

OFFICE OF THE CITY CONTROLLER



**HOUSTON AIRPORT SYSTEM
CONCESSIONS DIVISION
COMPLIANCE AUDIT OF:**

**PREFLIGHT AIRPORT PARKING, AN INTERPARK LLC
PROPERTY WITH:**

**CITY OF HOUSTON CODE OF ORDINANCES
CHAPTER 9 – AVIATION,
ARTICLE II. – LANDSIDE AREA REGULATIONS
DIVISION 3. GROUND TRANSPORTATION**

Ronald C. Green, City Controller

David A. Schroeder, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

RONALD C. GREEN

May 24, 2013

The Honorable Annise D. Parker, Mayor
City of Houston, Texas

**SUBJECT: 2013-10 HOUSTON AIRPORT SYSTEMS (HAS), CONCESSIONS DIVISION
COMPLIANCE AUDIT OF:**

**PREFLIGHT AIRPORT PARKING (PREFLIGHT), AN INTERPARK LLC PROPERTY
CITY OF HOUSTON CODE OF ORDINANCES,
CHAPTER 9 – AVIATION,
ARTICLE II. - LANDSIDE AREA REGULATIONS,
DIVISION 3. GROUND TRANSPORTATION**

Dear Mayor Parker:

The Controller's Office and HAS Audit have completed a Compliance Audit of four selected City of Houston (City) Airport's Off-Site Parking Vendor's (OAPVs) Self-Reporting of Revenue. HAS Audit and CTR Audit each audited two OAPVs for compliance with the Ordinance listed above. The attached report reflects the audit procedures performed on **PreFlight Airport Parking (PreFlight), an InterPark LLC Property** located at 7901 Airport Boulevard, Houston, Texas.

The Audit's objective was to determine if PreFlight had accurately reported Gross Receipts as defined in the Ordinance above. As the Audit Team conducted the audit, they were also cognizant of HAS's management of the process. Findings related to HAS's management activities will be addressed under separate cover.

The Audit Team concluded that the processes in place were adequate to receive, record and report revenue activity occurring at the site location and provide the information to their corporate office. The corporate office, however, did not provide complete information from all revenue generating activities performed at the local facility and related accounting records. The result was under-reporting of Gross Receipts as defined in the Ordinance and subsequent under-payment of airport fees by approximately \$50,612.

We appreciate the overall cooperation we received from PreFlight's local Facility Manager, Larry Reece Jr. throughout the project and we commend them on the accuracy and timeliness of their reporting.

Respectfully submitted,

Ronald C. Green
City Controller
Houston, Texas

Cc: City Council Members
Chris Brown, Chief Deputy City Controller, Office of the City Controller
Andy Icken, Chief Development Officer
Waynette Chan, Chief of Staff, Mayor's Office
Mario Diaz, Director, Houston Airport System
David Schroeder, City Auditor, Office of the City Controller



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Office of the City Controller Audit Division

EXECUTIVE SUMMARY

INTRODUCTION –

The City of Houston (COH) Office of the City Controller, Audit Division completed a series of two Compliance Audits of COH's Code of Ordinances, Chapter 9 – Aviation, Article II. - Landside Area Regulations, Division 3 Ground Transportation (the Ordinance). The two locations FastPark & Relax (FastPark IAH) on Greens Road, and PreFlight Airport Parking (PreFlight HOU) on Airport Boulevard. This document is the Compliance Audit Report for **PreFlight Airport Parking (PreFlight HOU), an InterPark LLC Property (InterPark)**.

BACKGROUND –

The Ordinance defines “off-airport parking” as a commercial business entity, (identified as an offsite parking vendor or OAPV) that provides or arranges for one or more commercial passenger vehicles, however owned or operated, to pick up or drop off passengers within a terminal complex of an airport. Additionally, they are involved with the operations of a business of the users, involving the parking of motor vehicles at a facility located outside the airport boundary. The Ordinance specifies that COH assess a fee on OAPVs and that they possess a valid annual permit. Beginning July 1, 2010 the recurring airport use fee was 8 percent of gross receipts as specified by Chapter 9 (Table 9-1) (See Exhibit 1). For the period January 1, 2010 to July 1, 2010, the recurring airport use fee was 7 percent and prior to January 1, 2010, the recurring airport use fee was 6 percent. For the period January 1, 2009 to June 30, 2012, InterPark reported gross revenues of \$10,395,127, paid \$800,850 in Sales and Use taxes, and paid Airport Use Fees of \$772,705.

AUDIT SCOPE AND OBJECTIVES –

Our Audit Scope was from January 2009 through March 2012 and included the analysis and review of financial, operational, and administrative records for HAS, PreFlight HOU, and InterPark.

The objective of the audit of OAPVs was:

- Determine whether the OAPV's gross revenues from parking operations as reported, were accurate, complete, and that the airport fees due were properly calculated and paid in accordance with terms of the ordinance

SCOPE MODIFICATION –

InterPark did not provide audited/certified financial statements. Therefore, the completeness of the revenue and expense information could not be determined without additional means of independent verification.



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PROCEDURES PERFORMED –

We utilized detailed transaction data provided by InterPark as the basis of our substantive testwork. Also, in order to achieve the audit objectives and support our findings and conclusions, we requested/performed the following:

- Obtained an understanding of Internal Controls as they pertain to daily parking activity and the related recording, reporting, and safeguarding of cash/assets (on-site physical observations, interviews, etc.)
- Judgmentally selected two monthly reports (November 2011 and January 2012) and tested four days of detailed transaction activity for proper supporting documentation/information and recording into the relevant point of sale system (11/5/2011; 11/28/2011; 01/7/2012 and 01/14/2012)
- Reviewed and compared HAS reports of monthly gross revenues and airport user fees to the OAPV's monthly revenue reports
- Reviewed deductions claimed from gross revenues for appropriateness and reasonableness (Allowable)
- Re-performed reconciliations of monthly revenue activity reports as reported to HAS to the OAPVs monthly net revenues; and
- Recalculated monthly airport use fees based upon reported gross revenues from parking operations.

AUDIT METHODOLOGY –

The audit was performed in accordance with *Generally Accepted Government Auditing Standards* as promulgated by the Government Accountability Office (GAO) and the engagement was conducted in conformance with *the International Standards for the Professional Practice of Internal Auditing* as issued by the Institute of Internal Auditors (IIA). Those standards require that we plan and perform the audit to obtain sufficient and 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 objective.

The scope of our work did not constitute an evaluation of the overall internal control structure of InterPark. Management is responsible for establishing and maintaining a system of internal controls to ensure that financial activity is accurately reported and reliable. The objective is to provide management with reasonable, but not absolute assurance that the controls are in place and effective.



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CONCLUSION AND SIGNIFICANT ISSUE –

CONCLUSION (*Audit Objective #1*) (**See Finding 1**)

InterPark's gross revenues from parking operations as reported were not complete nor were they accurate with the applicable ordinance. They did not report Gross Receipts as defined in the Ordinance and subsequently underpaid airport fees by at least \$50,612.

RECOMMENDATION: That InterPark should pay HAS the underpayment of the Airport Use Fee of \$50,612.

ACKNOWLEDGEMENTS AND SIGNATURES –

The Audit Team would like to thank Larry Reece Jr. the local PreFlight Airport Parking HOU Facility Manager for his cooperation, time, and efforts throughout the course of the engagement.

A handwritten signature in blue ink, appearing to read "David Schroeder", is written over a horizontal line.

David Schroeder, CPA, CISA
City Auditor

A handwritten signature in blue ink, appearing to read "Arnold R. Adams", is written over a horizontal line.

Arnold R. Adams, CIA, CFE
Assistant City Auditor V



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FINDING #1 – FAILURE TO REPORT ALL REVENUE

**A. REVENUE FROM NON PARKING OPERATIONS WAS NOT REPORTED - RISK RATING
(IMPACT AND MAGNITUDE) = MEDIUM**

BACKGROUND:

The Audit Team was not able to validate the InterPark revenue information, as the requested audited financials were not provided as required by the Ordinance. When the Audit Team visited PreFlight HOU's physical location, they saw evidence of carwashes being performed and identified daily parking tickets indicating that revenue was collected for these services. This information; however, did not rollup into the daily reports. PreFlight HOU was asked to provide a list of all revenue producing operations in their initial Request for Information that accompanied the Notification Letter (dated 5/24/2012) from Houston Airport System (HAS). The Audit Team made two additional requests to obtain the information; one by HAS in a formal letter dated 8/30/2012 and one by the Audit Team in an email dated 10/18/2012. The information was not provided until 11/29/2012.

InterPark did provide revenue summary documents on 11/5/2012 for the period 1/1/2009 through 6/30/2012 that had revenue accounts that had not been reported to HAS or the Audit Team. Also in the revenue summary documents, were accounts for routine expenses experienced by retail operations i.e Cashier Overages/ (Shortages), etc. These retail expenses are not allowable deductions per the definition of Gross Receipts contained in the Ordinance; therefore, monthly Total Parking Revenue was recalculated, excluding those amounts as deductions. The recalculated Total Parking Revenue amounts were used to recalculate the Gross Receipts and Airport Fees. This information was then compared to the monthly Airport Fees already paid and an over/ (under) amount paid was determined.

FINDING:

InterPark has not reported Gross Receipts, as defined in the Ordinance. When using the information as provided, InterPark underpaid airport use fees by \$50,612.

RECOMMENDATION:

InterPark should pay HAS the Airport Use Fee of \$50,612, resulting from under-reported revenues



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MANAGEMENT RESPONSE:

Finding #1 - audited financial statements were not provided because 1) InterPark does not have audited financial statements specific to each of our locations, and 2) we are not required to do so (at least I could not find any where in the ordinance(s) that stated as such). While there may have been some miscommunication, regarding the request of information, prior to November 2012, once I became directly involved in the audit I was as honest and forthcoming as I could be how & when information was provided. Once I knew exactly what HAS wanted to see, ALL general ledger journal line detail was provided for revenues, access fee liability, and sales & use tax liability, for the audit period. InterPark agrees that during the audit period of 1/1/09 - 6/30/12 gross receipts were under reported, however, we disagree that access fees were underpaid by \$50,612. Our position is that the spirit of the ordinance, related to access fees, is for Off-Airport Parking Users to calculate & pay fees on anything related to the ability to ACCESS the airport grounds. All charges paid by our parking customers (i.e. fees specific to parking or any other amenities provided to our parking customers), that we transport to/from the airport, certainly does fall into this category. Based on our interpretation of the access fee ordinances' intent, we feel that access fees should not be calculated and paid for advertising revenues and rental income, neither of which has anything to do with parking or accessing the airport in any way.

HAS MANAGEMENT RESPONSE:

HAS Management is in agreement with the findings and recommendation of this report. Language should be added to the ordinance in Chapter 9 addressing the Offsite Airport Parking Vendor to clarify which deductions are and are not allowed when reporting parking related revenues.

CTR ASSESSMENT OF MANAGEMENT RESPONSE:

CTR does not agree with InterPark's "spirit of the ordinance" argument in that the ordinance is specific when it states that gross receipts means all revenue paid or payable and all compensation received from the user's business operations at each facility. It does; however, agree with HAS as to the clarification in the ordinance of what is an appropriate deduction from gross receipts.



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**B. DISCOUNT FROM ONTIME PAYMENT OF SALES AND USE TAX WAS NOT REPORTED -
RISK RATING (IMPACT AND MAGNITUDE) = **Low****

BACKGROUND:

The Code of Ordinance provides for the exclusion of, "...the amount of any federal, state, or municipal sales, or other similar taxes..." from "gross receipts" (see Exhibit 1 Note 2). The Texas Administrative Code (TAC) allows for a discount of 0.5% of the amount of tax due for timely filing and payment as reimbursement for the expense of collection of the tax (see TAC Title 34, Part 1, Chapter 3, Subchapter O (h) (1)). Additional discounts are allowable if the vendor chooses to prepay the Sales and Use Tax on a routine basis.

FINDING:

InterPark deducted the full 8.25% amount from the Gross Receipts and did not recognize the Discount when they reported their monthly Gross Receipts for HAS Revenue Fee calculation.

Note: The exact amount of Sales and Use Tax discounts recognized cannot be calculated as this information was not made available to the Audit Team.¹

RECOMMENDATION:

InterPark should adjust their Sales and Use Tax deductions from Gross Revenue to reflect the actual amount paid in Sales and Use Tax, recalculate the Gross Receipts and Airport Fees, and then remit the difference to HAS.

MANAGEMENT RESPONSE:

Finding #2 - we agree that our revenue system only deducts the 8.25% of state taxes from gross receipts when calculating access fees. If the sales tax payment is filed timely, we do record the discount, in the form of a manual tax adjustment, one month in arrears (Ex. if a January sales & use tax payment, due in February, is paid timely, we record a manual entry reducing our tax liability and increasing revenue, by the amount of the discount, in February). We will consider changing how our revenue system calculates the sales & use tax due to reflect the discount when initially calculated.

¹ InterPark did not provide audited/certified financial statements; therefore, the completeness of the revenue and expense information could not be determined without additional means of independent verification.



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HAS MANAGEMENT RESPONSE:

HAS Management is in agreement with this finding and recommendation.

CTR ASSESSMENT OF MANAGEMENT RESPONSES:

InterPark failed to address airport fee recalculation and repayment as a result of the discount they received from timely payment of the sales and use tax. HAS should follow up with the issue.



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Exhibit 1: City of Houston Code of Ordinances, Chapter 9, Article II, Division 3

CODE OF ORDINANCES
Chapter 9 – AVIATION
ARTICLE II. – LANDSIDE AREA REGULATIONS
DIVISION 3. – GROUND TRANSPORTATION

Table 9-1
Annual and Recurring Airport Use Fees for Commercial Passenger Vehicles

Class		Description/Criteria	Fees
1	Taxicabs	HOU: Departures from the airline terminal building at HOU with one or more passengers.	\$1.25 per departure
		IAH: Departures from anywhere at IAH with one or more passengers	\$2.75 per departure
2	Commercial Carrier Service (Contract)	Vehicles providing commercial carrier service under contract with the City.	Fees are as prescribed in the contract.
3	Commercial Carrier Service (Special Permit Conditions)	Vehicles providing commercial carrier service not under contract with the City, but with special permit conditions under subsection 9-54	The annual use fee, based on number of seats (including driver) is: 1 through 6 seats: \$325.00 7 through 11 seats: \$400.00 12 through 24 seats: \$475.00 25 seats or more: \$550.00
4	On-Airport Rental Car Users	Vehicles used in connection with the business of on-airport rental car users.	Fees are as specified in the contract.
5	Off-Airport Rental Car Users	Vehicles used in connection with the business of off-airport rental car users.	Off-airport percentage of adjusted gross receipts. See Note 1.
6	Off-Airport Parking Users	Vehicles used in connection with the business of off-airport parking users.	8% of gross receipts. See Note 2.



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7	Courtesy Limousines	Courtesy vehicles providing limousine service	The annual use fee, based on number of seats (including driver) is: 1 through 6 seats: \$325.00 7 through 11 seats: \$400.00 12 through 24 seats: \$475.00 <u>25</u> seats or more: \$550.00 Additional fee for each hour over first for parking in Limousine Lots is \$1.50 per each 15 minute increment. Waive first chargeable hour for vehicles waiting for international flights.
8	Other Courtesy Vehicles	All other courtesy vehicles not covered above	The annual use fee, based on number of seats (including driver) is: 1 through 6 seats: \$325.00 7 through 11 seats: \$400.00 12 through 24 seats: \$475.00 <u>25</u> seats or more: \$550.00
9	All Others	All other commercial passenger vehicles, not covered above	The annual use fee, based on number of seats (including driver) is: 1 through 6 seats: \$325.00 7 through 11 seats: \$400.00 12 through 24 seats: \$475.00 <u>25</u> seats or more: \$550.00
10	Occasional Use	All commercial vehicles using the airport occasionally (no more than twice in any week).	Fee per trip, based on number of seats (including driver) is: 1 through 6 seats: \$2.00 7 through 11 seats: \$3.00 12 through 24 seats: \$5.00 <u>25</u> seats or more: \$7.50



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Note 1 *Rental car users (percentage, gross receipts).* For off-airport rental car users: (i) the off-airport percentage is two percentage points lower than the prevailing percentage rate of gross receipts for on-airport rental car users at the airport in question, as determined by the director, and (ii) "adjusted gross receipts" means the sum of money, for any given time period, computed according to the following formula: $(G - N) - E$. In this formula:

"G" is gross receipts, which for this purpose shall mean all revenue paid or payable and all compensation received in connection with the user's business operations at the facility served by the commercial passenger vehicles in question, including without limitation, the following: all sums received as time and/or mileage charges after discount, for the rental of automobiles by the user; all sums received from the user's customers by the reason of their acceptance of personal accident insurance; all sums received for any other insurance or airport fees, including any renewal policy issued to any customer; all sums received in connection with automobile rentals for mobile phones, car seats, and other amenities; all sums received for valet services, or other services rendered in connection with user's business; the fair market value of any goods, services or other things of value received as compensation for, or in exchange for, the supply of automobiles or any of the other goods and services referred to above; but "gross receipts" shall not include the following: the amount of any federal, state, or municipal sales or other similar taxes (which do not include non-tax fees such as airport use fees), whether or not separately stated and/or collected directly from customers of the user, now or hereinafter levied or imposed; any sums received as insurance payments or otherwise for damage to automobiles or other property of the user or for loss, conversion, or abandonment of such automobiles; amounts paid by customers of the user separately billed as additional charges for waiver by the user of its right to recover from customers for damage to the vehicle rented; any charges collected from customers as reimbursement for refueling an automobile rented pursuant to a rental agreement under which the customer is obligated to return the automobile with the same amount of gasoline furnished at rental; or any sums received by reason of the user's disposal of capital assets and/or trade fixtures.

"N" is the amount, if any, of the user's non-airport-related gross receipts (included in "G") for the time period in question, as determined by the director. The user may seek to have such an amount determined for any given time period by applying in writing to the director on or before the due date of the fee for that time period and providing clear and convincing documented proof as to the amount of the user's non-airport-related gross receipts during such time period. If such proof is made to the satisfaction of the director, the director shall issue an order determining the amount of "N" for such time period and adjusting the airport use fee accordingly. If the director does not issue such an order within 30 days following the day that the user makes an application, the user may appeal the failure to issue the order to the hearing officer in the same manner as an appeal for the denial of a permit.

"E" is \$15,000.00 per month, prorated on a daily basis for time periods shorter than a month.



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Note 2 *Parking users (gross receipts)*. For off-airport parking users, 'gross receipts' means all revenue paid or payable and all compensation received from the business operations at each facility served by the commercial passenger vehicles in question, including without limitation, the following: all sums received as parking charges after discount; all sums received as airport fees; all sums received in connection with providing any amenities or services in connection with parking; all sums received for valet services or other services rendered in connection with user's business; the fair market value of any goods, services or other things of value received as compensation for, or in exchange for, motor vehicle parking or any of the other goods and services referred to above; but "gross receipts" shall not include the following: the amount of any federal, state, or municipal sales, or other similar taxes (which do not include non-tax fees such as airport use fees), whether or not separately stated and/or collected directly from customers of the user, now or hereinafter levied or imposed; any sums received as insurance payments or otherwise for damage to automobiles or other property of the user or for loss, conversion, or abandonment of such automobiles or property; or any sums received by reason of the user's disposal of capital assets and/or trade fixtures. With the approval of the director, a user that also provides parking for non-airport-related activities may deduct the resulting non-airport-related gross receipts. Any such deduction is determined and governed by the provision, above, for the non-airport-related deduction from the gross receipts of off-airport car rental users (see "N" in the formula for adjusted gross receipts of off-airport car rental users).