

# Internal Audit Department

O R A N G E C O U N T Y

## REVENUE GENERATING OPERATING AGREEMENT AUDIT: JOHN WAYNE AIRPORT PARKING CONCEPTS, INC.

For the Period  
June 1, 2007 through May 31, 2008

Parking Concepts, Inc. (PCI) manages and operates the parking facilities located at John Wayne Airport (JWA) on a fee basis. Gross receipts collected and remitted to JWA during the one-year audit period were approximately \$35.5 million, and fees paid to PCI were approximately \$4 million.

The Internal Audit Department found that PCI's records adequately supported gross receipts collected and remitted to JWA. However, their fees billed to JWA were not adequately supported. This is primarily because PCI's employee timecards and labor distribution reports do not reflect the actual job code worked by the employee when the employee substitutes or backfills for another position category. We noted fourteen (14) **Control Findings** where record keeping should be enhanced to support the fees billed.

AUDIT NO: 2732  
REPORT DATE: AUGUST 6, 2009

**County Internal Auditor:** Dr. Peter Hughes, CPA  
Deputy Director: Eli Littner, CPA, CIA  
Senior Audit Manager: Autumn McKinney, CPA, CIA  
Senior Internal Auditor: Susan Nestor, CPA, CIA



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**RISK BASED AUDITING**

**Dr. Peter Hughes** Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE  
**County Internal Auditor** Certified Compliance & Ethics Professional (CCEP)  
Certified Information Technology Professional (CITP)  
Certified Internal Auditor (CIA)  
Certified Fraud Examiner (CFE)  
E-mail: peter.hughes@iad.ocgov.com

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**Eli Littner** CPA, CIA, CFE, CFS, CISA  
Deputy Director Certified Fraud Specialist (CFS)  
Certified Information Systems Auditor (CISA)

**Michael J. Goodwin** CPA, CIA  
Senior Audit Manager

**Alan Marcum** MBA, CPA, CIA, CFE  
Senior Audit Manager

**Autumn McKinney** CPA, CIA, CISA, CGFM  
Senior Audit Manager Certified Government Financial Manager (CGFM)

**Hall of Finance & Records**

12 Civic Center Plaza, Room 232  
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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## Transmittal Letter



**Audit No. 2732 August 6, 2009**

**TO:** Alan L. Murphy, Director  
John Wayne Airport

**FROM:** Dr. Peter Hughes, CPA  
County Internal Auditor

**SUBJECT:** Revenue Generating Operating  
Agreement Audit: JWA/Parking  
Concepts, Inc., PM 1121-400-17

We have completed our revenue generating operating agreement audit of Parking Concepts, Inc. for the period June 1, 2007 through May 31, 2008. The final **County Internal Auditor's Report** is attached along with your responses to our recommendations.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our **first Follow-Up Audit** will now begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will now begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

# Letter from Dr. Peter Hughes, CPA



Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation.

Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

## Attachments

Other recipients of this report listed on the Orange County Internal Auditor's Report on page 3.

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John Wayne Airport  
Parking Concepts, Inc.  
Audit No. 2732***

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June 1, 2007 through May 31, 2008

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**Audit No. 2732**

**August 6, 2009**

TO: Alan L. Murphy, Director  
John Wayne Airport

FROM: Dr. Peter Hughes, CPA  
County Internal Auditor

SUBJECT: Revenue Generating Operating Agreement Audit:  
JWA/Parking Concepts, Inc.,  
PM 1121-400-17

## Audit Highlight

Parking Concepts, Inc. (PCI) manages and operates the parking facilities located at JWA.

Gross receipts collected and remitted to JWA during the one-year audit period were about \$35.5 million, and fees paid to PCI were about \$4 million.

The Internal Audit Department found that PCI's records adequately supported gross receipts collected and remitted to JWA. However, the fees billed to JWA were not adequately supported.

This is primarily because PCI's employee timecards and labor distribution reports do not reflect the actual job code worked by the employee when the employee substitutes or backfills for another position category. We noted fourteen (14) **Control Findings** where record keeping should be enhanced to support the fees billed.

## OBJECTIVES

We have performed an audit of certain records and documents for the period from June 1, 2007 through May 31, 2008, pertinent to the operating agreement (Agreement) between the County of Orange (County) and Parking Concepts, Inc. (PCI) dated July 29, 2003, as amended. The Agreement is for the operation of the parking facilities at John Wayne Airport (JWA). Our audit objectives are:

- (1) The primary purpose of our audit is to determine whether PCI's records adequately support the gross receipts collected and remitted to JWA, and the fees billed to JWA.
- (2) The secondary purpose of our audit is to determine whether PCI complied with certain other financial provisions of the Agreement, such as accounting methods, gross receipts statement format, and annual financial statement requirements.

In addition, while performing the audit we may identify internal control weaknesses for which we will identify suggestions for improvement.

## BACKGROUND

The County entered into an Agreement with Parking Concepts, Inc. (PCI) dated July 29, 2003, as amended, for the management and operation of the parking facilities located at JWA. The facilities include three parking structures and two surface lots. PCI collects and remits all gross receipts (parking revenue) to JWA. PCI is paid an operating fee based on fixed hourly rates for hours worked by specified labor classifications. During the audit period, PCI collected approximately \$35.5 million in gross receipts on behalf of JWA and was paid an operating fee of approximately \$4 million.



## SCOPE

Our audit was limited to certain records and documents that support PCI's gross receipts collected and remitted to JWA and the fees billed to JWA, for the 12-month period from June 1, 2007 to May 31, 2008. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts and fees billed.

JWA utilizes the Amano and McGann cashiering system and equipment (including ticket dispensers and gates) for the parking operations. In May 2007, JWA/Quality Assurance and Compliance completed a review of internal controls for the parking facilities (self-park operation only) that included the manual and automated processes involved with a vehicle's entry to and exit from JWA's self-parking facility. Our scope excluded those internal controls and focused on the supporting documentation prepared by PCI. Additionally, our scope excluded the valet parking operation which is under a separate agreement.

## CONCLUSION

Below are the results of our audit:

**Objective #1 – Adequate Records:** Determine whether PCI's records adequately support the gross receipts collected and remitted to JWA, and the fees billed to JWA.

**Results:** We found that PCI's records adequately supported the reported gross receipts. However, the fees billed to JWA were not adequately supported. This is primarily because PCI's employee timecards and labor distribution reports do not reflect the actual job code worked by the employee when the employee substitutes or backfills for another position category. We noted 14 (fourteen) **Control Findings** where record keeping should be enhanced to support the fees billed (see pages 4-13 for details).

**Objective #2 – Compliance:** Determine whether PCI complies with certain other financial provisions of the Agreement.

**Results:** We found PCI generally complied with certain other financial provisions of the Agreement such as accounting methods, gross receipts statement format, and annual financial statement requirements.

See all fourteen (14) findings in the Detailed Findings, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

## ACKNOWLEDGEMENT

We appreciate the courtesy and cooperation extended to us by the personnel at Parking Concepts, Inc. and John Wayne Airport. If you have any questions regarding our review of operating agreement revenue, please call me directly or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.



**Attachment A: Report Item Classifications**

**Attachment B: John Wayne Airport Responses**

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
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Scott Suzuki, Manager, JWA/Quality Assurance and Compliance  
Foreperson, Grand Jury  
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## Audit Objective #1 – Adequate Records

### 1. PCI's Fees Billed Are Based On Scheduled Hours, Not Actual Hours Worked (2 Control Findings)

As specified in the Agreement, PCI remits all gross receipts collected to JWA and is paid a monthly fee for the operation of the parking lots. JWA Landside Operations approves a monthly operating schedule (operating hours and staffing needs) for PCI to follow. The Agreement includes limits on the monthly fees billable to JWA.

JWA pays PCI a fee on a monthly basis using the fixed hourly rates below, effective January 1, 2008. Clause 8 of the Agreement specifies that the fees are to be paid based upon the "employee-hour **worked**" as shown below:

- \$19.16 per employee-hour worked - Cashier
- \$23.07 per employee-hour worked - Exit Plaza Supervisor
- \$23.07 per employee-hour worked - Auditor
- \$27.03 per employee-hour worked - Shift Supervisor

The Agreement does not allow PCI to bill for other job categories; such as, Maintenance/Janitorial, Driver, Inventory, Clerical, Office Manager, and District Manager. These costs should be built into the hourly rates for the above billable positions.

Each pay period, PCI employees submit their timecard to the on-site Office Manager. The Office Manager then compiles a bi-weekly Labor Distribution Report listing by employee the number of hours worked, location (i.e. Parking Operations vs. Shuttle), and the job code (i.e. cashier vs. supervisor). The timecards and Labor Distribution Report are submitted to PCI corporate offices for payroll processing.

**Findings Nos. 1 and 2:** PCI bills JWA based on the scheduled allowable hours and does not prepare a reconciliation between the scheduled hours and the actual hours worked (per the Labor Distribution Report). PCI indicated it bills JWA based on scheduled hours because it always incurs more hours than allowed by the Agreement.

For the sample months of March and May 2008, with PCI's verbal advice of which substitutions occurred, we prepared a reconciliation of hours billed vs. hours actually worked (per the Labor Distribution Report).

For the reconciliation, we combined the Exit Plaza Supervisor and Shift Supervisor categories into one supervisor category because PCI uses only one job code (506) for these supervisory positions (see Finding No. 5 below for further details).

See reconciliation on next page.

# Detailed Findings, Recommendations, and Management Responses



## Reconciliation: Labor Distribution Report Hours vs. Hours Billed to JWA

Finding No.	Description	March 2008			May 2008		
		Supervisor (Finding No. 4)	Cashier	Auditor	Supervisor (Finding No. 4)	Cashier	Auditor
	<b>Labor Distribution Report Hours</b>	2,661	12,119	179	3,092	12,036	266
	Verified Adjustments:						
9	Job Codes Not Current (i.e. person promoted)	174	(167)	176	170	20	
11	Late Timecards	84	183				
8	Chief Auditor Substituted for Shift Supervisor	86			87		
	<b>Adjusted Labor Distribution Report Hours</b>	3,005	12,135	355	3,349	12,056	266
	<b>Hours Billed to JWA (Scheduled Hours)*</b>	3,903	12,134	351	3,911	12,142	360
	<b>Unsupported Hours Billed to JWA</b>	898	0	0	562	86	94

\*Note: The hours billed to JWA did not exceed the scheduled hours allowed by the Agreement

PCI informed us that the primary explanation for the 1,640 (898 + 562 + 86 + 94) unsupported hours in March and May 2008 was employees substituting for another employee in a different job classification. The Labor Distribution Report may not reflect the actual job classification worked by the employee. (See further details in Finding No. 3 below). Below are the details provided by PCI for the unsupported hours.

### Detail of Unsupported Hours Billed to JWA

Finding No.	Description	March 2008			May 2008		
		Supervisor (Finding No. 4)	Cashier	Auditor	Supervisor (Finding No. 4)	Cashier	Auditor
3	Valet Substituted for Supervisor or Auditor	191			48		80
3, 7	Clerical Substituted for Supervisor	302			170		
3	Cashier Substituted for Supervisor	88					
3, 5, 6	Maintenance Substituted for Supervisor	310			310		
1	Unidentifiable Amounts Billed	7			34	86	14
	<b>Unsupported Hours Billed to JWA</b>	898	0	0	562	86	94

As shown in the above table (Unidentifiable Amounts Billed), PCI could not provide explanations or supporting documentation for the hours billed to JWA during our fieldwork.

After our draft report was issued, JWA met with PCI to discuss this issue further. PCI requested an opportunity to provide additional supporting documentation for the "unidentifiable" amounts billed. In May 2009, PCI submitted revised supporting documentation for May 2008 that identified additional hours worked. JWA requested that we perform additional testing of the additional hours submitted by PCI to verify that time cards and other documents (such as cashiering reports) supported PCI's additional hours. We performed additional fieldwork and our results are presented below:

# Detailed Findings, Recommendations, and Management Responses



Based on our analysis of PCI's revised supporting documentation, we identified the following changes made by PCI:

- 22 employees were added: 21 were previously classified in non-billable categories (maintenance or clerical) and 1 was from another location.
- 7 employees were reclassified within different billable categories.
- 6 existing employees had hours increased/decreased.
- 1 existing employee was deleted.

We performed additional testing for a sample of 9 cashiers added and 2 cashiers reclassified by PCI. Based on our testing, PCI was able to provide a combination of time cards and/or cashiering reports to explain a net 79 of the 86 "unidentifiable" cashier hours. However part of the net 79 hours identified by PCI included 94 hours added for "break" cashiers. Break cashiers are not reflected on the daily cashiering reports. As such, we were not able to determine those individuals actually worked as cashiers.

Based on our additional testing, our recommendations below continue to be appropriate.

In addition, the number of adjustments made by PCI underscores the need for PCI to reconcile Labor Distribution Report hours with hours billed to JWA, and to prepare the monthly billing based on actual hours worked.

**Recommendation No. 1:** JWA should require PCI to prepare its monthly billing based on the actual hours worked, not to exceed the limits specified in the Agreement.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's billing practices and reiterated the requirement that PCI bill based upon actual hours of staffing the positions eligible for billing.

**Recommendation No. 2:** JWA should require PCI to prepare and retain a supporting schedule that reconciles hours per the Labor Distribution Report with hours billed to JWA.

**JWA Management Response:** Concur. This recommendation has been implemented. In a letter dated July 17, 2009, we have required PCI to provide a reconciliation between hours on their Labor Distribution Report to hours billed to JWA. Such reconciliation will be required on their August 2009 billing and thereafter.

## 2. Labor Reports May Not Reflect Actual Labor Activity (Control Finding)

Employees are assigned job codes representing the position category for which they are hired. PCI's Labor Distribution Report compiles and summarizes the hours worked by the job code. Some of the job codes are:

- 312 – Auditor (billable)
- 503 – Cashier (billable)
- 504 – Maintenance

# Detailed Findings, Recommendations, and Management Responses



- 506 – Supervisor (billable)
- 507 – On-Site Clerical
- 508 – On-Site Manager
- 701 – Driver
- 704 – Inventory/3<sup>rd</sup> Shift Cashier (billable)

**Finding No. 3:** Employee timecards and the Labor Distribution Reports do not reflect the actual job code worked by the employee when the employee substitutes or backfills for another position category.

For example, if a cashier substitutes for a supervisor for 8 hours, the employee does not document on their timecard the supervisor job code worked next to the 8 hour time entry. The entire hours worked for the pay period are allocated to the cashier job code on the timecard and the Labor Distribution Report.

The impact is that the employee timecards and Labor Distribution Reports do not match the hours billed to JWA, primarily for the supervisory positions.

When we compared the March and May 2008 Labor Distribution Reports with hours billed to JWA, PCI informed us that the following temporary job code substitutions were made. These substitutions were not noted on the time cards or the Labor Distribution Report. We were able to verify that the employee did actually work (i.e. there was a timecard); however, we could not verify that the employee worked in the job code asserted by PCI due to lack of supporting documentation.

#### March 2008:

- Valet, Clerical, or Cashier substituting as a Supervisor: 581 out of 3,903 hours billed
- Valet substituting as a Cashier: 156 out of 12,134 hours billed

#### May 2008:

- Valet, Clerical, or Cashier substituting as a Supervisor: 218 out of 3,911 hours billed
- Valet substituting as an Auditor: 80 out of 360 hours billed

To ensure the billings to JWA are accurate and adequately supported, PCI should properly utilize the job codes to record and compile the actual labor activity.

**Recommendation No. 3:** JWA should require PCI to ensure employees document the actual job codes worked next to their time entries on the time cards. Then, JWA should require PCI to allocate employee hours to the correct job codes when preparing the Labor Distribution Report.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's billing practices and imposed a requirement that PCI employees document the assignment (job code) they worked on during their shift on their respective time card. We also required PCI to input this information into their timekeeping system which is then reflected on their Labor Distribution Report.

# Detailed Findings, Recommendations, and Management Responses



## 3. One Job Code Used For Two Billable Supervisory Categories (Control Finding)

Clause 16.C of the Agreement allows PCI to bill for two supervisory position categories:

- Exit Plaza Supervisor: 5 positions each from 4:30 a.m. to midnight, 7 days a week.
- Shift Supervisor: 1 position for 24 hours per day, 7 days a week plus 32 hours per week for peak periods.

The fee that JWA pays PCI is different for the two supervisory position categories:

- \$23.07 per hour - Exit Plaza Supervisor
- \$27.03 per hour - Shift Supervisor

**Finding No. 4:** PCI utilizes only one job code (506) for the two supervisory position categories. The impact is that the hours for Exit Plaza Supervisors and Shift Supervisors are commingled on the Labor Distribution Report. Therefore, we were unable to determine the appropriateness of PCI's allocation of hours and related billings for these two supervisory position categories.

**Recommendation No. 4:** JWA should require PCI to utilize unique job codes for each of the two billable supervisory position categories required by the Agreement.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's billing practices and imposed a requirement that PCI have specific job codes for the three billable rates in the contract. Since this meeting, PCI has implemented unique job codes for the three billable positions.

## 4. Allocating Maintenance Positions to Supervisor Positions (2 Control Findings)

Clause 16.C.2 of the Agreement allows PCI to bill JWA for Exit Plaza Supervisors consisting of 5 positions required to be on duty for the period 4:30 a.m. to midnight, 7 days a week. The Agreement does not allow PCI to bill for maintenance or janitorial positions.

Clause 16.C.2 of the Agreement states the duties of an Exit Plaza Supervisor include assisting the Shift Supervisor as needed in the supervision of personnel, in the operating of parking equipment, and related other tasks and duties as approved by the JWA Director.

PCI has two shifts for the Exit Plaza Supervisors. The first shift works from 6:30 a.m. to 3:30 p.m. The second shift works from 3 p.m. to midnight. The period of 4:30 to 6:30 a.m. is filled with substitute employees.

# Detailed Findings, Recommendations, and Management Responses



**Finding Nos. 5 and 6:** For the period of 4:30 a.m. to 6:30 a.m., PCI substitutes maintenance/janitorial employees for the Exit Plaza Supervisors required by the Agreement. Neither the employee timecards nor the Labor Distribution Reports document the substitution.

JWA should evaluate whether this substitution is appropriate including whether the skill level of the maintenance/janitorial employees meet the intent of the Exit Plaza Supervisor duties contained in the Agreement with PCI.

For the sample months of March and May 2008, PCI billed 310 hours each month for these substitutions. The 310 hours were calculated by multiplying 2 hours (4:30 to 6:30 a.m.) x 5 positions x 31 days. The substitution amounts to 3,650 hours annually (2 hours x 5 positions x 365 days) and annual billings of \$84,206 (3,650 hours x \$23.07 per hour).

We were informed by PCI that the 310 hours may include some supervisors (Exit Plaza Supervisors or Shift Supervisors) that may work overtime to fill the 4:30 am to 6:30 a.m. period. However, as there was no supporting documentation to support this assertion we did not adjust the 310 hours.

**Recommendation No. 5:** We recommend that JWA evaluate whether PCI's substitution of maintenance/janitorial staff for Exit Plaza Supervisor positions is appropriate including whether the skill level of the maintenance/janitorial staff meets the intent of the Exit Plaza Supervisor terms of the Agreement with PCI.

**JWA Management Response:** Concur. This recommendation has been implemented. We have evaluated PCI's practice of substituting employees between the cashiering and maintenance functions of the contract. While such substituting was not envisioned for this contract, there is no contractual prohibition against the practice. Additionally, the requirements of the exit plaza supervisor in the early morning hours are such that it could be reasonably fulfilled by an employee who has been properly cross-trained. We plan to address the issue of substituting employees between the functional components of the operation in the next self-parking contract.

**Recommendation No. 6:** Depending on the outcome of Recommendation No. 5, JWA should evaluate whether PCI should credit JWA for the maintenance/janitorial staff billed as Exit Plaza Supervisors, which amounts to about \$84,206 annually.

**JWA Management Response:** Concur. This recommendation has been implemented. Based upon our response to recommendation no. 5, we do not intend to pursue any reimbursement from PCI for their substitution practices at this time.

## 5. Allocating Clerical Positions to Supervisor Positions (Control Finding)

As discussed above in Finding No. 3, clerical staff may substitute for supervisory positions. The employee timecards and Labor Distribution Reports do not reflect the substitution. Supervisory positions are billable to JWA, but clerical positions are not billable to JWA.

# Detailed Findings, Recommendations, and Management Responses



**Finding No. 7:** For the sample months of March and May 2008, we found that for the clerical employees substituting as a supervisor, the hours spent substituting represented 100% of their hours worked during the bi-weekly pay period. For March 2008, the clerical staff substituting as supervisors represented about 2 of 3 clerical employees working. For May 2008, the clerical staff substituting represented about 2 of 3.5 clerical employees working.

## March 2008:

- Clerical Employee 1: For 3/01/08 – 3/15/08, substituted 110 hours.  
For 3/16/08 – 3/31/08, substituted 109.75 hours
- Clerical Employee 2: For 3/16/08 – 3/31/08, substituted 82 hours

## May 2008:

- Clerical Employee 1: For 5/1/08 – 5/15/08, substituted 85.75 hours  
For 5/16/08 – 5/31/08, substituted 84.25 hours

PCI informed us that when the clerical staff substitute for another position, the Office Manager and/or On-Site Manager (both non-billable positions) will substitute for the clerical staff.

**Recommendation No. 7:** Because there is a certain minimum level of clerical work to be performed, JWA should evaluate whether it is appropriate for PCI to allocate and bill such a large portion of the clerical employee's hours as a Supervisor substitute.

**JWA Management Response:** Concur. This recommendation has been implemented. We have evaluated PCI's practice of substituting employees between the functional components of their operation. While such substituting was not envisioned for this contract, there is no contractual prohibition against the practice nor is there any contractual requirement for clerical staffing levels. Additionally, the requirements of the exit plaza supervisor are such that it could be reasonably fulfilled by a clerical staff employee who has been properly cross-trained. We plan to address the issue of substituting employees between the functional components of the parking operation in the next self-parking contract.

## 6. Allocating Chief Auditor Position to Shift Supervisor Position (Control Finding)

Clause 16.C of the Agreement allows PCI to bill JWA for a Shift Supervisor position for 24 hours per day, 7 days a week plus 32 hours per week for peak periods.

Additionally, PCI has a non-billable Chief Auditor position that works from 10 p.m. to 6:30 a.m. and supervises two billable Auditor positions. The Chief Auditor is a salaried employee with no timecard.

# Detailed Findings, Recommendations, and Management Responses



**Finding No. 8:** According to PCI, the Chief Auditor position substitutes two days per week for the Shift Supervisor from midnight to 6:30 a.m. Therefore, PCI allocates and bills a portion of the Chief Auditor's hours (86 and 87 hours in March and May 2008) to JWA as a Shift Supervisor. The Chief Auditor is an overhead cost that should already be built into PCI's approved hourly billing rates.

**Recommendation No. 8:** We recommend that JWA evaluate whether PCI's substitution and billing of the Chief Auditor position for the Shift Supervisor position is appropriate.

**JWA Management Response:** Concur. This recommendation has been implemented. We have evaluated PCI's practice of substituting employees between functional components of their operation. While such substituting was not envisioned for this contract, there is no contractual prohibition against the practice nor is there any contractual requirement for any auditing function separate from the two billable auditor positions. Additionally, the requirements of the shift supervisor are such that it could be reasonably fulfilled by a salaried manager who has been properly cross-trained. We plan to address the issue of substituting employees between the functional components of the operation in the next self-parking contract.

## 7. Some Employee's Job Codes Not Current (Control Finding)

**Finding No. 9:** For the sample months of March and May 2008, we identified three (3) employees who had permanently changed positions (such as a promotion), yet the employee timecard and Labor Distribution Report reflected their prior job code.

The impact is that the Labor Distribution Report did not agree to the amount billed for these individuals. We were able to validate through other supporting documentation that the new job code billed was the correct job code for that employee.

**Recommendation No. 9:** When employees permanently change positions, JWA should require PCI to update the job code on employee timecards and the Labor Distribution Reports in a timely manner so that the Labor Distribution Reports adequately support the hours billed to JWA.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's timekeeping practices and iterated the importance of maintaining current job codes whenever employees change job classifications.

## 8. Employee Timecard Documentation Not Adequate (Control Finding)

For the month of March 2008, we selected a sample of 18 employees from the Labor Distribution Report and reviewed their timecards for the two bi-weekly pay periods (a total of 36 timecards reviewed).

# Detailed Findings, Recommendations, and Management Responses



**Finding No. 10:** For the sample month, employee timecard documentation was not adequate. Specifically:

- Employees did not sign timecards in 8 of 36 timecards reviewed.
- Supervisory review was not documented on 34 of 36 timecards reviewed.
- The actual job code worked was not documented on the timecard when the employee substituted for another position (see Finding No. 3 above for more details).
- The timecards did not consistently document the actual location (Parking Operations vs. Valet) worked.

**Recommendation No. 10:** We recommend that JWA require PCI to maintain adequate employee timecard documentation. Specifically, PCI should ensure its employees sign their timecards and supervisors document their review of timecards. Additionally, PCI should ensure employees document on their timecards the actual location and actual job code.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's timekeeping practices and imposed a requirement that employees sign timecards, record actual job codes, and document supervisory review.

## 9. Late Employee Timecards (Control Finding)

Each pay period, PCI employees submit their timecard to the on-site Office Manager. The Office Manager then compiles a bi-weekly Labor Distribution Report. The timecards and Labor Distribution Report are submitted to PCI corporate offices for payroll processing.

When comparing hours billed to JWA vs. hours actually incurred by PCI per the Labor Distribution Report (see Finding No. 1 above), we had to adjust the Labor Distribution Report hours for timecards submitted late by employees.

**Finding No. 11:** PCI does not adjust the Labor Distribution Reports when employees submit their timecards late. The timecards are forwarded to PCI's corporate office for payroll processing. The Labor Distribution Reports should be updated to adequately support the hours billed to JWA.

**Recommendation No. 11:** We recommend that JWA require PCI to update its Labor Distribution Report for late timecards.

**JWA Management Response:** Concur. This recommendation has been implemented. In a letter dated July 17, 2009, we have required PCI to include late timecards in their reconciliation between hours on the Labor Distribution Report and hours billed to JWA.



## 10. Fees Billed to JWA Not Adjusted When Substitutions Occur (2 Control Findings)

As noted above in Finding Nos. 3, 5, 6, and 7, PCI routinely utilizes existing employees to substitute or backfill for other position categories (i.e. cashier for supervisor). In some cases a lower billable position (i.e. cashier) is substituting for a higher billable position (i.e. supervisor).

**Finding Nos. 12 and 13:** PCI bills JWA the same hourly fee for a position category, even if the actual worked is performed by an employee that typically works in a lower rate billable position category.

It appears that some flexibility for substitutions is needed for the parking operations. However, because these substitutions could allow employees with lower levels of skills/competencies to substitute for positions requiring a higher level of skills/competencies, JWA should evaluate whether limits could be placed on the amount of substitutions that occur.

**Recommendation No. 12:** We recommend that JWA evaluate whether PCI should be allowed to bill the same hourly rate if an employee in a lower billable position category is substituted for a higher billable position category.

**JWA Management Response:** Concur. This recommendation has been implemented. We have evaluated PCI's billing practices with respect to backfilling higher billable positions. While such substituting was not envisioned for this contract, there is no contractual prohibition against the practice. We plan to address the issue of substitutions between the different billing rates in the next self-parking contract.

**Recommendation No. 13:** We recommend that JWA evaluate whether limits can be established for substitutions between different billable rate position categories.

**JWA Management Response:** Concur. This recommendation has been implemented. Based upon current contractual wording, we do not believe it is possible to impose limits on substitutions between the billable rate categories. We plan to address the issue of substitutions between the different billing rates in the next self-parking contract.

## 11. Audit Costs (Control Finding)

Clause 14.E of the Agreement allows JWA to bill PCI for the audit costs if the audit determines PCI's records are inadequate.

**Finding No. 14:** This audit has determined PCI's employee timecards and labor distribution reports are inadequate and do not adequately support the monthly fees billed to JWA. As such, JWA should bill PCI for the audit costs of \$11,520.

# Detailed Findings, Recommendations, and Management Responses



**Recommendation No. 14:** We recommend that JWA require PCI to pay audit costs of \$11,520.

**JWA Management Response:** Concur. This recommendation has been implemented. In a letter dated July 17, 2009, we advised PCI we will deduct the aforementioned audit costs from their July 2009 payment for services rendered.



## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

- ▶ **Material Weaknesses:**  
Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.
- ▶ **Significant Issues:**  
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.
- ▶ **Control Findings and/or Efficiency/Effectiveness Issues:**  
Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.

# Detailed Findings, Recommendations, and Management Responses



## ATTACHMENT B: John Wayne Airport Responses



County of Orange

**MEMO**

RECEIVED  
INTERNAL AUDIT DEPARTMENT

2009 AUG -6 AM 7: 49

DATE: August 4, 2009

TO: Dr. Peter Hughes, County Internal Auditor, Internal Audit Department

FROM: Alan L. Murphy, Airport Director, John Wayne Airport 

SUBJECT: **Report on Revenue Generating Operating Agreement Audit: JWA/Parking Concepts, Inc., PM 1121-400-17**

This memo is in response to the Internal Audit Department's Report on Revenue Generating Operating Agreement for Parking Concepts, Inc. (PCI), Audit No. 2732. PCI is currently John Wayne Airport's contracted self-parking facility management service provider.

The audit was comprised of an examination of certain records and documents for the period from June 1, 2007 through May 31, 2008. The audit found that PCI's records adequately supported gross receipts collected and remitted to JWA; however, PCI's fees billed to JWA were not adequately supported. Fourteen findings were identified, none of which were classified as a material weakness or significant issue.

Our attached management response was reviewed and approved by the County Executive Office on August 3, 2009.

We thank the Internal Audit Department for the audit performed and for providing recommendations to improve oversight and management of our parking facilities.

Attachment

cc: Loan Leblow, Assistant Airport Director  
Roy Freeman, Deputy Airport Director, Business Development  
Scott Hagen, Deputy Airport Director, Operations  
Steve Siemion, Deputy Airport Director, Finance & Administration  
Robert Holden, Landside Operations Manager  
Lisa Kawashima, Accounting Manager  
Scott Suzuki, Airport Assurance & Compliance Manager  
David De Leon, Business Development Manager



## ATTACHMENT B: John Wayne Airport Responses (continued)

JOHN WAYNE AIRPORT  
Response to the Internal Audit Department's Report on  
Revenue Generating Operating Agreement Audit: Parking Concepts, Inc.,  
Audit No. 2732

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**Recommendation No. 1:** JWA should require PCI to prepare its monthly billing based on the actual hours worked, not to exceed the limits specified in the Agreement.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's billing practices and reiterated the requirement that PCI bill based upon actual hours of staffing the positions eligible for billing.

**Recommendation No. 2:** JWA should require PCI to prepare and retain a supporting schedule that reconciles hours per the Labor Distribution Report with hours billed to JWA.

**JWA Management Response:** Concur. This recommendation has been implemented. In a letter dated July 17, 2009, we have required PCI to provide a reconciliation between hours on their Labor Distribution Report to hours billed to JWA. Such reconciliation will be required on their August 2009 billing and thereafter.

**Recommendation No. 3:** JWA should require PCI to ensure its employees document the actual job codes worked next to their time entries on the time cards. Then, JWA should require PCI to allocate employee hours to the correct job codes when preparing the Labor Distribution Report.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's billing practices and imposed a requirement that PCI employees document the assignment (job code) they worked on during their shift on their respective time card. We also required PCI to input this information into their timekeeping system which is then reflected on their Labor Distribution Report.

**Recommendation No. 4:** JWA should require PCI to utilize unique job codes for each of the two billable supervisory position categories required by the Agreement.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's billing practices and imposed a requirement that PCI have specific job codes for the three billable rates in the contract. Since this meeting, PCI has implemented unique job codes for the three billable positions.

**Recommendation No. 5:** We recommend that JWA evaluate whether PCI's substitution of maintenance/janitorial staff for Exit Plaza Supervisor positions is appropriate including whether the skill level of the maintenance/janitorial staff meets the intent of the Exit Plaza Supervisor terms of the Agreement with PCI.

**JWA Management Response:** Concur. This recommendation has been implemented. We have evaluated PCI's practice of substituting employees between the cashiering and maintenance functions of the contract. While such substituting was not envisioned for this contract, there is no contractual

# Detailed Findings, Recommendations, and Management Responses



## ATTACHMENT B: John Wayne Airport Responses (continued)

prohibition against the practice. Additionally, the requirements of the exit plaza supervisor in the early morning hours are such that it could be reasonably fulfilled by an employee who has been properly cross-trained. We plan to address the issue of substituting employees between the functional components of the operation in the next self-parking contract.

**Recommendation No. 6:** Depending on the outcome of Recommendation No. 6, JWA should evaluate whether PCI should credit JWA for the maintenance/janitorial staff billed as Exit Plaza Supervisors, which amounts to about \$84,206 annually.

**JWA Management Response:** Concur. This recommendation has been implemented. Based upon our response to recommendation no. 5, we do not intend to pursue any reimbursement from PCI for their substitution practices at this time.

**Recommendation No. 7:** Because there is a certain minimum level of clerical work to be performed, JWA should evaluate whether it is appropriate for PCI to allocate and bill such a large portion of the clerical employee's hours as a Supervisor substitute.

**JWA Management Response:** Concur. This recommendation has been implemented. We have evaluated PCI's practice of substituting employees between the functional components of their operation. While such substituting was not envisioned for this contract, there is no contractual prohibition against the practice nor is there any contractual requirement for clerical staffing levels. Additionally, the requirements of the exit plaza supervisor are such that it could be reasonably fulfilled by a clerical staff employee who has been properly cross-trained. We plan to address the issue of substituting employees between the functional components of the parking operation in the next self-parking contract.

**Recommendation No. 8:** We recommend that JWA evaluate whether PCI's substitution and billing of the Chief Auditor position for the Shift Supervisor position is appropriate.

**JWA Management Response:** Concur. This recommendation has been implemented. We have evaluated PCI's practice of substituting employees between functional components of their operation. While such substituting was not envisioned for this contract, there is no contractual prohibition against the practice nor is there any contractual requirement for any auditing function separate from the two billable auditor positions. Additionally, the requirements of the shift supervisor are such that it could be reasonably fulfilled by a salaried manager who has been properly cross-trained. We plan to address the issue of substituting employees between the functional components of the operation in the next self-parking contract.

**Recommendation No. 9:** When employees permanently change positions, JWA should require PCI to update the job code on employee timecards and the Labor Distribution Reports in timely manner so that the Labor Distribution Reports adequately support the hours billed to JWA.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's timekeeping practices and iterated the importance of maintaining current job codes whenever employees change job classifications.



## ATTACHMENT B: John Wayne Airport Responses (continued)

**Recommendation No. 10:** We recommend that JWA require PCI to maintain adequate employee timecard documentation. Specifically, PCI should ensure its employees sign their timecards and supervisors document their review of timecards. Additionally, PCI should ensure employees document on their timecards the actual location and actual job code.

**JWA Management Response:** Concur. This recommendation has been implemented. In a meeting with PCI on March 12, 2009, we discussed PCI's timekeeping practices and imposed a requirement that employees sign timecards, record actual job codes, and document supervisory review.

**Recommendation No. 11:** We recommend that JWA require PCI to update its Labor Distribution Report for late timecards.

**JWA Management Response:** Concur. This recommendation has been implemented. In a letter dated July 17, 2009, we have required PCI to include late timecards in their reconciliation between hours on the Labor Distribution Report and hours billed to JWA.

**Recommendation No. 12:** We recommend that JWA evaluate whether PCI should be allowed to bill the same hourly rate if an employee in a lower billable position category is substituted for a higher billable position category.

**JWA Management Response:** Concur. This recommendation has been implemented. We have evaluated PCI's billing practices with respect to backfilling higher billable positions. While such substituting was not envisioned for this contract, there is no contractual prohibition against the practice. We plan to address the issue of substitutions between the different billing rates in the next self-parking contract.

**Recommendation No. 13:** We recommend that JWA evaluate whether limits can be established for substitutions between different billable rate position categories.

**JWA Management Response:** Concur. This recommendation has been implemented. Based upon current contractual wording, we do not believe it is possible to impose limits on substitutions between the billable rate categories. We plan to address the issue of substitutions between the different billing rates in the next self-parking contract.

**Recommendation No. 14:** We recommend that JWA require PCI to pay audit costs of \$11,520.

**JWA Management Response:** Concur. This recommendation has been implemented. In a letter dated July 17, 2009, we advised PCI we will deduct the aforementioned audit costs from their July 2009 payment for services rendered.