

OFFICE OF THE CITY CONTROLLER



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

FASTPARK IAH, A PARKING COMPANY OF AMERICA, INC. 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: 2013-09 HOUSTON AIRPORT SYSTEMS (HAS), CONCESSIONS
DIVISION COMPLIANCE AUDIT OF:**

**FASTPARK IAH, A PARKING COMPANY OF AMERICA, INC. WITH
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 completed a Compliance Audit of two selected City of Houston (City) Airport's Off-Site Parking Vendor's (OAPVs) Self-Reporting of Revenue. The attached report reflects the work performed on **FastPark, a Parking Company of America, Inc. property** located at 3100 Greens Road, Houston, Texas.

The Audit's objective was to determine if FastPark 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. Issues related to HAS's management activities will be addressed under separate cover.

The Audit Team concluded that the processes in place at the local facility were adequate to give reasonable assurance that receiving, recording and reporting revenues are in compliance with the Ordinance stated above. There is a limitation noted in the language of the Ordinance that we recommend be modified to further define the financial information and related support required to be maintained and provided by the OAPVs.

The corporate office cooperated by providing requested documentation timely and to the necessary detail to identify sources of revenue. As such, we appreciate the overall cooperation we received from FastPark's General Manager (Elvira Rodriguez) and Corporate Controller (Dale Losey) throughout the project and we commend them on the accuracy and timeliness of their responses.

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 has completed a series 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 included FastPark & Relax (FastPark IAH) on Greens Road, and PreFlight Airport Parking (PreFlight HOU) on Airport Boulevard. This document is the Compliance Audit Report for **FastPark IAH, a Parking Company of America, Inc.**

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 2009 to March 2012, FastPark & Relax (FastPark IAH) reported gross revenues of \$14,061,881; \$1,071,691 in Sales and Use taxes; and paid Airport Use Fees of \$942,057.

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, FastPark IAH, and Parking Company of America, Inc.

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 –

Parking Company of America 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. The cost impact of the airport fee underpayment was therefore calculated, by relying on the information provided.



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PROCEDURES PERFORMED –

We utilized detailed transaction data provided by FastPark IAH as the basis of our substantive testwork. Also, in order to achieve the audit objective 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 (December 2011 and March 2012) and tested four days of detailed transaction activity for proper supporting documentation/information and recording into the relevant point of sale systems (12/1/2011, 12/17/2011, 03/01/2012, and 03/17/2012)
- 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 FastPark IAH of HAS. 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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CONCLUSIONS AND SIGNIFICANT ISSUES –

CONCLUSION (*Audit Objective #1*) – (See **Finding #1** and **SCOPE MODIFICATION** Section of the **EXECUTIVE SUMMARY**)

FastPark IAH's gross revenues from parking operations, **as reported**, appeared appropriate and accurate with the applicable ordinances; however, Parking Company of America did not provide requested audited/certified financial statements which represent independent validation of the completeness of the information being reported.

RECOMMENDATION: The Ordinance should be updated to reflect the requirement for audited financial statements that are supported by detail financial and accounting data and source documentation sufficient to verify/validate. Parking Company of America would then have to provide audited/certified financials so that completeness of reported financial information can be verified.

ACKNOWLEDGEMENTS AND SIGNATURES –

The Audit Team would like to thank Elvira Rodriguez, the local FastPark IAH General Manager, and Corporate Controller, Dale Losey, for their cooperation, time, and efforts throughout the course of the engagement.

A handwritten signature in blue ink, reading "David A. Schroeder", written over a horizontal line.

David A. Schroeder
City Auditor

A handwritten signature in blue ink, reading "Arnold R. Adams", written over a horizontal line.

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



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FINDING #1 – FAILURE TO PROVIDE AUDITED/CERTIFIED FINANCIALS

RISK RATING (IMPACT AND MAGNITUDE) = MEDIUM

BACKGROUND:

All OAPVs were sent an Audit Notification letter on May 5, 2012 that included a Request for Information (RFI). The initial RFI asked for, among other items, copies of FY 2009 - 2011 audited/certified financials, which represent an independent verification of revenues being self-reported by OAPV management.

FINDING:

Parking Company of America did not provide requested audited/certified financial documents so that their reported revenue and expense information could be verified as complete

RECOMMENDATION:

The Ordinance should be updated to specifically include a requirement for the Vendor to provide audited financials to the City as proper support and independent validation of the self-reported revenues.

MANAGEMENT RESPONSE:

Finding #1: "We are currently under no requirement by either the Houston Airport System or our client, for which we manage the facility, to have an annual audit or certified financial statement completed. As such, we do not have an independent audited/certified financial for the airport facility. The concession tax is based on the revenues collected at the airport facility. The detail for all revenues has been submitted as requested and has been audited by the City of Houston as part of this audit. The purpose of this audit is to apply an independent opinion as to the accuracy of the reported revenues. Providing an annual independently audited financial statement would seem redundant and provide no more assurance than your review. In consideration of the competitive environment between the off-airport parking providers and the on-site parking (City of Houston), we have requested that the irrelevant expense data be omitted."



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HAS MANAGEMENT RESPONSE:

HAS management is in agreement with the findings and recommendation of this report.

CTR ASSESSMENT OF MANAGEMENT RESPONSES:

The CTR agrees that the current ordinance doesn't explicitly state the form or type of financial information to be provided, maintained or available by the Off-Airport Parking Vendor. However, financial information needed to substantiate revenue claims would not be subject to disclosure and would not violate any perceived threat to competitive advantage.



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FINDING #2 – DISCOUNT FROM ONTIME PAYMENT OF SALES AND USE TAX WAS NOT REPORTED

RISK RATING (IMPACT AND MAGNITUDE) = Low

BACKGROUND:

According to Texas Administrative Code Title 34, Public Finance, Part 1 Comptroller of Public Accounts, Chapter 3, Tax Administration, Subchapter O, State Sales and Use Tax, Rule 3.286 (h)

“(1) Discounts. Unless otherwise provided by this section, each permit holder may claim a discount for timely filing and payment as reimbursement for the expense of collection of the tax. The discount is equal to 0.5% of the amount of tax due and may be claimed on the return for each reporting period and computed on the amount timely reported and paid with that return.

(2) Prepayments. Prepayments may be made by persons who file monthly or quarterly returns. The amount of prepayment must be a reasonable estimate of state and local tax liability for the entire reporting period. “Reasonable Estimate” means at least 90% of the total amount due or an amount equal to the actual net tax liability due and paid for the same reporting period of the immediately preceding year.

(A) A person who makes a timely prepayment based upon a reasonable estimate of tax liability may retain an additional discount of 1.25% of the amount due...”

When these two discounts are used for the same reporting period, they effectively reduce the Sales and Use Tax rate from 8.25% to 6.5% and thus would provide an additional return of \$17.50 for each \$1,000 of Gross Receipts to the OAPV. FastPark received a timely payment discount of 0.5% on their Sales and Use Tax due and paid which raised their gross revenues by \$5 for every \$1,000 of gross revenue reported

FINDING:

FastPark 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. The net impact was an under-reported revenue amount of \$6,003 and an under-payment of \$435 to HAS for the period January 2009 through March 2012.



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RECOMMENDATION:

FastPark should remit an additional \$435 in Revenue Fees and include sales tax discounts in reporting gross revenues to HAS.

MANAGEMENT RESPONSE:

Finding #2: "Due to the insignificant nature of the adjustment, we agree to adjust our formula to take into account the reimbursement we receive from the State of Texas for paying our sales tax in a timely manner. As a result a check for \$435 will be issued per your audit finding. However, we feel we have handled appropriately. As your definition states, this is a reimbursement of our expense associated with collecting the tax and paying timely, not a source of revenue. Further argued that the revenue is not associated to an activity at the airport but is reimburse for the corporate office's ability to pay timely."

HAS MANAGEMENT RESPONSE:

HAS management is in agreement with the findings and recommendation of this report, further, the Chapter 9 portion of the ordinance for offsite parking airport vendor should also be updated to specifically include a requirement for the Vendor to provide not only the sales taxes collected but also the sales taxes paid including all sales tax discounts allowed.

CTR ASSESSMENT OF MANAGEMENT RESPONSES:

CTR agrees that sales and use taxes calculated and actually paid need to be reported to HAS and appropriate airport use fees be paid on all gross receipts.



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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).