

# Metropolitan Nashville Airport Authority

## MEMORANDUM

**TO: Raul Regalado, President and CEO**

**CC: Monty Burgess, Executive Vice President and COO**  
**Stan Van Ostran, Vice President and CFO**  
**John Howard, Assistant Vice President of Properties and Business Development**  
**Tom Bibb, Director of Properties**  
**Rebecca Ramsey, Assistant Director of Properties**  
**Amber Gooding, Director of Business Diversity Development**  
**Aaron Evans, Assistant Director of Operations**  
**Jennifer Swallows, Assistant Manager of Operations**

**FROM: Basil A. Dosunmu, Internal Auditor**

**DATE: February 15, 2011**

**SUBJ: First Transit, Inc. Audit Report**

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### Background

On February 1, 2008, First Transit, Inc (“First Transit”) entered into a Service Agreement for courtesy services (A-08-280) with the Metropolitan Nashville Airport Authority (“Authority”). The Agreement granted First Transit the right to operate and manage courtesy shuttle vehicle services at the Nashville International Airport for a period of five (5) years with two (2) one year renewal options. First Transit would be paid the following hourly fees computed and payable on a monthly basis for operation of the public parking facilities (Long Term A, Long Term B, and Economy) and employee parking facility shuttle vehicle service:

<u>Year of the Term</u>	<u>Rate per hour per Vehicle</u>
1	\$36.25
2	\$38.93
3	\$40.31
4	\$42.32
5	\$42.95
1st Renewal Term	\$43.99
2nd Renewal Term	\$45.30

In addition, First Transit would be paid the following hourly fees computed and payable on a monthly basis for operation of passenger baggage assistance and taxi starter support services:

<u>Year of the Term</u>	<u>Rate per hour per Vehicle</u>
1	\$13.25
2	\$13.65
3	\$14.05
4	\$14.48
5	\$14.91
1st Renewal Term	\$15.36
2nd Renewal Term	\$15.79

Likewise, First Transit was required to provide a level of Authority-certified Small, Minority or Women Business Enterprise (“SMWBE”) participation of eight percent (8%) or more of the aggregate amounts payable by the Authority to First Transit. First Transit entered into a Sub-Contracting Agreement with CitiValet for SMWBE purposes to provide staffing for baggage assistance and taxi starter support services at the rate of \$17.68 per hour. It should be noted that the hourly rate paid by First Transit to CitiValet is greater than the hourly rate paid by the Authority to First Transit. However, the rate increase is not passed on to the Authority.

Furthermore, On February 1, 2008, First Transit entered into a Lease Agreement (A-08-278) with the Authority. The Agreement granted First Transit the non-exclusive right to use the former rental car service building during the duration of First Transit Courtesy Service Agreement. First Transit agreed to pay the Authority annual rental amount of Seventy Thousand Four Hundred Fifty Five and 00/100 Dollars (\$70,455.00), payable in equal monthly installments.

The First Amendment to the Service Agreement for Courtesy Services, effective June 30, 2008, provided for the inclusion of SMWBE Participation Report to track revenue attributable to achieving the Authority established participation level.

On July 16, 2009, the Authority’s Properties Department (“Properties”) informed First Transit through a Letter of Notification that the annual rental amount would be increased to Seventy Thousand Seven Hundred One and 59/100 Dollars (\$70,701.59), effective February 1, 2009, based on the cost of living index (“COLI”).

On October 25, 2010, Properties informed First Transit through a Letter of Notification that the annual rental amount would be increased to Seventy Two Thousand Two Hundred Sixteen and 96/100 Dollars (\$72,216.96), effective February 1, 2010, based on the COLI.

The following are First Transit service invoices for FY2010 and the amount paid to First Transit by the Authority.

<u>Period</u>	<u>Shuttle Bus Service Invoice</u>	<u>Passenger Assistance Service Invoice</u>	<u>Total Invoice</u>
July 2009	\$213,017.17	\$14,462.18	\$227,479.35
August	212,486.56	14,960.40	227,446.96
September	205,518.48	14,387.10	219,905.58
October	212,075.07	15,069.60	227,144.67
November	242,388.30	13,929.83	256,318.13
December	259,928.60	14,134.58	274,063.18
January 2010	260,161.79	14,404.57	274,566.36
February	234,964.74	13,540.80	248,505.54
March	260,069.92	14,851.20	274,921.12
April	250,832.61	14,632.80	265,465.41
May	264,892.96	14,366.63	279,259.59
June	255,243.77	14,414.40	269,658.17

Total Invoice Amount	<u>\$2,871,579.97</u>	<u>\$173,154.09</u>	<u>\$3,044,734.06</u>
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Amount Paid by the Authority			<u>\$3,044,734.06</u>
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Difference			<u>\$0.00</u>
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### **Objectives**

The objectives of the audit were as follows:

1. Determine First Transit is complying with contract terms and operational requirements.
2. Determine the Authority is adequately monitoring First Transit Service Agreement for Courtesy Services and Lease Agreement to ensure compliance with contract terms and operational requirements.
3. Determine the validity of the payments made to First Transit and the rent paid to the Authority.
4. Document and evaluate existing internal controls.

### **Testing**

In order to satisfy the audit objectives, the following tests were performed:

1. Determined Contractor maintained adequate insurance coverage.
  - a. Obtained a copy of the current certificate of insurance on file.
  - b. Verified the commercial general liability insurance coverage met the amount specified in the contract.
  - c. Verified the worker's compensation insurance coverage exceeded the amount specified in the contract.
  - d. Verified the comprehensive automobile liability insurance coverage met the amount specified in the contract.
  - e. Verified the certificate of insurance was current and adhered to all other contract terms.
2. Determined First Transit maintained an Irrevocable Letter of Credit ("LOC").
  - a. Obtained a copy of the current LOC.
  - b. Verified the LOC coverage met the amount specified in the contract.
  - c. Verified the LOC was not current and adhered to all other contract terms.
3. Determined Contractor's employees were dressed in appropriate uniforms with identification security badge properly displayed by some employees.
  - a. Determined employees were adequate, trustworthy and fully qualified personnel who met performance requirements.
4. Determined Contractor maintained all equipment, tools, parts, materials, supplies and personnel required to operate the courtesy shuttle service.
5. Determined procedures were in place to ensure the following.
  - a. All vehicles were suitable and operational and capable of performing all services required by the Contract.
  - b. All vehicles were safe and fully functional.
  - c. All vehicles had a standardized paint scheme approved by the Authority.
  - d. All vehicles complied with applicable laws, including the Americans with Disabilities Act.
  - e. The fuel provided by the Authority was used only for the vehicles.
  - f. First Transit employed a general manager whose sole responsibility was to manage the courtesy services.
  - g. All drivers of vehicles had satisfactory experience and were in possession of a commercial driver's license.
  - h. Contractor had an on-site certified mechanic working forty (40) hours per week.
  - i. First Transit did not maintain its current policies and procedure manuals with the Authority.
6. Determined Contractor was compliant with airport security and safety requirements.
  - a. Verified Contractor did not incur any fines and or penalties assessed by the Federal Aviation Administration ("FAA") because of Contractor's non-compliance with airport security and safety requirement.
7. Determined Contractor was compliant with applicable Environmental Regulations.
8. Determined Contractor did not submit to the Authority an affidavit attesting that the Contractor operates a drug-free workplace program.
9. Determined the Authority was adequately administering the First Transit Service Agreement to ensure compliance with contract terms and operational requirements. Test included, but not limited to the following:
  - a. Determined the Contractor was operating the shuttle service within the specified time frame.

- b. Documented and evaluated the Authority's current procedures in place to monitor contract and operational requirements.
  - c. Verified Contractor did not meet the SMWBE requirement in the contract.
    - i. Verified First Transit's SMWBE participation level was not properly tracked and correctly calculated by the Authority's Business Diversity Development ("BDD").
    - ii. Confirmed with the Director of BDD that the SMWBE firm used by First Transit was certified by the Authority.
10. Determined the Authority was adequately administering the First Transit Lease Agreement to ensure compliance with contract terms and operational requirements. Test included, but not limited to the following:
- a. Determined through observation that the leased space was maintained in a clean, neat, sanitary, and attractive condition and appearance.
  - b. Determined First Transit was maintaining adequate control of rodents, insects, and other pests within the leased space.
  - c. Determined First Transit did not assign this lease nor subleased the premises nor permitted the use of the premises by any other party.
  - d. Determined First Transit was compliant with the environmental laws in the use of the leased space.
11. Obtained payment history from July 2009 through June 2010 and performed the following:
- a. Randomly selected 3 months invoices for detailed testing.
  - b. Reviewed each invoice for mathematical accuracy.
  - c. Determined invoices were prepared in accordance with the terms of the contract.
  - d. Verified that the contractor were billing for actual services performed during the invoicing period.
  - e. Verified invoices were properly coded and approved.
  - f. Determined documentation required to support billing were attached to the invoice including SMWBE pay request reports.
12. Determined additional services were requested to be performed by the contractor.
- a. Confirmed that the service were requested, justified and authorized by the appropriate Authority personnel.
  - b. Randomly selected 3 invoices for additional services requested.
13. Determined contractor did not timely submit monthly invoices itemizing hourly charges by day and parking facility.
14. Determined contractor did not submit annual budget to Authority for approval.
15. Randomly selected 3 months invoices for detailed testing. For each month selected, performed the following:
- a. Obtained from Authority Accounts Receivable the monthly fixed rent invoices and verified the rent amount agreed to the schedule of rental fees and charges in the Lease Agreement.
    - i. Verified the invoiced amount agreed to the schedule of monthly rates.
    - ii. Reviewed report for timeline of payment.

16. Through inquiry and observation, reviewed the existing internal controls in place.

## **Conclusion**

Based upon the audit, the following was determined with respect to the stated objectives:

1. First Transit's certificate of insurance on file had expired as noted in finding #1.
2. First Transit's letter of credit on file had expired as noted in finding #2.
3. Some of First Transit drivers do not properly display their name plates in the shuttle vehicle as noted in finding #3.
4. First Transit is not required to provide vehicle mileage before fueling the shuttle vehicles as noted in finding #4.
5. First Transit and its sub-contractor should possess a common radio device for communication as noted in finding #5.
6. First Transit did not maintain its current policies and procedure manuals with the Authority as noted in finding #6.
7. First Transit did not submit to the Authority an affidavit attesting that the Contractor operates a drug-free workplace program as noted in finding #7.
8. First Transit sub-contractor should be required to adopt a comprehensive drug-free workplace program as noted in finding #8.
9. First Transit does not operate the informational video in the shuttle vehicles as noted in finding #9.
10. BDD does not track First Transit SMWBE participation level as noted in finding #10.
11. First Transit invoices are not submitted in a timely manner as noted in finding #11.
12. First Transit does not submit an annual budget to the Authority as noted in finding #12.
13. The annual rent adjustment is not calculated timely as noted in finding #13.
14. Operations, Properties, and BDD should be meeting periodically with First Transit and CitiValet as noted in finding #14.

## **Finding #1**

### **Observation**

First Transit's certificate of insurance on file had expired.

### **Background**

An objective of this audit was to verify that the certificate of insurance is current and adheres to all other contract terms.

Article 19, Insurance, Section 19.4 of the Service Agreement for Courtesy Services, Insurance Coverages, states that Contractor shall provide, prior to the commencement of Contractor's performance under this Agreement, one or more certificates of insurance which shall indicate that the Insurance Coverages have been obtained and that the insurance policy or policies referenced or described in each such certificate of insurance comply with the requirements of this Agreement. Each such certificate of insurance shall provide that the insurance company issuing

the insurance policy or policies referenced or described therein shall give to Authority notice of the cancellation or non-renewal of each such insurance policy not less than thirty (30) days prior to the effective date of such cancellation or the expiration date of such insurance policy, as applicable.

Through audit testing it was determined that the certificate of insurance on file with the Authority expired December 31, 2008. A current certificate of insurance with expiration of December 31, 2010 was obtained from First Transit for the Authority's file and record.

#### Recommendation

Properties should ensure that all certificate of insurance on file are current.

#### Management Response

*Insurance certificates for 2010 and 2011 have been secured and adjustments made to the Properties Lease Management System to ensure date compliance.*

### **Finding #2**

#### Observation

First Transit's letter of credit on file had expired.

#### Background

An objective of this audit was to verify that the LOC on file is current and adhere to all other contract terms.

Article 19, Insurance, Section 19.6 of the Service Agreement for Courtesy Services, Security Deposit, states that in the event that Contractor provides a letter of credit hereunder, Contractor shall provide to Authority, not less than thirty (30) days prior to the expiration date of such letter of credit, a replacement letter of credit which meets the requirements of the Agreement. The security deposit shall remain on deposit with Authority at all times on and after the effective date and through the expiration or earlier termination of the Term, and, in addition to any and all other remedies available to it hereunder or otherwise, Authority shall have the right, at its sole option and at any time, to use the security deposit or any part thereof in whole or partial satisfaction of any amounts due to Authority under the terms of this Agreement.

Through audit testing it was determined that the LOC on file with the Authority expired February 28, 2009. A current LOC with expiration of September 30, 2011 was obtained from First Transit for the Authority's file and record.

#### Recommendation

Properties should ensure that LOC on file are current.

## Management Response

*A new LOC has been obtained valid thru 2011 and adjustments made to the Properties Lease Management System to ensure future date compliance.*

## **Finding #3**

### Observation

Some of First Transit drivers do not properly display their name plates in the shuttle vehicle.

### Background

An objective of this audit was to determine First Transit employees are dressed in appropriate uniforms with identification badges properly displayed.

Article 7, Personnel, Section 7.4 of the Service Agreement for Courtesy Services, Uniforms and Badges, states that Contractor shall provide all of its employees with uniforms and identification badges and/or woven identification insignia of a type and style subject to the prior approval of Authority. Uniforms must consist of both pants and shirts or blouses for both male and female employees. Smocks shall not be permitted. Contractor's employees shall wear such Authority-approved uniforms and identification badges and or insignia at all times while participating in the operation of any of the Courtesy Services.

Through audit testing it was determined that most of First Transit drivers are not displaying their identification name plate in the shuttle vehicle as required. Each shuttle vehicle is equipment with a name plate holder to identify each driver.

During the audit, Internal Audit rode on the shuttle vehicles to various lots (Long Term A, Long Term B, Economy, and Employee Parking) and noted that the name plates were not displayed as required in the shuttle vehicles.

It should be noted that on a regular basis, the Authority's Operations Department ("Operations") conducts random inspections of the shuttle vehicles to ensure First Transit drivers properly display their name plates.

### Recommendation

Operations should inform First Transit to require it employees to display their name plate at all times.

In addition to the inspection conducted on a regular basis, Operations should follow-up with First Transit to ensure non-compliance noted during the inspections is properly corrected.

## Management Response

*New and/or replacement name plates were ordered and received. All current employees now have name plates and have been instructed that they are to be displayed at all times. Going forward, all new employees will have name plates within one (1) week of employment. Monthly Review Meetings to address any operational and/or contract compliance matters have been scheduled to begin January 2011. Participants to include Operations, Properties, BDD, and First Transit Management.*

## **Finding #4**

### Observation

First Transit is not required to provide vehicle mileage before fueling the shuttle vehicles.

### Background

An objective of this audit was to determine First Transit is complying with contract terms and operational requirements.

Article 6, Fuel, Section 6.1 of the Service Agreement for Courtesy Services, Fuel, states that the Authority shall provide diesel fuel for use by the vehicles at no cost to Contractor. The fuel provided by the Authority shall be used only for the vehicles.

During the audit, it was determined that the Authority granted fueling access to seven (7) First Transit employees to be able to track individuals accessing the fueling pump. These individuals are responsible for fueling First Transit shuttle vehicles. During each fueling the First Transit employee is required to provide the following information to activate the fueling pump and authorize fueling.

- Vehicle identification number;
- Personal identification number;
- Access personal identification number; and
- Fueling pump number.

However, the fuel system does not require vehicle mileage as part of the required information to grant fueling access. First Transit employee should be required to provide vehicle mileage during the authentication process of the fueling pump. This would provide the Authority with additional information to monitor fuel usage and determine if any misuse is occurring. There was no misuse noted during the audit.

It should be noted that during each vehicle fueling First Transit manually tracks the vehicle number, odometer reading, and gallons pumped; however, the manual record is not provided to the Authority.

### Recommendation

To obtain accurate information on fuel usage, the Authority's Maintenance Department ("Maintenance") should revise the diesel fuel tank access system to require vehicle mileage when pumping fuel in the vehicle, in addition to the other required information.

### Management Response

*Maintenance has revised the diesel fuel tank access system. Entry of vehicle mileage is now a required component of information entered to grant fueling authorization.*

## **Finding #5**

### Observation

First Transit and its sub-contractor should possess a common radio device for communication.

### Background

An objective of this audit was to determine First Transit is complying with contract terms and operational requirements.

Article 5, Vehicles and Radios, Section 5.2 of the Service Agreement for Courtesy Services, Radios, states that Contractor shall provide an adequate number of suitable and operational radios capable of transmitting and receiving effectively between all Vehicles and Contractor's operations center on a 24-hour basis and performing all services required by this Agreement, subject to routine and reasonable maintenance, recharging batteries, equipment failure, etc. Contractor shall provide an immediate replacement radio in the event that a radio becomes inoperable.

During a spot audit of the passenger cab assistance, the sub-contractor staff assigned to the post was not present and the staff could not be contacted because he did not possess a radio device. It was determined that CitiValet staff does not possess any radio that is capable of transmitting and receiving between the sub-contractor staff and First Transit operations center. A radio device would be helpful in liaising communication between First Transit and its sub-contractor.

It should be noted that First Transit vehicles are equipped with operational radios capable of transmitting and receiving between vehicles and First Transit operational center.

### Recommendation

Operations should require First Transit and its sub-contractor to be capable of transmitting and receiving between each other.

## Management Response

*CitiValet employees are now issued First Transit handheld company radios. Daily check-in/check-out procedures have been implemented to monitor usage and control of radios.*

## **Finding #6**

### Observation

First Transit did not maintain its current policies and procedure manuals with the Authority.

### Background

An objective of this audit was to determine First Transit maintains its policies and procedure manuals with the Authority.

Article 7, Personnel, Section 7.9 of the Service Agreement for Courtesy Services, Maintenance of Policies and Procedures Manual, states at all times on and after the Commencement Date, Contractor shall maintain the Manual on file with Authority. Modifications to the Manual requested by Authority shall be promptly prepared. The Manual shall be modified, subject to the prior approval of Authority, as the operation of the Courtesy Services or Contractor's employment practices change. Contractor is responsible for the maintenance of the Manual to ensure that all data is current at all times.

Through Audit testing it was determined that First Transit submitted to the Authority a copy of its policies and procedure manuals along with the request for proposal ("RFP") response submitted to the Authority in July 2007. However, the policies and procedures manuals are not current. The policies and procedures manuals should be updated to incorporate First Transit and its sub-contractor's current operation at the airport.

### Recommendation

Operations should require First Transit to submit to the Authority an updated policies and procedure manual. In addition, First Transit should be notified to obtain prior Authority approval for any modification to the policies and procedures manual.

## Management Response

*First Transit has provided Operations with an updated copy of the policies and procedures manual. An updated copy will be kept and maintained within the Operations.*

## **Finding #7**

### Observation

First Transit did not submit to the Authority an affidavit attesting that the Contractor operates a drug-free workplace program.

### Background

An objective of this audit was to determine First Transit submitted to the Authority an affidavit attesting that First Transit operates a drug-free workplace program.

Article 25, General Provisions, Section 25.2 of the Service Agreement for Courtesy Services, Drug-Free Workplace, states during the term of this Agreement, Contractor hereby agrees to submit an affidavit on not less than an annual basis certifying that Contractor operates a drug-free workplace program or other drug or alcohol testing program containing requirements at least as stringent as those of the program operated by Authority.

Through Audit testing it is was determined that First Transit had not submitted to the Authority an affidavit attesting First Transit operates a drug-free workplace program. First Transit provided its employee handbook that details First Transit's drug-free work place policy. The policy references the Department of Transportation ("DOT")'s drug-free work place program.

### Recommendation

Operations should request from First Transit and its sub-contractor affidavit that First Transit operates a drug-free workplace program. This affidavit should be obtained on an annual basis as required in the Agreement.

### Management Response

*First Transit has provided Operations with a copy of their Drug & Alcohol Policy, along with documentation attesting to board approval and operation of this policy. In addition, notices have been posted within workplace area indicating the company maintains a drug free workplace.*

## **Finding #8**

### Observation

First Transit sub-contractor should be required to adopt a comprehensive drug-free work place program.

### Background

An objective of this audit was to determine First Transit submitted to the Authority an affidavit attesting that First Transit operates a drug-free workplace program.

Article 25, General Provisions, Section 25.2 of the Service Agreement for Courtesy Services, Drug-Free Workplace, states during the term of this Agreement, Contractor hereby agrees to submit an affidavit on not less than an annual basis certifying that Contractor operates a drug-free workplace program or other drug or alcohol testing program containing requirements at least as stringent as those of the program operated by Authority.

As stated earlier, First Transit drug-free work place policy was provided during the audit, but the policy does not include the sub-contractor. The drug-free work place policy provided by the sub-contractor was limited and did not specify the sub-contractor conducted initial drug testing for new employees or random testing for older employees.

### Recommendation

Operations should request First Transit sub-contractor to revise its drug-free workplace policy to include drug testing for new employees and retained employees.

In addition, Operations should conduct random review of the contractor and sub-contractor's practices to ensure compliance.

### Management Response

*First Transit has provided Operations with a copy of their current sub-contractors (CitiValet) drug-free workplace policy. In addition, Operations has obtained a copy of a recent pre-employment drug screening record to ensure policy is being followed.*

## **Finding #9**

### Observation

First Transit does not operate the informational video in the shuttle vehicles.

### Background

An objective of this audit was to determine First Transit is complying with contract terms and operational requirements.

Each of the shuttle vehicles is equipped with digital video disc ("DVD") player to inform passengers of the changes in the parking facilities and other pertinent information around the airport.

During the audit, Internal Audit rode on the shuttle vehicles to various lots (Long Term A, Long Term B, and Economy) and noted that the DVD players were shifted off. Most of First Transit employees were not operating the DVD player that could provide pertinent information to passengers.

It should be noted that on a regular basis, Operations conducts random inspections of the shuttle vehicles to ensure the DVD players are operational.

### Recommendation

Operations should inform First Transit to have the DVD player operational in each vehicle during operational hours.

In addition to the inspection conducted on a regular basis, Operations should follow-up with First Transit to ensure non-compliance noted during the inspections is properly corrected.

### Management Response

*First Transit states that the existing DVD players are at times experiencing technical difficulties. First Transit has ordered new DVD players said to be more durable that will replace the existing players. Operations have requested that First Transit reach out to other company locations to inquire if they have experience with similar problems and if so, how was it resolved.*

## **Finding #10**

### Observation

BDD does not track First Transit SMWBE participation level.

### Background

An objective of this audit includes verifying that Contractor met the SMWBE requirement in the Agreement.

Article 28, SMWBE Participation, Section 28.2 of the Service Agreement for Courtesy Services, SMWBE Participation Level, states that to provide a fair opportunity for SMWBE participation in this Agreement, Authority requires that Contractor make good faith efforts as described in this section to provide for a level of Authority-certified SMWBE participation in the operations under this Agreement that results in the generation of revenues attributable to the participation of Authority-certified SMWBEs in the operations under this Agreement equal to Eight percent (8.0%) or more of the aggregate amounts payable by Authority to Contractor.

The following is an analysis of the cumulative weighted average of the SMWBE participation level from the inception of the Service Agreement to date (FY2008 – FY2010). It should be noted that the Agreement amounts increased approximately 20% from FY2009 to FY2010, while the SMWBE participation has remained unchanged. The increase was due to the addition of the Long Term B lot.

<u>Period</u>	<u>Shuttle Bus Service Invoice</u>	<u>Passenger Assistance Service Invoice</u>	<u>Total Invoice</u>	<u>First Transit Payment to SMWBE Firm</u>	<u>SMWBE Participation Level</u>
FY2008	\$975,150.37	\$70,581.69	\$1,045,732.06	\$89,225.91	
FY2009	2,359,146.03	168,559.89	2,527,705.92	211,242.63	
FY2010	2,871,579.97	173,154.09	3,044,734.06	212,478.44	
July 2010	272,836.22	15,398.80	288,235.02	18,358.00	
August 2010	272,304.93	15,398.80	287,703.73	18,916.96	
September 2010	262,426.57	13,491.70	275,918.27	18,364.64	
October 2010	277,402.13	15,398.80	292,800.93	19,377.28	
November 2010	266,495.37	14,014.88	280,510.25	17,635.80	
	<u>\$7,557,341.59</u>	<u>\$485,998.65</u>	<u>\$8,043,340.24</u>	<u>\$605,599.66</u>	<u>7.53%</u>

The SMWBE participation level based on the amount of \$485,998.65 paid by the Authority to First Transit for CitiValet services was 6%. It should be noted that First Transit paid the amount of \$605,599.66 to CitiValet which increased the SMWE participation level to 7.53%.

Through Audit testing it was determined that First Transit had two (2) rate increases on its subcontract agreement with CitiValet. The hourly rates paid to CitiValet were increased from \$16.75 to \$17.26 and \$17.68 in August 2010 and October 2010, respectively. The increases were not passed on to the Authority. However, the documentation supporting the rate increases were not provided to the Authority for review and approval.

#### Recommendation

BDD should track First Transit's SMWBE participation level and review the Service Agreement payment periodically to ensure that the Contractor meets the established SMWBE participation level in the Agreement. Furthermore, First Transit should be required to make good faith efforts to meet the SMWBE participation requirement and submit verification of such good faith efforts.

In addition, Properties should promptly notify First Transit that SMWBE participation level is below the SMWBE participation level established in the Service Agreement and require First Transit to submit to the Authority for review and approval documentation supporting the current rate increases and any future revisions to the subcontract agreement.

#### Management Response

*BDD does track the SMWBE participation achievement monthly and reviews periodically. For the past year and half BDD has been limited in the amount of time it can devote to professional service contract monitoring due to staffing. Construction projects have been the priority. BDD will have the compliance coordinator position filled by January 30, 2011. Professional service contract compliance is one of the responsibilities of this position. A monthly meeting including Operations and Properties has already been established and SMWBE participation will be discussed with all parties.*

*In addition, Properties will notify First Transit via letter of their shortfall in the SMWBE requirement.*

**Finding #11**

Observation

First Transit invoices are not submitted in a timely manner.

Background

An objective of this audit was to determine First Transit timely submitted monthly invoice to the Authority for approval.

Article 8, Charges and Accountability, Section 8.4 of the Service Agreement for Courtesy Services, Monthly Statement, states Contractor shall submit to Authority, on or before the tenth (10<sup>th</sup>) day of each month, an itemized statement with the hourly charges by day and parking facility during the immediately preceding calendar month in such detail as Authority shall request.

Through Audit testing it was determined that First Transit does not submit its monthly statement to the Authority by the 10<sup>th</sup> of each month as required in the Service Agreement. The following is an analysis of First Transit monthly submission.

<u>Monthly Statement Period</u>	<u>Monthly Statement Amount</u>	<u>Monthly Statement Due Date</u>	<u>Monthly Statement Submission Date</u>	<u>Number of Days Late</u>
07/31/09	\$227,479.35	08/10/09	08/20/09	10
08/31/09	\$227,446.96	09/10/09	10/15/09	35
09/30/09	\$219,905.58	10/10/09	11/13/09	34
10/31/09	\$227,144.67	11/10/09	11/20/09	10
11/30/09	\$256,318.13	12/10/09	12/24/09	14
12/31/09	\$274,063.18	01/10/10	01/29/10	19
01/31/10	\$274,566.36	02/10/10	03/01/10	19
02/28/10	\$248,505.54	03/10/10	04/01/10	22
03/31/10	\$274,921.12	04/10/10	06/01/10	52
04/30/10	\$265,465.41	05/10/10	06/07/10	28
05/31/10	\$279,259.59	06/10/10	06/30/10	20
06/30/10	\$269,658.17	07/10/10	07/22/10	12

It should be noted that after submission, the invoices were processed timely for payment by the Authority.

### Recommendation

Operations should notify First Transit that the monthly invoice should be submitted to the Authority by the 10<sup>th</sup> day of each month.

### Management Response

*First Transit has been notified that the monthly invoice should be submitted by the 10<sup>th</sup> day of each month. Monthly Review Meetings to address any operational and/or contract compliance matters have been scheduled to begin January 2011. Participants to include Operations, Properties, BDD, and First Transit Management.*

## **Finding #12**

### Observation

First Transit does not submit an annual budget to the Authority.

### Background

An objective of this audit was to determine First Transit is complying with contract terms and operational requirements.

Article 8, Charges and Accountability, Section 8.6 of the Service Agreement for Courtesy Services, Budget, states that no later than February 1 of each calendar year, Contractor shall prepare and submit to Authority for its approval an annual operating budget for the next succeeding year of the Term that projects Contractor's hourly charges under this Agreement for each parking facility by month of such year of the term.

Through Audit testing it was determined that First Transit did not submit to the Authority for approval an annual operating budget for the years it has been operating at the Airport.

### Recommendation

Operations should request from First Transit the annual operating budget for the next succeeding year as required in the Agreement.

### Management Response

*First Transit has been advised that an annual operating budget should be submitted to Operations by February 1<sup>st</sup> each contract year. The first submission will be due February 1, 2011 for fiscal year 2012 operations.*

## **Finding #13**

### Observation

The annual rent adjustment is not calculated timely.

## Background

An objective of this audit was to verify that the rent amount agrees to the schedule of rental fees and charges in the Lease Agreement.

Article 3, Rent, Section a ii of the Lease Agreement, states on each rent adjustment date, the annual base rent shall be increased (but not decreased) to be an amount equal to (i) the annual base rent payable hereunder for the immediately preceding Lease Year plus (ii) an amount equal to the product of such most recent annual base rent multiplied by the percentage increase in the consumer price index (“CPI”) from the month in which the last prior rent adjustment date occurred (or the month in which the effective date occurred in the case of the first rent adjustment date) to the month that is three (3) months prior to the rent adjustment date for which the new annual base rent is calculated.

The effective date of the annual base rent adjustment is February 1 of each year. As of October 2010, the annual base rent adjustment effective February 1, 2010 had not been determined nor provided to First Transit. The last annual base rent adjustment provided to First Transit was effective February 1, 2009.

## Recommendation

Properties should determine and provide to First Transit the adjusted annual rent effective February 1, 2010 based on the CPI.

Going forward, the adjusted annual rent should be determined by the effective date.

## Management Response

*Properties has corrected the error and adjusted the Properties Lease Management System to ensure date compliance.*

## **Finding #14**

### Observation

Operations, Properties, and BDD should be meeting periodically with First Transit and CitiValet.

### Background

The meeting should address CitiValet’s new employee pay cycle. During the audit, it was determined that CitiValet’s invoices submitted to First Transit were paid on a weekly basis to allow CitiValet cash-flow needed to manage its operation at the Airport. However, it was also determined that CitiValet recently implemented a monthly pay cycle for its employees instead of the traditional biweekly or semi-monthly pay cycle. Although there were no concerns noted from the employees during the audit, this new process should be monitored closely to ensure it does not adversely affect CitiValet’s operation at the Airport.

Furthermore, the periodic meeting should address the following areas:

- Other inconsistencies noted during the audit of First Transit's operation at the airport;
- Operational concerns as they arise;
- Development of corrective action plan;
- Commend operational successes; and
- Ensure First Transit and CitiValet's compliance with the Authority's requirements.

#### Recommendation

Operations, Properties, and BDD should meet periodically with First Transit and CitiValet to monitor First Transit and its sub-contractor's operation at the Airport.

#### Management Response

*Monthly Review Meetings to address any operational and/or contract compliance matters have been scheduled to begin January 2011. Participants to include Operations, Properties, Business Diversity Development, and First Transit Management.*