procedures are valuable to an entity because they help management achieve several objectives. First, they provide an opportunity to communicate requirements and expectations. Written guidance is important, since verbal communication has the potential to be omitted, misinterpreted, and ignored. In addition to helping to establish a basis for accountability, written policies and procedures also provide for consistency and facilitate fair treatment by eliminating ambiguity. Written policies and procedures also frequently include information about the performance of an entity's key business processes and internal controls, which enables the entity to continue to operate effectively without significant disruption when key personnel become unavailable. Given the volume of parking activity, the complexity of managing the Airport parking operations, and the fact that very few individuals have comprehensive knowledge of how operations are conducted, we believe that it is very important for Grant Oliver to have such written policies and procedures.

Grant Oliver has not yet established and implemented written policies and procedures. Per discussion with management, an attempt was made to draft written policies and procedures, but the upgrade of servers and equipment that occurred in September of 2009 significantly impacted how operations are conducted, and therefore invalidated much of what had been accomplished. Management has communicated a desire to continue to develop and implement written policies and procedures, but expressed concern that diverting a significant amount of management's time away from the management of daily activities could have a significant adverse impact on parking operations.

The effect of this condition is that Grant Oliver is not in compliance with Article 6, Section L of the Agreement. In addition, it may be more difficult for Grant Oliver to achieve its operating objectives than it would be if written policies and procedures were developed and implemented, and significant disruptions in operations could occur if key business personnel become unavailable.

Recommendation

We recommend that the management of Grant Oliver:

- Take the steps necessary to develop and implement written policies and procedures. Management should focus on documenting key business processes and controls to help minimize significant disruptions in operations that could occur when key business personnel become unavailable.

Finding #2

Internal Audits are Not Conducted and Communicated In the Manner Prescribed by the Agreement

Article 7, Section H of the Agreement requires an internal audit of the Airport parking operations to be performed three times per year. The Agreement states that the internal auditor should be from the "home office" (ALCO Parking's North Shore office). There is an implication that such audits will involve Airport field office visits. Upon completion of each internal audit, a statement is to be filed with the Airport Authority indicating when the audit was performed and the time period covered, and reporting the accuracy of Grant Oliver's accounting for revenues, expenses, reports, tickets, staffing, and compliance with the terms of the Agreement.

We gained an understanding of the internal audit process from management. Internal audits were first instituted in 2009. During each year, three months are randomly selected for audit. Three consecutive days from each of these months are then selected for testing. For these selected days, the "auditor" (accountant) recounts the tickets tendered. The auditor then verifies the consistency of reported cash, credit card, and AVI (Automatic Vehicle Identification – used for the "Go Pass" and the "Go Fast Pass" programs) activity between the Cash/Credit Card Report and the system-generated CTR Revenue History Report. The Cash/Credit Card Report identifies daily collections and the CTR Revenue History Report identifies what should have been collected. The timely deposit of the cash collected is then verified. These procedures are somewhat a duplication of the efforts put forth by Grant Oliver's Airport office staff in managing daily Airport parking operations. The internal audit reports are kept on file in the home office, but we determined that the results of the internal audit procedures had not been formally communicated to the Airport Authority based on inquiries we made during our fieldwork. We analyzed the internal audit report for December 2010, noting that the audit for that month appears to have been performed in a manner consistent with the process described to us.

It appears that there are three significant weaknesses in the internal audit process being utilized. The first of these is that the internal audits being performed are not comprehensive, they focus on revenues. The staffing analysis, expense analysis, and compliance assessment objectives contemplated by the Agreement are not being addressed by the procedures performed. In addition, the procedures utilized to test revenues are not comprehensive. While the procedures performed involve analysis of collections, there are no procedures that address parking validations (reasons for reduced or no parking collections). Further, the sample selection methodology being utilized results in only 9 days each year actually being tested (3 days x 3 months).

The second significant weakness in the internal audit process is that the audits are performed at the home office, not the Airport office. The data that can be analyzed in the home office is limited, and most of the data analyzed makes its way to the home office from the Airport office. Observation is an integral part of the audit process. Because the internal audits are not performed where the operations actually occur, the auditors' ability to evaluate the effectiveness of the operations is limited. Consequently, the usefulness of the internal audits being performed is limited. To do the type of internal audit contemplated by the Agreement, the audit would have to be performed at Grant Oliver's Airport office.

The third significant weakness is that the internal audit results are not being communicated to the Airport Authority as prescribed by the Agreement. Informal communication may have occurred, but without a more formal communication that specifically addresses each of the internal audit objectives, the Airport Authority will not be in a position to reach a sound conclusion regarding the adequacy of the internal audit procedures performed or the need for further action on its part.

It appears that these conditions may have occurred because Grant Oliver may lack the expertise necessary internally to develop the internal audit plan. The Agreement does not identify specific internal audit procedures to be performed. Consequently, the use of professional judgment would have been necessary to develop and evaluate the effectiveness and adequacy of the audit plan. Grant Oliver has no employees who specialize in the audit function. Grant Oliver may have hoped for more guidance from the Airport Authority with respect to the development of the internal audit plan, but it appears that the communication between Grant Oliver and the Airport Authority regarding the internal audit process was inadequate to facilitate the development of a plan that met the objectives established in the Agreement.

In addition to the effects of these conditions that we have disclosed above, Grant Oliver is not in full compliance with Article 7, Section H of the Agreement as a result of these conditions.

Recommendations

We recommend that the management of Grant Oliver:

- Develop a more comprehensive internal audit plan that adequately addresses each of the audit objectives, seeking assistance if needed.
- Conduct internal audits at Grant Oliver's Airport field office to provide the best opportunity to evaluate the Airport parking operations.
- Communicate internal audit results to the Airport Authority in detail and in a timely fashion as prescribed by the Agreement.

Finding #3
Documentation Supporting Certain Supply Costs is Inadequate

Article 7, Section B, paragraph 4 of the Agreement requires Grant Oliver to submit, on or before the tenth day of each month, an itemized statement of all approved reimbursable expenses incurred and paid for during the previous calendar month.

During our testing of reimbursable expenditures submitted to the Airport Authority for 2010, we observed that documentation supporting expenditures claimed for reimbursement was typically included in the monthly statements issued to the Airport Authority. However, we noted that documentation supporting expenditures for office and janitorial supplies was routinely omitted from the monthly statements. When we inquired about these types of expenditures, we were informed that office and janitorial supplies are routinely purchased from third party vendors by ALCO, warehoused by ALCO, and then transported to the Grant Oliver Airport office by a Grant Oliver employee on an as-needed basis. We were advised that the amounts claimed for reimbursement include the cost of the supplies to ALCO (including sales tax) and additional charges associated with the purchasing, warehousing, and distribution of the items. For 2010, the reported original invoice cost of office and janitorial supplies was $11,195, and the additional charges assessed were $2,351, for a total cost of $13,546. We selected several of these expenditures for office and janitorial supplies during 2010 and attempted to agree the amounts claimed for reimbursement to the aggregate of the original invoice amounts and the additional charges calculated at the rates provided to us, and we were unable to do so. We determined that records that indicate which original invoices for supplies were used to calculate the total amounts claimed for reimbursement in each month were not maintained.

It appears that this condition occurred because an adequate process for documenting and reporting these types of expenditures claimed for reimbursement was not developed. The effect of this condition is that Grant Oliver is not in full compliance with Article 7, Section B, paragraph 4 of the Agreement because expenditures for office and janitorial supplies claimed for reimbursement typically cannot be traced back to adequate supporting documentation.

Recommendation

We recommend that the management of Grant Oliver:

- Improve the process for documenting and reporting office and janitorial supply expenditures claimed for reimbursement. Consider including invoice numbers from original supply invoices and separately stating supply costs and any additional charges assessed for greater transparency. Maintain all original supply invoices and other supporting documentation.

Finding #4

The Methodology and Procedures for Tracking and Reporting Tickets Not Accounted For Should Be Improved

Article 7, Section F of the Agreement requires Grant Oliver to use its best efforts to account for all tickets purchased and used in the management of the Airport parking facilities. Grant Oliver is to provide the Airport Authority with a report on unaccounted for tickets on an annual basis, and pay a penalty should the unaccounted for ticket ratio exceed two tenths of one percent.

Based on procedures performed, we determined that there are several deficiencies in the methodology used to determine the number of unaccounted for tickets on an annual basis. We determined that a number of calculation errors were made during the process of calculating the number of unaccounted for tickets for 2010, and that certain documentation supporting data used in the calculation of unaccounted for tickets for 2010 could not be located by Grant Oliver. We also determined that Grant Oliver did not submit its annual unaccounted for ticket report for 2010 to the Airport Authority as required.

We noted that although the reporting of unaccounted for tickets and the payment of any penalty is to occur on an annual basis, Grant Oliver attempts to track unaccounted for tickets on a monthly basis. We observed that the number of cars included in the public lot vehicle inventory, which is taken at the end of each month, is used in the calculation of unaccounted for tickets as the number of tickets outstanding at the end of that month and at the beginning of the next month. However, tickets were not necessarily issued for every vehicle included in the public lot vehicle inventory counts. Parking patrons who utilize the Go Fast Pass are not issued tickets. Because the numbers of outstanding tickets used for the beginning and end of each month are inaccurate, the calculated number of unaccounted for tickets cannot be accurate. Management has advised us that in 2011 it became capable of removing from the public lot vehicle inventories the number of vehicles for which tickets were not issued to arrive at a more accurate number of outstanding tickets, and has committed to do so in the future.

We also noted that the process of taking public lot vehicle inventory counts typically occurs at the end of the last day of each month and lasts several hours. Because the Airport parking operations occur without interruption, seven days per week, 24 hours per day, vehicles are always both entering the public lots and leaving the public lots as the vehicle inventory counts are being taken. For the vehicle inventory counts to be as accurate as possible, the activity at the entrance and exit gates would have to be monitored during the counts to help ensure that vehicles were not double-counted or omitted from the counts. To perform such a reconciliation of gate activity would be very time intensive, which is why management does not currently perform that step. While we agree that reconciliation of gate activity during the counts is too time intensive, the fact that vehicle inventory counts last several hours and there is no reconciliation of gate activity results in vehicle inventory counts that are not as accurate as they could be. One way to improve the accuracy of the vehicle inventory counts without engaging in the time-consuming reconciling of gate activity during the counts is to shorten the time in which the vehicle inventory counts are taken. To help ensure the accuracy of the calculation of annual unaccounted for tickets (as opposed to monthly), it would only be necessary to reduce the number of hours used to conduct the vehicle inventory counts that occur every December 31. Management has acknowledged that this can be accomplished by allocating more personnel resources to the vehicle inventory count process.

We also noted that the methodology utilized by Grant Oliver to calculate unaccounted for tickets did not properly account for all $0 tickets. These are tickets that are issued to parking patrons who leave the public lot within 10 minutes and are therefore not charged. Under the methodology utilized, $0 tickets tendered at unmanned exit gates were counted as issued but not counted as redeemed, which therefore results in an overstatement of unaccounted for tickets. Management has acknowledged this condition, and has committed to properly adjust for these $0 tickets in the future.

We determined that a number of calculation errors were made during the calculation of unaccounted for tickets for 2010. The calculation errors were generally not attributable to math errors, but to the use of data that was not correctly derived or transcribed from source documents. These types of errors involved inaccuracies for various months in the beginning and ending vehicle inventory counts, stolen tickets (tickets automatically voided because patrons pull them and do not pass through the entrance gate before it lowers), maintenance tickets (destroyed tickets, damaged tickets, and tickets used in the nightly ticket counts), Gate 88 incidents (individuals who are not parking patrons often inadvertently enter the public lots through Gate 88 and do not receive a ticket), and other adjustments to issued tickets used in the calculation of unaccounted for tickets.

We also noted that ticket dispenser filled logs for 2010 could not be located by Grant Oliver. The ticket dispenser filled logs are used to document the beginning ticket numbers on each sleeve of tickets added to each TIM (Ticket Issuing Machine), and therefore support management's assertions regarding the number of tickets issued.

If the aforementioned calculation errors and $0 ticket transactions were adjusted for, the unaccounted for ticket calculation for 2010 would most likely reflect that more tickets had been accounted for than had been issued, which is not possible. Management has conceded that there may be other issues with the methodology used to account for unaccounted for tickets, and is attempting to identify such issues.

The process of tracking unaccounted for tickets is a secondary business process in the sense that it is not essential for keeping the day-to-day Airport parking operations up and running. It appears that the aforementioned conditions may have occurred because adequate personnel resources were not applied to the process. One individual has taken the responsibility for accumulating most of the necessary data and calculating the unaccounted for tickets. Had others been more involved in the process, it is possible that they would have identified the aforementioned weaknesses in the methodology being used and made suggestions for improvement, and it is possible that during review of the data they would have identified the aforementioned calculation errors prior to the finalization of the unaccounted for ticket calculation for 2010.

The effect of the aforementioned conditions is that Grant Oliver is not in compliance with Article 7, Section F of the Agreement. The methodology and procedures used do not adequately provide for an accurate determination of unaccounted for tickets, and therefore do not provide an adequate basis for determining whether an unaccounted for ticket penalty should be paid.

Recommendations

We recommend that the management of Grant Oliver:

- Improve the methodology utilized to calculate unaccounted for tickets on an annual basis.

  - Provide for a more accurate accounting of beginning and ending outstanding tickets by deducting vehicles for which tickets were not issued from the public lot vehicle inventory counts.

  - Provide for a more accurate accounting of beginning and ending outstanding tickets by applying more personnel resources to speed up the December 31 public lot vehicle inventory count process each year.

  - Account for all $0 tickets as redeemed tickets.

  - Attempt to identify and remedy any other issues with the methodology being used that hinder the accurate calculation of unaccounted for tickets.

- Institute a review process to help identify any calculation errors. The review process should include tracing data used in the calculation of unaccounted for tickets back to source documents.

- Ensure that the unaccounted for ticket report for each year is submitted to the Airport Authority as required.

Finding #5

Other Performance Improvement Opportunities

Process for Monitoring Aged Receivables

Effective monitoring of aged accounts receivable, which includes the application of appropriate collection efforts when necessary, helps to ensure that collections of amounts due are maximized.

We attempted to determine whether aged parking receivables are being monitored effectively by analyzing Grant Oliver's aged accounts receivable detail as of December 31, 2010. We observed that the total outstanding parking receivables per the aging were $509,489, which is much higher than should be reasonably expected. However, we noted that the majority of the balance of aged receivables, $378,805, was deemed to be uncollectible by Grant Oliver. These receivables were not officially written off because a process to communicate with the Airport Authority regarding the receivables, including their collectability and approval to write off any uncollectible amounts, was not in place.

The effect of this condition is that while Grant Oliver appears to be exerting reasonable collection efforts, aged parking receivables are not being monitored as effectively as they could be. Because amounts deemed to be uncollectible have not been written off, the aged accounts receivable detail reflects substantially more receivables than could reasonably be expected to be collected, which makes it more difficult to identify the receivables that may be collected if collection procedures are applied. In addition, the Airport Authority should be made aware of the outstanding receivables on a periodic basis. If the Airport Authority were advised in a timely fashion regarding Grant Oliver's doubts about the collectability of certain receivables, the Airport Authority might be able to assist in enforcing collection through the exertion of its influence.

Recommendations

We recommend that the management of Grant Oliver:

- Communicate with the Airport Authority regarding the accounts receivable that are currently deemed to be uncollectible and obtain approval from the Airport Authority to write them off.

- Establish a process with the Airport Authority for evaluating the collectability of receivables in the future on a periodic basis (monthly would be reasonable).

- Maintain records of all receivables that are written off.

Process for Monitoring Fuel Costs

A good internal control structure incorporates the development and effective implementation of control procedures designed to eliminate or minimize the potential for fraud, including misappropriation of assets and other types of theft. Grant Oliver's utilization of maintenance and other vehicles is essential for effective management of the Airport parking operations. The fuel utilized to operate the vehicles can easily be converted to personal use without proper controls in place. Consequently, effective controls to monitor the purchase and track the usage of fuel are necessary components of Grant Oliver's internal control structure.

Based on procedures performed, it appears that while some controls are in place and operating effectively, the internal control structure is not operating as it was intended to with respect to the monitoring of fuel usage. Fuel costs are reimbursable non-salary direct costs under the Agreement. Because fuel usage is not being monitored as effectively as it could be, it is possible that the Airport Authority could be invoiced in excess of the allowable amount for fuel.

Employees who utilize vehicles to perform their daily job functions do not always use the same vehicles. Employees who refuel vehicles have been instructed (verbally, as there are no written policies and procedures – see finding #1) to enter fuel purchase transaction data on the *Vehicle Gas Sheet* maintained in each vehicle each time fuel is purchased. Odometer readings must also be entered at the gas pump before fuel purchase transactions are completed. This was intended to facilitate the monitoring of fuel usage by vehicle. Management has determined the odometer readings entered by employees at the pumps are often inaccurate. We also analyzed the Sunoco invoices and Vehicle Gas Sheets for the months of May, June, and July of 2010, and determined that 74 fuel purchase transactions that were reflected on the Sunoco invoices were not recorded on the Vehicle Gas Sheets.

At the time we performed our procedures, management's review process did not involve tracing invoiced fuel purchases to the Vehicle Gas Sheets on a test basis, or any other procedure to ensure that Vehicle Gas Sheets were being properly completed. Management's review process involved applying analytical procedures to the fuel invoices to identify unusual items, with the intent to use the Vehicle Gas Sheets to evaluate the propriety of any unusual items identified. As a result, management did not determine that the Vehicle Gas Sheets were not being completed accurately on a consistent basis and therefore of limited usefulness.

It appears that the performance of control procedures may have been scaled back over time. Because the performance of such procedures did not identify significant theft or misuse of fuel in the past, performing extensive procedures to monitor fuel usage may have been deemed unnecessary. The effect of this condition is fuel usage is not being monitored as effectively as it could be. In addition, employees who become aware that management's process for monitoring fuel usage is not as effective as it could be may perceive it as an opportunity to perpetrate theft or misuse of fuel.

Recommendations

We recommend that the management of Grant Oliver:

- Take steps to ensure that employees who refuel vehicles complete the Vehicle Gas Sheets and enter odometer readings at the pumps accurately on a consistent basis.

- Strengthen the process for monitoring fuel usage by incorporating more detailed analyses. The maintenance of records that more accurately reflect fuel usage by vehicle should make it easier to identify variations in usage that warrant further examination.

Financial Reporting – Corporate Overhead Costs

Exhibit C of the Agreement establishes the process to be used for the allocation and reporting of corporate overhead costs. Overhead costs are to be allocated to ALCO Parking and Grant Oliver based on the percentage of Grant Oliver's annual actual gross receipts to the total combined annual actual gross receipts of both companies. If this methodology cannot be used for some reason, or it is determined that some other method would be more appropriate, Grant Oliver can modify the methodology upon written approval from the Airport Authority.

For 2010, the overhead costs that should have been allocated to Grant Oliver based on the methodology contained in the Agreement were 48% of the total overhead costs incurred. We identified several conditions that indicate that corporate overhead costs are not being allocated and reported in the manner established by the Agreement. Written permission to alter the methodology for allocating and reporting overhead costs has not been requested by Grant Oliver or otherwise obtained from the Airport Authority.

Salary and benefit costs were allocated as overhead to Grant Oliver during 2010 based on the projected time used to accomplish the objectives of each company by the specific individuals whose personnel costs were being allocated.

The leasing and repair costs associated with two vehicles that do not qualify as direct costs of Grant Oliver (not used exclusively in Grant Oliver operations) were allocated 100% to Grant Oliver. We are aware that there are one or more other general purpose vehicles for which the leasing and repair costs were not allocated to Grant Oliver at all.

Certain professional fees and insurance costs of a general nature are often billed in installments. The current practice being utilized typically involves every third installment payment being allocated to Grant Oliver.

While estimating the time allocable to each company might typically be an acceptable way of allocating personnel costs, it does not conform to the allocation method established by the Agreement. The method of allocating automobile expenses and certain professional fees and insurance costs currently utilized by Grant Oliver may also result in a reasonable allocation of overhead costs, but again the method does not conform to the allocation method established by the Agreement.

We also determined that real estate rental costs allocated to Grant Oliver as overhead during 2010 were $10,496 in excess of the allowable amount.

It appears that management is aware of the overhead allocation and reporting methodology established in Exhibit C of the Agreement, but does not view strict adherence to the established methodology to be of high importance since Grant Oliver is subject to an annual cap (limit) on reimbursable overhead that that was imposed by the Airport Authority. In fact, the aforementioned conditions do not result in Grant Oliver having any amounts due to or from the Airport Authority as a result of the annual cap on reimbursable overhead (despite the impact of the conditions identified, the allowable overhead for 2010 still exceeded the annual cap). However, these conditions result in Grant Oliver being not in compliance with Exhibit C of the Agreement. Of greater importance is the fact that the Airport Authority has not been provided with accurate information about the total allowable overhead costs that should have been allocated to Grant Oliver's operations based on the Agreement. The Airport Authority should be provided with accurate information to facilitate better decision-making. Having more accurate information about the total allowable overhead costs that should have been allocated to Grant Oliver's operations would also enable the Airport Authority to better evaluate the appropriateness of the cap on reimbursable overhead.

Recommendation

We recommend that the management of Grant Oliver:

- Allocate and report corporate overhead costs in the manner established by the Agreement. If an alternate method is determined to result in a more appropriate allocation of overhead costs, request written permission from the Airport Authority to modify the allocation methodology.

Financial Reporting – Financial Statement Presentation

Article 7, Section G of the Agreement states that Grant Oliver must submit to the Airport Authority a Statement of Net Revenues prepared in accordance with generally accepted accounting principles (GAAP) within 60 days of the end of each year, accompanied by the opinion of a certified public accountant. The Statement of Net Revenues is to set forth the gross receipts and expenses authorized under the Agreement. Article 7, Section A of the Agreement defines "net revenue" as gross receipts, less direct salaries, wages, overtime costs, fringe benefit costs, corporate overhead costs and direct non-salary costs.

We analyzed the financial statements and independent auditors' report that Grant Oliver submitted to the Airport Authority for 2010. We observed that the basis of accounting used is described in the independent auditors' report as the basis of accounting specified in the Management Agreement, yet the financial statements were not prepared in accordance with GAAP. The independent auditors' report states that "because, among other things, they exclude expenses not allowed under the Agreement, they (the financial statements) are not intended to be a complete presentation of the Company's revenues and expenses in conformity with accounting principles generally accepted in the United States of America". This suggests that the financial statements presented are Grant Oliver company financial statements with modifications as opposed to financial statements that summarize the receipts and expenses under the Agreement (contract financial statements), as is required by the Agreement. It is possible that the balances presented in the financial statements would have been identical to those presented had the proper financial reporting framework and basis of accounting been used, but this is unclear since the description of the basis of accounting actually used is inadequate (all of the factors that prevent the financial statements from being a complete presentation in conformity with GAAP have not been identified).

We also noted that some of the captions used in the financial statements do not properly describe the amounts reported. For example, the Statements of Net Income include the caption "Net Revenues – As Defined in the Management Agreement", yet the amounts reported are gross revenues net of parking tax, not net revenues as defined in Article 7, Section A of the Agreement. The Statements of Net Revenues also include the caption "Net Income – As Defined in the Management Agreement", yet net income is not defined in the Agreement. The amount reported as net income was most likely net revenue as defined in the Agreement.

It appears that these conditions may have occurred because the financial reporting requirements contained in the Agreement may have been interpreted to establish a reporting framework other than what was intended. The effect of these conditions is that Grant Oliver is technically not in full compliance with Article 7, Section G of the Agreement.

Recommendation

We recommend that the management of Grant Oliver:

- Work with the external auditors (external auditors routinely provide assistance with financial statement preparation) to draft financial statements that comply with the financial reporting requirements established in the Agreement, and have such statements audited in future years.

Grant Oliver
Corporation

Management of the Parking at
Pittsburgh International Airport

D.L. Clark Building
501 Martindale Street
Pittsburgh, PA 15212
Airport 412.472.5050
Fax 412.472.5059
Office 412.323.4455
Fax 412.323.4492

November 7, 2011

Ms. Lori A. Churilla, Assistant Deputy Controller
Allegheny County Office of the Controller
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, 2010.

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. Bradley D. Penrod, Executive Director
Allegheny County Airport Authority

GRANT OLIVER RESPONSE

Finding #1:

- **Grant Oliver has not established and implemented written policies and procedures as required by the Agreement.**

  Grant Oliver will prepare a policy and procedures manual for the Airport Authority's review by February 28, 2012. A final manual will be produced and distributed to our management employees thirty days after the Authority completes its review.

Finding #2:

- **Internal audits are being performed but are not being conducted in the manner stipulated in the Agreement.**

  Grant Oliver will develop and conduct a more comprehensive internal audit plan including conducting internal audits at our field office.

- **Internal audit results are not being communicated to the Airport Authority in the manner prescribed.**

  Grant Oliver will communicate internal audit results to the Airport Authority in a more timely fashion as prescribed by the Agreement.

Finding #3:

- **The process utilized by Grant Oliver to accumulate costs to be submitted to the Airport Authority for reimbursement results in the submission of office and janitorial supply costs for reimbursement that are not supported by adequate documentation.**

  Grant Oliver will make every effort to improve the process for documenting and reconciling office and janitorial supply expenditures to the original invoice. Furthermore, though it was not included as a finding in the report, as of June 2011 we have discontinued the practice of including additional charges for warehousing these items on our invoices.

Finding #4:

- **The methodology used to calculate unaccounted for tickets has several weaknesses which impact Grant Oliver's ability to report unaccounted for tickets on an annual basis with an adequate degree of accuracy.**

  Grant Oliver will establish a written methodology to calculate unaccounted for tickets that can be easily followed and will provide an adequate degree of accuracy.

- **A number of errors were made in the 2010 calculation of unaccounted for tickets, and the calculation errors were not identified by Grant Oliver because an adequate review of the calculation process is not in place.**

  Once the written methodology to calculate unaccounted for tickets is completed and in place it will be easy to have someone review the calculations for any errors. We will identify someone from the home office to do this review.

- **The annual unaccounted for ticket report for 2010 was not submitted to the Airport Authority as required by the Agreement.**

  Grant Oliver will submit future unaccounted for ticket reports to the Airport Authority as required by the Agreement.

Finding #5:

- **A communication process between Grant Oliver and the Airport Authority is not in place with respect to the monitoring of aged receivables. The Airport Authority is not involved in the evaluation of collectability, and therefore opportunities for the Airport Authority to assist in collection efforts may be missed.**

  Grant Oliver will review all the current aged receivables with the Airport Authority's Finance department and establish procedures to remove uncollectable debt from our books as well as how to address this issue moving forward.

- **There are weaknesses in the design and implementation of the control procedures utilized by Grant Oliver to monitor fuel usage.**

  Grant Oliver has already established control procedures to monitor fuel usage. We have assigned a Supervisor to reconcile the gas slips to the logs from each company vehicle on a monthly basis.

- **The annual financial reports submitted by Grant Oliver do not report corporate overhead costs in the manner prescribed by the Agreement.**

  Though we believe our method of allocating corporate overhead results in a fair allocation to the Airport Authority, beginning in 2012 Grant Oliver will adjust its method of allocating corporate overhead to more closely conform to the Agreement.

- **The financial statement presentation utilized in the annual financial reports does not conform to the financial reporting requirements established in the Agreement.**

  Grant Oliver will work with our external auditors to adjust the format of our financial statements so that they comply with the financial reporting requirements established in the Agreement.