County of Allegheny

Office of the Controller

PERFORMANCE AUDIT REPORT ON GRANT OLIVER CORPORATION'S COMPLIANCE WITH THE ALLEGHENY COUNTY AIRPORT AUTHORITY AGREEMENT TO OPERATE AND MANAGE THE PARKING FACILITIES JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

February 22, 2018

Chelsa Wagner
Controller

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January 11, 2018

Ms. Christina A. Cassotis
Chief Executive Officer
Allegheny County Airport Authority
Pittsburgh International Airport
Landside Terminal, 4th Floor Mezzanine
P.O. Box 12370
Pittsburgh, PA 15231-0370

Performance Audit Report on Grant Oliver Corporation's Compliance with the Allegheny County Airport Authority Agreement to Operate and Manage the Parking Facilities For the Period January 1, 2016 through December 31, 2016

Dear Ms. Cassotis:

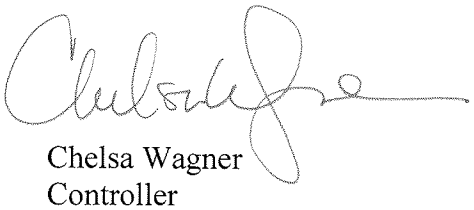
We have conducted a performance audit to evaluate Grant Oliver Corporation's (Grant Oliver) compliance with Management Agreement #38891, as amended, with the Allegheny County Airport Authority (Airport Authority), to operate and manage the parking facilites. Our performance audit covers the period from January 1, 2016 through December 31, 2016, and was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The results of our procedures revealed that even though overhead costs billed to the Airport Authority were allowable, they were not allocated utilizing the methodology identified in the Agreement. In addition, the unaccounted for tickets reports required by the Agreement was not prepared timely or accurately.

The detailed results of our performance audit are included in the attached report.

We believe that the implementation of our recommendations will help improve compliance with the Management Agreement. We would like to thank the management and staff of the Airport Authority and Grant Oliver, for their courtesy and cooperation during the performance of our procedures.

Kind regards,



Chelsa Wagner
Controller

Lori A. Churilla
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council
Honorable Nicholas Futules, Vice-President, County Council
Honorable Rich Fitzgerald, County Executive, Allegheny County
Mr. William D. McKain, County Manager, Allegheny County
Ms. Jennifer M. Liptak, Chief of Staff, County Executive
Ms. Mary C. Soroka, Director, Budget and Finance
Mr. Kenneth J. Varhola, Chief of Staff, County Council
Ms. Sarah Roka, Budget Manager, County Council
Mr. David Minnotte, Board Chairman, Airport Authority Board
Ms. Jan Rea, Audit Committee Chair, Airport Authority Board
Mr. Dale Cottrill, Chief Financial Officer, Airport Authority
Ms. Kristy Jenkins, Controller, Airport Authority
Mr. Merrill P. Stabile, Vice President, Grant Oliver Corporation

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 fully reimbursed for direct personnel costs (direct salaries, wages, overtime, and fringe benefits), other direct non-personnel costs, and corporate overhead costs (capped at $450,000 per year). Grant Oliver also receives a management fee equivalent to 1.75% of net revenues. Net revenues are gross receipts (which are net of parking taxes collected and remitted to the respective taxing authorities) less the aforementioned reimbursable expenses.

Analysis of Grant Oliver's annual audit for 2016 indicates that audited gross receipts net of parking taxes were $39,582,654, reimbursable expenses were $9,648,407, and net revenues were therefore $29,934,247. Based on this, Grant Oliver's compensation under the agreement for 2016 was $523,849. The table below summarizes 2016 budget and actual revenues and expenses.

	Budget	**Actual**	**Difference**
Parking receipts, net of tax	$39,296,254	$39,582,654	$286,400
Direct personnel costs	$2,671,500	$2,410,894	-$260,606
Direct non-personnel costs			
Advertising and promotion	$438,000	$382,929	-$55,071
Bank charges	$996,000	$960,307	-$35,693
Busing	$3,415,700	$3,317,268	-$98,432
Insurance	$294,000	$289,660	-$4,340
Maintenance	$1,335,000	$1,120,478	-$214,522
Snow removal and salting	$685,000	$419,491	-$265,509
Other	$541,500	$297,380	-$244,120
Corporate overhead costs	$450,000	$450,000	$0
Total expenses	$10,826,700	$9,648,407	-$1,178,293
Net revenues	$28,469,554	$29,934,247	$1,464,693
Less Manager's Fee	$498,217	$523,849	$25,632
Revenue to Airport Authority	$27,971,337	$29,410,398	$1,439,061

II. Objectives, Scope, and Methodology

Objectives

Our objectives were to:

- To determine (on a test basis) whether "net revenue" and Grant Oliver Corporation's management fee were properly calculated in accordance with the management agreement.

- To determine (on a test basis) whether daily receipts are being deposited.

- To determine (on a test basis) whether unaccounted for tickets have been properly tracked and if any related penalties due from Grant Oliver Corporation have been paid.

- To determine (on a test basis) whether direct costs submitted for reimbursement are allowable direct costs of the Airport parking operations, and to determine whether overhead costs submitted for reimbursement are allowable costs that have been allocated to Airport parking operations on a reasonable basis.

- To determine if Grant Oliver Corporation monitors its compliance with the management agreement.

- To determine whether Grant Oliver Corporation complied with other significant provisions of the management agreement.

Scope

Our audit procedures covered the period from January 1, 2016 through December 31, 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

Methodologies used to accomplish our objectives included, but were not limited to the following:

- 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.

II. Objectives, Scope, and Methodology

- 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 2016 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 and testing 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.

- Our audit also included an assessment of internal controls that are significant within the context of our objectives. Any significant findings related to internal control are included in findings and recommendations.

We provided a draft copy of this report to the Vice President of the Grant Oliver Corporation for response. The response begins on page 12.

Finding #1
Grant Oliver does not Utilize the Methodology in the Agreement to Allocate Overhead Costs

Criteria: The Allegheny County Airport Authority (Authority) reimburses Grant Oliver Corporation (Grant Oliver) on a monthly basis for corporate overhead that is incurred by ALCO. The amount of overhead reimbursed shall not exceed $450,000 annually.

According to Exhibit C of the Management Agreement, Grant Oliver is one of the parking companies owned and operated by various members of the Stabile family. Each company is operated as a separate entity. It is understood that certain annual general and administrative costs, hereinafter referred to as "overhead costs" cannot be directly identified with any one of the parking companies. For the purposes of allocating an applicable share of these overhead costs to Grant Oliver, it is agreed that the method of allocation will be based on the percentage of Grant Oliver annual actual gross receipts to the total actual annual gross receipts of all the parking companies.

To the extent certain annual overhead costs cannot be reasonably allocated based on the aforementioned methodology or it is determined that some other method deems to be more appropriate, Grant Oliver may change or modify the aforementioned methodology upon written approval of the Director, which we presume to be Christina Cassotis, CEO of the Authority.

Condition: ALCO does not utilize the methodology identified in the Agreement to allocate overhead costs to Grant Oliver. Using the methodology in the Agreement, we calculated the overhead allocation percentage to be 47.52%. Therefore, when calculating allowable corporate overhead expenses, 47.52% of each expense should be allocated to Grant Oliver. ALCO allocates corporate overhead to Grant Oliver using the portion of the expenses that it believes are reasonable and fair, not the 47.52% resulting from the formula in the agreement. For instance, depending on the position, salaries of some ALCO employees are charged at 80%, while others are only charged at 15%.

Although the allocation for each overhead line item is not done in accordance with the Agreement, ALCO only allocated a total of $557,624 in overhead to Grant Oliver, which was 16.83% of ALCO's overhead for the year. Of this amount, ALCO was only reimbursed $450,000, which is the maximum amount allowed by the Agreement. Based on our testing, it appears that $450,000 in overhead would have still been allowed if the methodology identified in the agreement had been utilized. This condition

was also identified in the Controller's Office prior report dated May 21, 2014.

Cause: It appears that this condition occurred because Grant Oliver developed its own methodology when calculating specific overhead line items instead of using the format stipulated in the Agreement, and did not have this alternative methodology approved by the Airport Authority. ALCO's Vice President of Finance believes the percentage identified in the agreement should be applied to the total overall overhead, not each specific line item expense. Also, the agreement dates back to 1998, and conditions that existed then, may not be applicable now.

Effect: Because Grant Oliver did not seek approval from the Director of the Airport Authority to use its alternative method, Grant Oliver is not in compliance with the requirement as stated in the agreement. However, based on our testing, it appears that the total overhead charged to the Airport Authority did not exceed the total allowed to be charged based on the methodology identified in the agreement. Therefore, no repayment is required.

Recommendations: The Controller's Office recommends that Grant Oliver obtain written approval from the Director of the Airport Authority to use a different method of allocating overhead from the one stipulated in the agreement in order to be in compliance with the requirement, or complete the overhead allocation in accordance with the terms of the agreement.

Management's Response: The response begins on page 12.

Finding #2
Unaccounted for Ticket Reports were not Submitted to the Airport Authority in Accordance with the Terms of the Agreement

Criteria: According to the Management Agreement, the Manager (Grant Oliver) shall use its best efforts to account for all tickets purchased and used in the management of the Airport parking facilities. On a monthly basis, Manager shall furnish the Authority with an unaccounted for ticket report in a format approved by the Director. This report shall detail the number of unaccounted for tickets for the month. The numbers of unaccounted for tickets divided by the total number of tickets redeemed for the month along with any voided or mutilated tickets shall be known as the unaccounted for ticket ratio. If this ratio exceeds two tenths of one percent (0.2%), the Manager shall be subject to a penalty per ticket ranging from $3 to $9 per ticket, as outlined in the Management Agreement.

Condition: At the time of our fieldwork, Grant Oliver had not provided the Authority with the unaccounted for ticket reports for 2013, 2014, 2015, or 2016. These reports were provided to us December 20, 2017 (they had not yet been submitted to the Authority). Although the reports are prepared for each month, they are not completed until the end of the year (sometimes later). Grant Oliver bases the contractual penalty calculation on an annual report. The Agreement requires the reports to be submitted monthly; however, Grant Oliver indicated that the Airport had given them verbal authorization to submit the report annually. We reviewed the 2016 report and noted several concerns related to the report as detailed below.

- Amounts reported on the unaccounted for tickets report did not agree to supporting documentation.
- The number of missing tickets for the long term lot is negative with no reasonable explanation from management.
- Vehicle inventory counts are not accurate due to vehicles entering and leaving the parking lots during the counts as well as vehicles being included in the counts that did not take a ticket to enter the lot.
- In addition to using incorrect totals in the formulas, overall, further analysis revealed that Grant Oliver is not using a proper calculation or methodology as defined in the Agreement to determine the percent of unaccounted for tickets. Grant Oliver is not including voided and mutilated tickets in the number of tickets redeemed as stated in the Agreement, and the methodology used to develop the report numbers is flawed, causing the number of missing tickets in the long term lot to be negative.

Grant Oliver takes an inventory of the vehicles in the lot on a nightly basis. The vehicle inventory at the beginning/end of the month is added to /subtracted from the number of tickets issued for the month. The 'tickets redeemed' is subtracted from the 'tickets issued' to arrive at the preliminary number of missing tickets. This count is further adjusted for various reasons (e.g.: maintenance tickets used in the nightly reconciliation that do not get redeemed) to calculate the number of missing tickets. The number of missing tickets is divided by the tickets redeemed to determine the percentage of missing tickets. This calculation is done for each month as well as in total for the year.

Grant Oliver did correct some of the errors and provided us with a revised report on January 3, 2018. However, based on the evidence provided by Grant Oliver, we do not believe the 2016 unaccounted for tickets report accurately identifies the number of missing tickets.

Cause: There are numerous components and factors that are involved in the process to account for all tickets. It appears that the methodology behind the calculation prepared by Grant Oliver has not taken into account all of these factors, and Grant Oliver does not have the necessary controls in place to ensure that all essential adjustments are properly included in the calculation. Grant Oliver prepares all the monthly reports at year end, instead of monthly, making it even more difficult to identify these issues.

Effect: Grant Oliver did not provide the unaccounted for tickets report to the Airport Authority as required in the Management Agreement. Furthermore, the report provided during our fieldwork does not accurately calculate the number of missing tickets or the percentage of missing tickets. Consequently, we cannot determine how much of a penalty, if any, is due from Grant Oliver.

We recognize that the numbers in the unaccounted for tickets report are not accurate, and accordingly, we cannot accurately calculate the related penalty. However, we did note that the percentage of missing tickets calculated in the 2016 yearly report (dated January 3, 2018) did exceed the limit allowed in the contract, even with the missing ticket totals for one of the three lots being a negative number. If the penalty identified in the Agreement is applied to this calculation, the potential penalty could be $25,655. This amount would change, up or down, if any of the necessary corrections are made to the report figures. We are only providing this figure to illustrate the potential impact that exists, and the importance of developing a sound methodology and providing accurate information.

Recommendations: The Controller's Office recommends that Grant Oliver:

- Review and revise the methodology used to prepare the unaccounted for tickets report to ensure that all factors affecting the ticket counts are properly accounted for, all numbers on the report are accurate, and the number of missing tickets is properly calculated.
- Consider focusing on the unaccounted for tickets report during one of the required internal audits.
- Assign an individual to prepare the monthly reports timely, instead of at the end of the year, to help identify the issues that cause the inaccuracies in the report. If possible, the calculation could be done daily until these issues are resolved. The report should be thoroughly reviewed to verify all information is correct and agrees to supporting documentation.
- Focus additional efforts on the December 31st vehicle inventory count each year to improve the accuracy of the count. Possibly track license plate numbers for all vehicles entering and leaving the lots during the count to ensure they are included in the count, but not double counted.
- Reduce the inventory count for vehicles that did not take a ticket to enter the lot.
- Obtain written approval from the Airport Authority to document the allowance of annual (instead of monthly) report submissions. Submit all required reports to the Airport Authority on a timely basis.

Management's Response: The response begins on page 12.

IV. Conclusion

Based on the sampling and testing performed during our performance audit, Grant Oliver is generally adhering to the terms of their Management Agreement related to parking operations at the Pittsburgh International Airport. Revenue recorded in the system was reported and paid to the Airport, and expenses appeared to be allowable and properly supported.

We did find, however, that the unaccounted for tickets report required under the Management Agreement was not completed timely or accurately. Unaccounted for tickets is one of the only requirements of the Agreement where Grant Oliver is subject to a monetary penalty. Previous reports issued by the Controller's Office have found that the unaccounted for tickets report was not submitted timely, identified issues with the methodology used to prepare the report, and determined that the penalty could not be accurately calculated because the report is inaccurate. Although Grant Oliver has made attempts to correct the report, current testing found that the reports are still not submitted timely, and many of the methodology issues still exist. The inability to properly calculate a penalty creates a significant risk that there is a penalty due but not assessed. Given that the monetary penalty is between $3 and $9 per missing ticket, this could potentially escalate to a significant figure. Therefore, we believe it is extremely important that an accurate unaccounted for tickets report be submitted to the Airport Authority on a timely basis.

We also noted that overhead expenses are not allocated to Grant Oliver in accordance with the Agreement. However, the total amount allocated and reimbursed did not exceed the limits identified in the Agreement. Therefore, we believe that Grant Oliver obtain written approval of their allocation method from the Airport Authority.

Grant Oliver Corporation

Management of the Parking at
Pittsburgh International Airport

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February 15, 2018

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, 2016.

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
Vice President

GRANT OLIVER RESPONSE

Finding #1:

- **Grant Oliver does not utilize the methodology in the Agreement to allocate Corporate Overhead Costs. 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 allocating each expense item included in corporate overhead but rather, to establish an upper limit concerning the corporate overhead reimbursement.

Finding #2:

- **Unaccounted for ticket reports were not submitted to the Airport Authority in accordance with the terms of the Agreement. Grant Oliver is required to furnish the Authority with an unaccounted for ticket report detailing the number of unaccounted for tickets and to pay a penalty if the unaccounted for ticket ratio exceeds two tenths of one percent (0.2%).**

  As part of our internal audit process for 2017, Grant Oliver will review and revise the methodology used to calculate unaccounted for tickets that can be easily followed and ensure that all factors affecting the ticket counts are properly accounted for and the number of missing tickets are properly calculated. We 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.

  We agree that much of the inaccuracy of this report may be due to the inventory count. We use the count generated by the LPI units on a nightly basis for the inventory count. This process takes from 3 to 5 hours to complete depending on the number of vehicles in the lots. The increased number of flights arriving during the time the inventory is occurring may be creating an issue where the inventory count is too low thus increasing the number of missing tickets. We will have to review our process to come up with a more accurate way to determine the nightly inventory on the last day of the month.