COUNCIL AGENDA: 05-04-10
ITEM: 3.3

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Lee Price, MMC
City Clerk

SUBJECT: **AUDIT OF THE AIRPORT'S PARKING MANAGEMENT AGREEMENT**

DATE: 04-28-10

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on April 15, 2010 and outlined in the attached memo previously submitted to the Public Safety, Finance and Strategic Support Committee, accept the audit of the Airport's Parking Management Agreement.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

AUDIT OF THE AIRPORT'S PARKING MANAGEMENT AGREEMENT

The Airport Has Controls in Place to Ensure it Receives All the Revenues Generated at its Public Parking Facilities; Nonetheless, Opportunities Exist to Improve Controls, Achieve Potential Cost Savings, Enhance Customer Service, and Update the Next Management Agreement

Report 10-07
April 2010

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor
Sharon W. Erickson, City Auditor

April 7, 2010

Honorable Mayor and Members
of the City Council
200 East Santa Clara Street
San Jose, CA 95113

Transmitted herewith is *Audit of the Airport's Parking Management Agreement.* This report is in accordance with City Charter Section 805. An Executive Summary is presented on the blue pages in the front of this report. The Airport's response is shown on the yellow pages before Appendix A.

This report will be presented at the April 15, 2010 meeting of the *Public Safety, Finance and Strategic Support Committee*. If you need any additional information, please let me know. The City Auditor's staff members who participated in the preparation of this report are Steve Hendrickson, Ruth Garcia Merino, and Joe Rois.

Respectfully submitted,

Sharon W. Erickson
City Auditor

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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

AUDIT OF THE AIRPORT'S PARKING MANAGEMENT AGREEMENT

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Executive Summary

In accordance with the City Auditor's 2009-10 Audit Workplan, we have completed an Audit of the Airport's Parking Management Agreement. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The City Auditor's Office thanks the Airport Department, the Department of Transportation, the Information Technology Department, the Office of Equality Assurance, the Office of the City Attorney, and AMPCO System Parking Inc. for giving their time, information, insight, and cooperation during the audit process.

Finding I The Airport Has Controls in Place to Ensure it Receives All the Revenues Generated at its Public Parking Facilities; Nonetheless, Opportunities Exist to Improve Controls, Achieve Potential Cost Savings, Enhance Customer Service, and Update the Next Management Agreement

The Mineta San José International Airport (Airport) has controls in place to ensure that the City of San José (City) receives all the revenues generated at the Airport parking facilities. Based on our review, the controls appear to be functioning as intended. Nonetheless, opportunities exist to improve controls. Specifically, the Airport can perform audit procedures to detect theft or fraud and simplify the credit card reconciliation process upon implementation of the new Parking Access and Revenue Control System (PARCS), the City-owned parking administration and revenue control software and equipment at the Airport parking facilities. The Airport should also clarify procedures for how the monthly management fee is calculated and who is responsible for obtaining the contractor's performance and fidelity bonds.

There are opportunities to achieve potential cost savings and enhance customer service, such as considering using a cost plus management agreement for the operation of the parking facilities, reducing the frequency of nightly vehicle inventories, and including a provision in its next management agreement that allows the City to potentially become the bankcard merchant for credit card transactions at its parking facilities.

Since the current management agreement was signed, technological changes have occurred which will require updates to the next agreement, specifically the inclusion of controls related to the new PARCS features and equipment, and provisions related to compliance with Payment Card Industry Data Security Standards.

Practical operating realities suggest changes to the next agreement as well. The Airport should develop performance standards that reflect customer service goals and a mechanism to monitor them and clarify Airport and operator responsibilities related to customer complaints and the operation of the employee lot.

Two other issues noted during our audit were that (1) the Office of Equality Assurance should determine AMPCO's compliance with the City's Living Wage Policy and (2) there should be revisions to the Airport's non-revenue badge program, potential amendments to the Municipal Code sections authorizing the program, and the City Council rate resolution authorizing Airport parking fees.

RECOMMENDATIONS

We recommend that Airport Finance:

Recommendation #1 **Revise procedures related to reconciling credit card transactions to reflect the new operating environment once the new PARCS is installed and implemented. (Priority 3)**

We recommend that Airport:

Recommendation #2 **Develop audit procedures to detect unreported revenue, theft or fraud once the new PARCS is installed. (Priority 3)**

If the Airport maintains the current concession fee structure in its next parking facilities management agreement, we recommend that Airport Finance:

Recommendation #3 **Clarify its procedures for calculating the monthly management fee to match the specific language of the management agreement and train staff on those procedures. (Priority 3)**

We recommend that the Airport:

Recommendation #4 **Identify the Airport or City official to whom the operator should submit its performance and fidelity bonds in its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)**

To have more control over service levels, we recommend that the Airport:

Recommendation #5 **Consider using a cost plus management agreement for its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)**

If the Airport decides to use a cost plus management agreement, we recommend that the Airport:

Recommendation #6 **Include specific provisions to protect against the reimbursement of costs which are overstated or unrelated to Airport parking operations in its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)**

We recommend that the Airport:

Recommendation #7 **Consider reducing the frequency of the nightly LPI inventory and eliminating the unaccounted vehicles provision in its next Request for Proposal (RFP) and Airport Parking Management Agreement. The RFP should also include specific language describing how the inventory is conducted, i.e., the use of LPR and LPI technology. (Priority 3)**

To save costs associated with the nightly inventory but ensure customer service needs are met, we recommend that the Airport:

Recommendation #8 **Explore the possibility of contracting with a vendor to install space locator dispensers in the Airport's parking facilities. (Priority 3)**

We recommend that the Airport:

Recommendation #9 **Include a clause that allows the City, with notice, to become the bankcard merchant for credit card transactions at its parking facilities in its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)**

To ensure vendors' proposals include sufficient controls to guard against the additional risks created by the new PARCS features and equipment, we recommend that the Airport:

Recommendation #10 **Include in its next Request for Proposal and Airport Parking Management Agreement the required controls to guard against the risks of theft or fraud from the new pay-on-foot machines and automatic exit gates. (Priority 3)**

To ensure the next operator is compliant with PCI data security standards, we recommend that the Airport, in coordination with the City's Information Technology Department:

Recommendation #11 **In its next Request for Proposal and Airport Parking Management Agreement:**

- **Include a provision that the operator provide quarterly or annual evidence of a Certificate of Compliance with Payment Card Industry (PCI) standards and**
- **Outline the PCI requirements for which the operator is responsible. (Priority 3)**

We recommend that the Airport:

Recommendation #12 **Develop performance standards that reflect customer service goals and a mechanism to monitor them. (Priority 3)**

Recommendation #13 **Clarify Airport and operator responsibilities related to customer complaints and the operation of the employee lot in its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)**

We recommend that the City's Office of Equality Assurance:

Recommendation #14 **Obtain certified payroll records from AMPCO from July 2007 through the current month to determine whether any employees were paid less than the City's living wage rate. (Priority 3)**

Because of the potential that NRBs may be used for non-official business and to ensure Airport policy conforms to the Municipal Code, we recommend that the Airport:

Recommendation #15

1. **Revise the Non-Revenue Badge (NRB) policy to require that all NRB holders, including elected officials, acknowledge and agree on an annual basis to use the NRBs in accordance with the program's rules and regulations;**

2. **Include in the written rules and regulations provided to local and state officials that the NRBs are only intended for use while on official government business; that acceptance of free parking at the Airport may disqualify them from taking official action on Airport-related matters in the conducting of official duties; and that the free parking privilege may be a reportable financial gift/interest to be included on their California Form 700, Statement of Economic Interest; and**

3. **Request the City Manager annually approve the list of NRB holders or delegate authority to approve NRB requests to the Director of Aviation. (Priority 3)**

To ensure that the Municipal Code conforms to current Airport policy and reflects the program purposes, we recommend the City Manager:

Recommendation #16

1. **Propose amending Municipal Code Section 25.16.050.C to include tenant managers working in the terminal area as persons authorized for parking without charge.**

2. **Propose amending the relevant Municipal Code sections to clarify whether parking without charge is allowable for official government or City business or is only allowable for Airport-related purposes. (Priority 3)**

To ensure that the Airport policy conforms to the rate resolution, we recommend that the Airport:

Recommendation #17

Propose amending the City Council rate resolution pertaining to the Airport's fees and charges to allow the Director of Aviation to authorize a limited number of monthly permits for tenants to park in public parking areas. (Priority 3)

Introduction

In accordance with the City Auditor's 2009-10 Audit Workplan, we have completed an Audit of the Airport's Parking Management Agreement. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The City Auditor's Office thanks the Airport Department, the Department of Transportation, the Information Technology Department, the Office of Equality Assurance, the Office of the City Attorney, and AMPCO System Parking Inc. for giving their time, information, insight, and cooperation during the audit process.

Background

Airport Parking Facilities

The City of San José (City) operates and maintains the Mineta San José International Airport (Airport) in accordance with Section 807 of the City Charter. In fiscal year 2008-09, there were 4.4 million passenger boardings at the Airport. Its operating revenues totaled about $116 million. As part of its operations, the Airport maintains multiple parking facilities for its customers and employees. Until 2008-09, parking revenues have historically been the largest source of revenues at the Airport. In 2008-09, public parking revenues totaled about $24 million, which was a 20 percent decline from the $30 million generated in 2006-07. By comparison, passenger boardings declined by 17 percent from 5.3 million over the two-year period.

The Airport's parking facilities include a long-term lot, a short-term lot for Terminal C (short-term lot), a parking garage (short-term parking for Terminal A) and an employee lot. The long-term and employee lots are located on the west side of the Airport. Access to these is by shuttle. Capacities for the facilities are shown in Exhibit 1.

Exhibit 1: Public and Employee Parking Facility Capacity as of June 30, 2009

	Parking Spaces
Long-Term Lot	3,591
Short-Term Lot	374
Parking Garage	2,009
Employee Lot	950
Total	**6,924**

Source: 2009 Airport Comprehensive Annual Financial Report.[1]

Terminal A Parking Garage

As of February 2010, the parking rate for the short-term lot and the parking garage is $1 per 20 minutes. The maximum daily rate is $40 in the short-term lot and $30 in the parking garage. The parking rate in the long-term lot is $1 per 20 minutes with a $15 per day maximum. These rates have been in effect since July 15, 2002. Airport employees receive free parking in the employee lot; Airport tenants are charged $30 per month per employee in the employee lot.

AMPCO's Parking Facilities Management Agreement

The Airport contracts with AMPCO System Parking Inc. (AMPCO) to manage its parking facilities. AMPCO is a subsidiary of ABM Industries Incorporated and operates parking facilities throughout the United States and Canada (including 27 airports). ABM Industries is headquartered in New York, NY.

Under the terms of the management agreement, AMPCO charges and collects fees for the use of the parking facilities on behalf of the Airport (with the exception of the employee lot; the Airport bills tenants for their employees' use of the employee lot). AMPCO has other responsibilities outlined in the agreement related to parking operations as well, such as customer service, custodial services, and other duties.

[1] The number of spaces in the parking facilities has been affected by ongoing Airport construction related to the Terminal Area Improvement Program (TAIP). The number of spaces listed in the 2002 contract with AMPCO was: long-term parking – 4,100 spaces, short-term lot – 950, parking garage – 2,200, and the employee lot – 800. As part of the TAIP, the Airport is constructing a new parking garage which will contain 350 public parking spaces. The TAIP will affect the configuration and capacity of the existing parking facilities as well.

AMPCO's management fee is calculated as a percentage of parking fees collected. The percentage has risen incrementally each year based on a fee schedule in the original contract and subsequent amendments (it began at 11.62 percent in the first year; the current rate is 15.88 percent). In 2008-09, management fees paid to AMPCO totaled about $3.9 million.

Service under the current AMPCO agreement began in November 2002 and ran for one year. The agreement included six one-year options, which the City exercised. On September 1, 2009, City Council extended the agreement for one additional year. The current extension runs through November 7, 2010.

The Airport intends to issue a new Request for Proposal (RFP) for Airport parking facilities management services in the spring of 2010.

Audit Objectives, Scope, and Methodology

The objectives of our audit were to (1) determine whether the City was monitoring the Airport parking facilities management agreement to ensure that it is receiving the revenues to which it is entitled and the services for which it is paying, and (2) assess the adequacy of current contract provisions for the planned 2010 Request For Proposal (RFP) for a new Airport parking facilities management agreement.

To achieve our audit objectives, we reviewed the current management agreement and amendments. We reviewed AMPCO, Airport, and City policies and procedures and interviewed AMPCO and Airport staff and an airport parking consultant retained by the Airport in connection to the implementation of a new parking revenue control system. We assessed the accuracy and reliability of computer generated parking data when we observed and tested the revenue internal controls as described on pages 8-11.

We also reviewed the following:

- City's Municipal Code.
- City's Living Wage Policy.
- City Council Rate Resolution No. 74875 authorizing Airport parking fees.
- AMPCO's collective bargaining agreements with its two employee unions.
- Payment Card Industry Data Security Standards.
- *Guidebook for Evaluating Parking Strategies and Supporting Technologies*, published by the Airport Cooperative Program of the Transportation Research Board of the National Academies, 2009.

- Other jurisdictions' audits of airport parking facilities, including the cities of Austin, TX and Milwaukee, WI.

We reviewed other airport parking facilities management agreements or Requests for Proposals, including those for the San Francisco, CA and Portland, OR International Airports. We also reviewed the City's Department of Transportation (DOT) parking facilities management agreement for its downtown parking facilities.

We surveyed or interviewed staff at other airports, including those in Portland, OR; Dallas, TX (Love Field); Phoenix, AZ; San Diego, CA; San Francisco, CA; and Houston TX (George Bush and Hobby airports). We also interviewed staff from the City's DOT, Information Technology and Finance Departments and the Offices of Equality Assurance and the City Attorney.

The scope of this audit included a review of revenue information from July 2007 through August 2009 and a review of other parking information from the inception of the management agreement in 2002 through February 2010.

Finding I The Airport Has Controls in Place to Ensure it Receives All the Revenues Generated at its Public Parking Facilities; Nonetheless, Opportunities Exist to Improve Controls, Achieve Potential Cost Savings, Enhance Customer Service, and Update the Next Management Agreement

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The Airport Has Controls in Place to Ensure it Receives All the Revenues Generated at its Public Parking Facilities

Parking Access and Revenue Control System

PARCS includes (but is not limited to) the automatic entrance and exit gates, cashier terminals, lane control units, fee displays and interfaces, firmware, portable data entry terminals, license plate recognition (LPR) equipment, and automated vehicle identification equipment. PARCS is designed to automatically calculate parking fees and record all parking activity, including individual transactions as well as total entrances and exits and runs 24-hours per day.

To enter an Airport parking facility, a customer pulls a ticket from one of the PARCS ticket machines. Each ticket is uniquely identified and is electronically time and date stamped. Also upon entering a facility, the LPR equipment captures and records an image of each customer's license plate along with the time and date of entry. This vehicle record is then entered into an inventory database.

Upon exit, the customer is charged a parking fee which is automatically calculated from the ticket information. The LPR equipment captures another image of the customer's license plate and, if the captured image matches a vehicle in the inventory database, the proper fee is then automatically charged. If there is not an immediate match, potential vehicle matches from the inventory are displayed on a monitor in the cashier booth. The cashier selects the correct vehicle from the potential matches that are displayed on the monitor. The vehicle record is removed from the inventory database upon completion of the transaction.

As the LPR system captures both the time and date of entry and exit of each vehicle, another function of the LPR system is to serve as a backup revenue control in the event the proper fee cannot be calculated from a ticket (e.g. lost or mutilated tickets).[2]

The current PARCS was installed by ACS Transportation Solutions, Inc. (ACS) which provides ongoing maintenance and repairs on the system. As part of the Terminal Area Improvement Program, the Airport determined that the current system no longer met the traffic flow, operations and security needs of the

[2] A new PARCS is currently being installed at the Airport parking facilities. With the new system, the parking fee will be calculated by the LPR system and the ticket will serve as the backup. Specifically, the new LPR will also capture the customer's license plate upon entry and exit. If the LPR system matches these and the ticket information upon exit, then the system automatically calculates the fee. If they don't match, then other processes will be used.

parking facilities. In April 2008, the City Council approved an agreement with ACS for the design and installation of a new PARCS, which will include automatic (non-cashiered) exit gates, pay-on-foot machines and an upgraded LPR system. The Airport is in process of installing the new system.[3] It is scheduled to be operational in the spring of 2010.

AMPCO Revenue Controls

AMPCO maintains a cashier training manual containing current policies and procedures, which the Airport has the right to review and approve. The manual covers how cashiers are to handle cash, checks, credit, and exception ticket transactions. Exception tickets are created when AMPCO cashiers process unusual transactions such as lost, mutilated, unreadable, blank, used, mismatched, foreign, or back-out tickets; disabled or validated parking; non-revenue badges (we discuss non-revenue badges later in this report); or cancelled transactions.

At the end of each shift, AMPCO cashiers have specific "count-out" procedures, including a manual count of cash in the presence of AMPCO audit staff. Cashiers feed their cash into a Compusafe[4] machine in a locked location with 24-hour video surveillance. Each day an armored car company picks up the previous day's cash revenues for deposit into a City account.

AMPCO auditors reconcile cash and credit card batch settlement statements to both cashier-reported activity and PARCS-reported activity on a daily basis. AMPCO provides daily activity, inventory, and exception ticket reports to Airport staff.

Airport Operations and Finance

Two separate Airport divisions, Landside Operations and Finance and Accounting, are responsible for monitoring AMPCO's performance under the agreement. Airport Operations is responsible for monitoring the operation of the facilities whereas Airport Finance receives and reconciles the activity and revenue reports to activity reported on credit card statements and deposits to the City's account. Any cash shortages are deducted from AMPCO's monthly management fee.

Both Airport Operations and Finance have specific responsibilities related to exception transactions. Airport Operations verifies the legitimacy of validated tickets by checking the validating signatures on the tickets against a signature file. Airport Finance conducts a monthly exception ticket audit of a sample of transactions to ensure that exception tickets are properly accounted for and have the necessary documentation.

[3] The Airport has experienced significant delays implementing the new PARCS. It was originally scheduled to be fully installed by Fall, 2009. Implementation of the PARCS was beyond the scope of this audit.

[4] Compusafe machines are locked safes into which cashiers can insert cash deposits. The machines count the cash and produce a receipt. According to AMPCO, only the armored car company personnel can open the Compusafe.

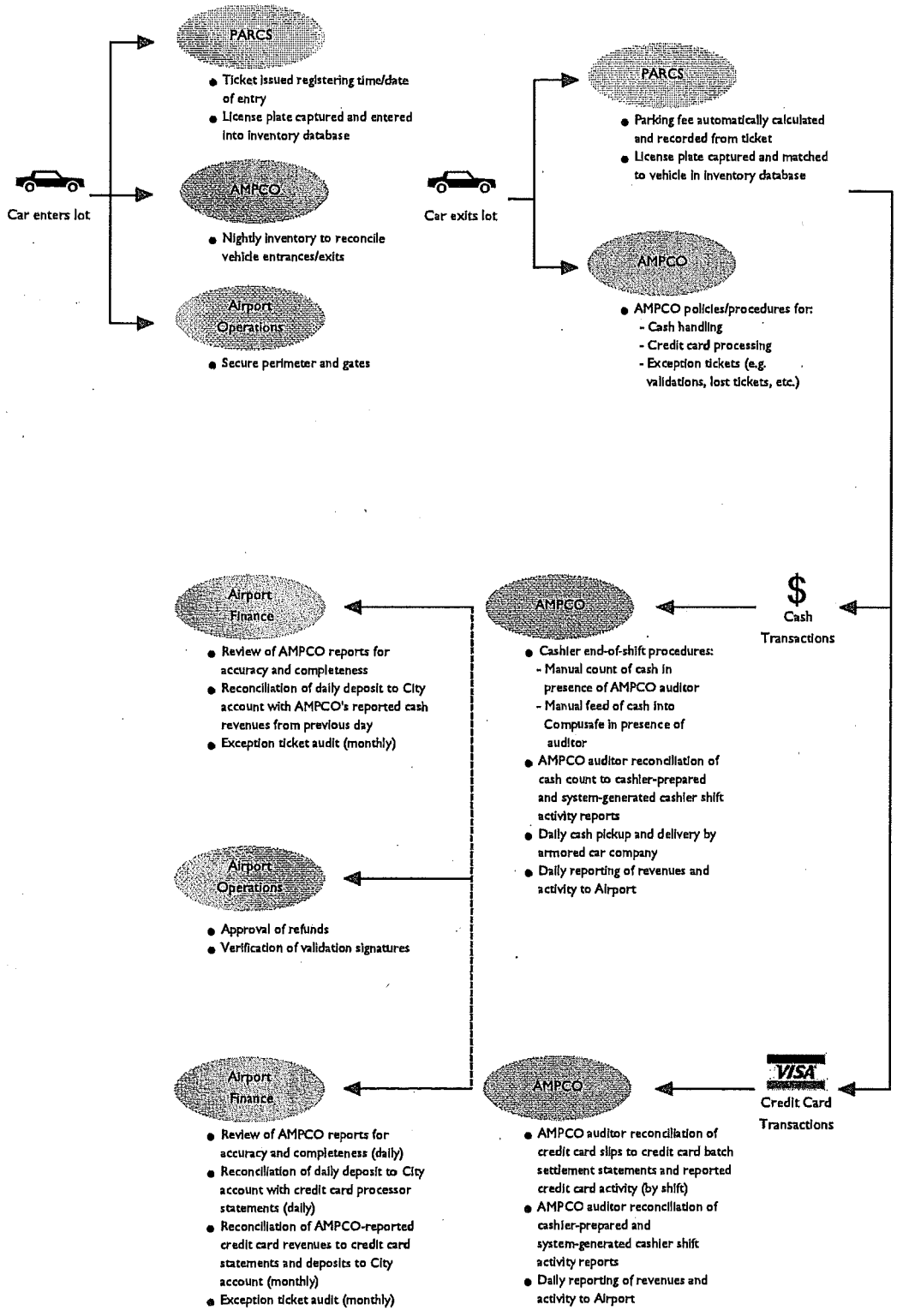
Exhibit 2 on the following page contains a diagram of the revenue controls to protect Airport parking revenues. We observed or tested each of the controls in the diagram.

Specifically, we observed cashiers processing individual transactions and cashier end-of-shift cash procedures and credit card reconciliations by AMPCO audit staff. We tested transactions from one day in 2008 and two days from 2009 by reviewing tickets for the proper calculation of parking fees and matching credit card tapes and ticket totals to daily revenue reports. We reviewed samples of Airport Finance's daily and monthly reconciliations of parking fees collected and bank deposits, monthly exception ticket audits, and monthly calculations of AMPCO's management fee. We also observed a nightly inventory of vehicles in one of the Airport parking facilities, reviewed logs of customer transaction times, reviewed complaint letters and refund information, and conducted a perimeter check of the parking facilities.

Based on our review of internal controls and our observation and testing, the Airport's parking revenue controls are in place and appear to be functioning as intended.[5]

[5] The LPR control has been offline since September 2009 during the protracted implementation of the new PARCS. AMPCO has implemented other compensating controls during this temporary situation.

Exhibit 2: Airport Parking Revenue Controls



Source: City Auditor-prepared.

Opportunities Exist to Improve Controls

The Airport Can Simplify its Credit Card Reconciliation Process Upon Implementation of the New PARCS

Airport Finance reconciles reported credit card revenues from PARCS to actual deposits to the City's account to ensure that the City is receiving the revenues to which it is entitled from Airport parking customers. The reconciliation process is designed to agree reported activity at each stage in the credit card transaction cycle, from PARCS-generated activity reports to deposit reports from the City's bank account.

The current reconciliation process is complicated. This is because of the current PARCS operating environment, which includes the use of a non-integrated credit card processing system[6], two separate credit card processing systems which report activity differently, and limited reporting options[7].

As the new PARCS is installed and implemented, the operating environment will change. When the credit card system is integrated with the new PARCS, it is expected that there will only be one credit card processor, and the new PARCS should allow for more reporting flexibility and options. As such, the current reconciliation process will not reflect the future PARCS environment.

We recommend that Airport Finance:

Recommendation #1

Revise procedures related to reconciling credit card transactions to reflect the new operating environment once the new PARCS is installed and implemented. (Priority 3)

The Airport Can Perform Audit Procedures to Detect Theft or Fraud

Although the Airport has strong internal controls, there may be opportunities to audit for revenue that is unreported because of fraud. According to the airport parking consultant retained by the Airport to assist in the implementation of the new PARCS, auditing to detect fraud:

> *"involves trending high risk activity, reviewing system configuration changes that are deemed at-risk; reviewing event journals and maintenance logs to assess downtime and unusual trends associated with facilities or staff;*

[6] Credit cards are swiped and processed at a unit that is separate from the cashier terminal. PARCS reports the activity but does not capture any credit card detail such as the type of card or other information.

[7] The current PARCS generates shift-based reports whereas the credit card processors generate reports by date. This creates timing differences between the PARCS and credit card processor reports.

historical trending of revenue, revenue per ticket, and occupancy; and auditing License Plate Recognition/Inventory (LPR/I)."

The consultant also noted that once the new PARCS is implemented and the credit card reconciliation process is simplified, the Airport could shift its audit focus toward unreported revenue.

We recommend that the Airport:

Recommendation #2

Develop audit procedures to detect unreported revenue, theft or fraud once the new PARCS is installed. (Priority 3)

The Airport Should Clarify Procedures for Calculating the Operator's Monthly Management Fee

There is a lag time between when a transaction occurs and when the associated revenues are deposited in the City's account. For cash transactions, the lag time is generally one business day. For credit card transactions, the lag time could be up to 72 hours. For parking transactions that take place at the end of the month, this means that the associated revenues may not be deposited into the City's account until the following month.

According to the management agreement, AMPCO's management fee is calculated as a percentage of parking fees collected. It further states that parking fees are not deemed collected until they are deposited into the City's account. Each month Airport Finance staff calculates the management fee due AMPCO based on the revenues generated that month, even if the associated deposit occurs in the following month. The result is that the City pays a small portion of the monthly management fee one month early, leading to the loss of a nominal amount of interest to the City[8].

If the Airport maintains the current concession fee structure in its next parking facilities management agreement, we recommend that Airport Finance:

Recommendation #3

Clarify its procedures for calculating the monthly management fee to match the specific language of the management agreement and train staff on those procedures. (Priority 3)

[8] We estimate the loss to be under $100 per month.

The Airport Should Clarify Who is Responsible for Obtaining Contractor's Performance and Fidelity Bonds

The management agreement states that AMPCO shall procure and provide the City with a fully prepaid surety bond to guarantee and assure the faithful performance of the contractor's obligations under the agreement. It also states that the contractor shall maintain fidelity bonds covering its employees. The agreement does not specify to whom in the City AMPCO should provide copies of the bonds. It also does not specify who is responsible for monitoring whether AMPCO has obtained them. Although AMPCO had obtained the necessary performance bond as required and provided a copy upon a request from the City Auditor, neither Airport nor City staff had previously received or requested copies.[9]

We recommend that the Airport:

Recommendation #4

Identify the Airport or City official to whom the operator should submit its performance and fidelity bonds in its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)

Opportunities to Achieve Potential Cost Savings and Enhance Customer Service

The Airport Should Consider Using a Cost Plus Management Agreement for the Operation of its Parking Facilities

The Airport's parking facilities management agreement is a concession agreement, whereby AMPCO's management fee is calculated as a percentage of parking revenues collected. Many airports operate their parking facilities using cost plus management agreements. Under a cost plus agreement, the airports reimburse the contractor for specific costs (such as staffing) and pay the contractor a flat management fee.[10]

According to staff from the City's Department of Transportation (DOT), cost plus agreements are preferable because they provide more control over staffing levels which in turn helps ensure quality customer service. Cost plus agreements also provide more flexibility on the scope or frequency of certain services.

There are additional monitoring requirements associated with cost plus agreements. These include reviewing annual budgets and monthly invoices, and conducting additional audit work. We interviewed staff from Phoenix Sky Harbor

[9] The agreement allows for a special insurance coverage instead of a fidelity bond.

[10] The Airport expects the parking facilities operating costs to decrease with the installation of the new PARCS which includes automated exits and thus will require fewer staff.

International Airport (Phoenix), Portland International Airport (Portland) and the DOT to determine the extent of the review and audit work related to their cost plus management agreements.

Exhibit 3: Amount of Time and Frequency of Review and Audit Work Related to Cost Plus Management Agreements at Other Parking Facilities

	Review of Monthly Invoices	Review of Annual Budget	Additional Audit Procedures
Phoenix	8 hrs./month	8 hrs./year	Audit once every two years
Portland	1 hr./month	3 hrs./year	60-80 hrs./year
DOT[11]	10-12 hrs./month	55 hrs/year	n/a

Other airports have opted for cost plus management agreements because of the flexibility and control they provide over service levels. An airport which switched from a concession to a cost plus management agreement indicated it has much better control over the entire operation. Another made the switch to have more control over wages paid to operator employees.

To have more control over service levels, we recommend that the Airport:

Recommendation #5

Consider using a cost plus management agreement for its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)

If the Airport decides to use a cost plus management agreement for the operations of its parking facilities, the Airport should add specific provisions into the contract to protect against the potential that the operator seeks reimbursement for costs that are overstated or unrelated to the operation of the parking facilities.

Portland's management agreement with its parking operator defines how costs may be deemed reimbursable. It also states that costs in excess of amounts in the operating budget must be approved in writing before the costs are incurred. The management agreement also contains specific costs that Portland will not reimburse (i.e. the vendor is responsible for such costs). These include off-site

[11] DOT's monthly invoice and annual budget reviews of parking facilities cover eight garages and seven surface lots, each with its own budget and allocated expenses. The annual budget review also includes working with staff from Team San José to develop revenue forecasts based on expected attendance at the Convention Center and to plan staffing for large special events.

operations and personnel, taxes, overhead, general and administrative costs and others.

The City, in its management agreement for the operation of its downtown lots, also contains such protections, including (but not limited to):

- Requiring the operator to submit sufficient documentation to the City that expenses were directly incurred in the providing the required services.
- Requiring pre-approval for expenses incurred during a particular month that exceed the approved operating budget.
- An annual maximum reimbursable expense figure.
- Listing specific reimbursable and non-reimbursable expenses.

If the Airport decides to use a cost plus management agreement, we recommend that the Airport:

Recommendation #6

Include specific provisions to protect against the reimbursement of costs which are overstated or unrelated to Airport parking operations in its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)

The Frequency of Nightly Vehicle Inventories Could Be Reduced

The PARCS together with the LPR maintain a virtual inventory of cars parked at the Airport (i.e. the inventory database noted previously). The management agreement requires a daily physical inventory and reconciliation to daily entrances and exits as reported by PARCS. The agreement does not specify the method of inventory. The purpose is to determine whether there were uncollected parking revenues (vehicles exiting without paying the proper parking fee). The agreement has a charge for unaccounted vehicles in excess of five vehicles. According to AMPCO, inventories are always reconciled within five vehicles except when there are extenuating circumstances, such as when the system is offline. AMPCO documents these reasons and are not charged for the unaccounted vehicles.

LPI Unit

As noted above, the agreement requires that AMPCO "conduct a daily physical inventory". AMPCO actually performs two nightly inventories. The first is a simple physical count of all vehicles. The second is a license plate inventory (LPI) that is not described in the agreement, in which AMPCO staff manually enter each vehicle's license plate number and row location of each vehicle using a hand-held device. This inventory is labor intensive and we estimate the cost of the nightly inventories to be about $60,000 to $100,000 per year. Furthermore, as noted previously, the current PARCS also maintains a virtual inventory. Therefore, three inventories are currently conducted.

According to staff from Phoenix, they do not require a nightly inventory as it has an advanced LPR system that maintains a virtual inventory (San José's LPR will be upgraded with the new PARCS to a system similar to Phoenix's). They conduct physical inventories at one of their facilities each week (with seven facilities, each facility is inventoried about once every seven weeks). Furthermore, Phoenix does not require an unaccounted vehicles charge.

The inventory provision can be broad as used in San Francisco International Airport's (San Francisco Airport) agreement:

> *"Contractor shall conduct a precise inventory of all vehicles parked in the public parking areas of the Facilities using License Plate Recognition (LPR) technology. As backup to LPR, Contractor will, at times, need to use License Plate Inventory (LPI) technology. The LPI data is to be collected manually and entered into hand-held data entry computer units, and then downloaded into the Parking Access and Revenue Control System (PARCS) database."*

Reducing the frequency of the physical inventories could save the Airport costs incurred by the parking facility operator while still obtaining the necessary data on potential uncollected revenues with the use of the LPR inventory. Furthermore, although the unaccounted vehicles charge helps to ensure the contractor tracks vehicles, the LPR significantly controls that function with its virtual inventory.

We recommend that the Airport:

Recommendation #7

Consider reducing the frequency of the nightly LPI inventory and eliminating the unaccounted vehicles provision in its next Request for Proposal (RFP) and Airport Parking Management Agreement. The RFP should also include specific language describing how the inventory is conducted, i.e., the use of LPR and LPI technology. (Priority 3)

As stated above, during the LPI inventory the row location of individual vehicles data is obtained. A benefit of this is that if a customer forgets where they park, AMPCO can easily assist the customer by locating their vehicle in their LPI database. According to AMPCO staff, this occurs on average once every day or two. Based on the above estimates of the cost of the nightly inventory, this would lead to an estimated cost of $247 to $411 per lost vehicle located.

To help customers locate their vehicles, San Francisco Airport has installed space locator dispensers with ticket-sized paper slips showing where in a lot the customer has parked. The space locator dispensers are maintained by a concessionaire at no cost to San Francisco Airport. The concessionaire receives revenues from advertising printed on the back of the ticket.

To save costs associated with the nightly inventory but ensure customer service needs are met, we recommend that the Airport:

Recommendation #8

Explore the possibility of contracting with a vendor to install space locator dispensers in the Airport's parking facilities. (Priority 3)

The Airport Should Reserve the Right to Become the Bankcard Merchant

AMPCO currently acts as the bankcard merchant for the Airport's parking facilities, accepting and processing all credit card transactions. In 2008-09 credit card fees totaled about 2.8 percent of total credit card revenues ($532,710 in credit card fees on about $19 million in credit card revenues).

For its downtown parking facilities, the City took over the role of bankcard merchant from its parking facility operator in May 2009. The rate the City's bank currently charges for credit card processing is 2.6 percent. If the Airport had received that same rate in 2008-09, it would have saved about $36,000 in credit card processing fees.

According to Airport staff, a consultant hired to assess whether the Airport's network was compliant with Payment Card Industry (PCI) Data Security Standards advised against the Airport becoming the bankcard merchant. This is because the Airport would incur additional PCI security responsibilities and costs that are currently borne by AMPCO.

In its agreement, San Francisco Airport retains the right to become the bankcard merchant with 30-day notice.

We recommend that the Airport:

Recommendation #9

Include a clause that allows the City, with notice, to become the bankcard merchant for credit card transactions at its parking facilities in its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)

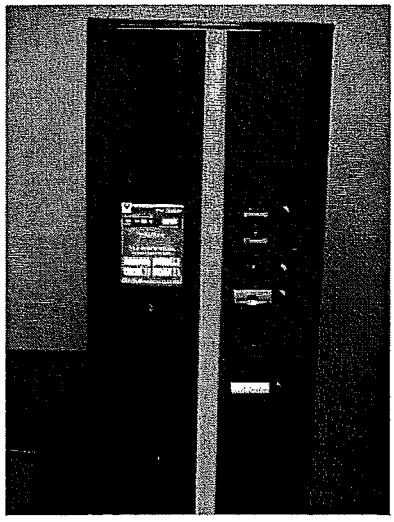
Technological Changes Require Updates to Next Agreement

The Next RFP Should Include Detail and Controls Regarding the New PARCS Equipment and Features

The new PARCS will have new equipment and features which are different from the current system. The new features create additional risks and will require new controls to guard against theft or fraud.

The new features include eight pay-on-foot machines and multiple automatic exit gates. The pay-on-foot machines will allow customers to pay cash at machines prior to exiting. They can then use an automatic exit gate and insert their paid ticket to exit the parking facility.

Pay-on-Foot Machine



The automatic exit gates will also allow customers to pay with a credit card and exit without interacting with a cashier. These will require remote exception monitoring by the operator through image review workstations to ensure customers are properly being charged.

In other parking operations, we found that where pay-on-foot machines were part of the operating environment, specific provisions for internal controls were written into the agreements to guard

against theft or fraud. Some controls, such as the frequency of cash collections, vary across different parking facilities. We found that the method of collection, such as the use of dual-custody cash counts, security officers, or armored car services, also varies.

The current management agreement contains a description of the revenue control system as well as specific operator responsibilities to ensure parking fees are protected from theft or fraud. As the current PARCS does not contain pay-on-foot or automatic exit gates, there are no operator responsibilities or required controls related to them in the agreement.

To ensure vendors' proposals include sufficient controls to guard against the additional risks created by the new PARCS features and equipment, we recommend that the Airport:

Recommendation #10

Include in its next Request for Proposal and Airport Parking Management Agreement the required controls to guard against the risks of theft or fraud from the new pay-on-foot machines and automatic exit gates. (Priority 3)

The Next RFP Should Contain Specific Provisions Relating to Compliance with Payment Card Industry Data Security Standards

According to the Payment Card Industry Security Standards Council, PCI Data Security Standards were developed to encourage and enhance cardholder data security and facilitate the broad adoption of consistent data security measures globally. Any system that processes, stores or transmits credit card data is subject to PCI standards. The basic standards are to:

- Build and maintain a secure network,
- Protect cardholder data,
- Maintain a vulnerability management program,
- Implement strong access control measures,
- Regularly monitor and test networks, and
- Maintain an information security policy.

The current management agreement was signed before current PCI standards were developed. As such, there was no requirement that AMPCO provide documentation of compliance with PCI standards nor were specific PCI responsibilities outlined.

Compliance with PCI standards is documented with periodic assessments and the issuance of a Certificate of Compliance by a Qualified Security Assessor. As of February 2010, AMPCO had a current Certificate of Compliance.

To ensure the next operator is compliant with PCI data security standards, we recommend that the Airport, in coordination with the City's Information Technology Department:

Recommendation #11

In its next Request for Proposal and Airport Parking Management Agreement:

- **Include a provision that the operator provide quarterly or annual evidence of a Certificate of Compliance with Payment Card Industry (PCI) standards and**
- **Outline the PCI requirements for which the operator is responsible. (Priority 3)**

Security of Credit Card Information

As part of the revenue control system, the credit card processing equipment produces end-of-shift batch settlement statements by cashier at each exit which include credit card information. During the course of our audit, we found that at one of the exits, credit card batch settlement statements included full 16-digit credit card numbers. The statements at all other exits contained only the last four digits of credit card numbers (the remaining digits were masked). The batch settlement statements were subsequently stored in a locked storage facility and kept in accordance with the Airport's record retention policy. Although the credit card numbers on the batch statements from all the exits were secure, it would be a lower risk to not include the full number on the settlement statements initially.

We brought this to the attention of both AMPCO and Airport staff. AMPCO immediately installed a software patch that allowed the credit card processing system to mask the first 12 digits of the credit card number in the batch settlement statements at the one exit. The Airport also revised its record retention policy for batch settlement statements so that credit card data will be destroyed on an earlier schedule than they previously had been. The revised schedule will maintain the statements necessary for the City's annual financial audit and reporting process.

Practical Operating Realities Suggest Changes to the Next Agreement

The Airport Should Develop Performance Standards and a Mechanism to Monitor Them

The current management agreement contains specific performance requirements related to vehicle wait times to exit the parking facilities and individual customer transaction times. Both AMPCO and Airport Operations staff measure customer transaction times periodically; however they do not measure against the specific standards set forth in the agreement. AMPCO desk supervisors monitor wait times through cameras at the various exit lanes in order to determine whether they need to open any new lanes; however, they do not expressly measure vehicle wait times.

Other performance criteria, such as number of cars in line to exit, are used at other airports. According to *Guidebook for Evaluating Airport Parking Strategies and Supporting Technologies* by the Airport Cooperative Research Program of the Transportation Research Board, "*(performance) metrics selected will depend on what the airport operator is trying to achieve and the resources it allocates for performance monitoring.*"

We recommend that the Airport:

Recommendation #12

Develop performance standards that reflect customer service goals and a mechanism to monitor them. (Priority 3)

The Airport Should Clarify Airport and Operator Responsibilities Related to Customer Complaints and the Operation of the Employee Lot

The management agreement specifies AMPCO and Airport responsibilities related to customer complaints and the operation of the employee lot. Airport Operations appears to have taken on more responsibility in these areas than outlined in the agreement. For example, although the agreement states the operator shall answer all customer complaints within 48 hours, Airport Operations actually performs this function. Similarly, under the agreement, the operator is to provide monthly reports listing tenant or other employees who have been issued hang tags for the employee lot for billing purposes; however, Airport Operations actually maintains this list.

As the management fee is based on the scope of services outlined in the management agreement, the result is that the Airport is potentially paying the operator for services they do not actually provide.

We recommend that the Airport:

Recommendation #13

Clarify Airport and operator responsibilities related to customer complaints and the operation of the employee lot in its next Request for Proposal and Airport Parking Management Agreement. (Priority 3)

Other Issues

The Office of Equality Assurance Should Determine AMPCO's Compliance with City's Living Wage Policy

The collective bargaining agreement between AMPCO and its cashiers' union includes a pay scale for new hires along with a provision that requires employment for a minimum of 180 days before eligibility for health benefits. The initial pay rate for AMPCO cashiers was based on the living wage rate for non-health benefited employees that was in effect at the time the collective bargaining agreement was signed (December 2006).

Subsequently, the City's living wage rate for non-health benefited employees rose. The management agreement states that if AMPCO's wage rates set forth in their collective bargaining agreements with employee unions fall below the current living wage rate set by the City, the required rate of pay shall be the living wage rate. However, there was no reference in the cashiers' collective bargaining agreement stating that the pay for new hires would rise if the City's living wage rate rose.

According to the City's Office of Equality Assurance, the City will need to obtain certified payroll records to determine whether AMPCO's pay for new cashiers was in compliance with the City's Living Wage Policy.

We recommend that the City's Office of Equality Assurance:

Recommendation #14

Obtain certified payroll records from AMPCO from July 2007 through the current month to determine whether any employees were paid less than the City's living wage rate. (Priority 3)

The City Manager and the Airport Should Propose Amending the Municipal Code and Revise Procedures Relating to the Non-Revenue Badge Program

It is common practice for airports to provide non-revenue badges (NRB) to persons such as elected and executive government officials. The Airport maintains an NRB program, the purpose of which is to expedite the travel of individuals providing services to the Airport and the City. NRB holders are allowed to exit Airport public parking facilities without charge when used for official business. Because the purpose of use is difficult to monitor, there is a potential that NRB holders will use their badges for non-official business. In addition, there are specific areas where the Airport's NRB policy does not conform to the City's Municipal Code.

Airport Non-Revenue Badge Policy

Airport policy allows NRBs to be used only for approved Airport events or meetings, conducting official business at the Airport, or traveling on official business. Among those individuals issued NRBs are elected and appointed officials such as federal and state legislators, City Council members, and Airport Commissioners; the City Manager, City Council appointees and other senior City and Airport staff; and tenant managers working in the terminal area. [12]

All users other than elected officials are required to sign an acknowledgement agreeing to follow the NRB program rules (which are provided to the user). Elected officials, including City Council members, are provided the rules but are not required to sign an acknowledgement. Airport policy states that updated NRB rules and regulations will be distributed to NRB holders on an annual basis. However, acknowledgement of the rules is not required on an annual basis.

Municipal Code Section 25.16.050 Parking Without Charge

The authority for the Airport's NRB program is derived from the City's Municipal Code Section 25.16.050. However, there are specific areas where the Airport's NRB policy does not conform to the Municipal Code, including:

- The Municipal Code contains a list of City and Airport officials who are allowed free parking while on official business. Additional City employees are allowed only as authorized by the City Manager.
- Airport policy allows NRBs to be issued to positions not specifically listed in the Municipal Code, such as Deputy City Managers and department directors. However, the policy states that the Deputy Director of Airport Operations reviews and approves NRB requests rather than the City Manager.

[12] Airport tenants include the airlines, vendors and other concessionaires.

- Local and state elected officials are among those authorized for free parking in the Municipal Code (if such parking occurs while on official government business).[13] The Municipal Code states that these officials:

  "shall be notified that acceptance of free parking at the Airport may disqualify such representatives from taking official action on Airport-related matters in the conducting of official duties. Written authorization issued for such parking shall clearly state that it is only intended for use while on official government business."

  According to the City Attorney's Office, the free parking privilege may create a reportable financial gift/interest, and consequently, local and state elected officials may need to report it on their annual Form 700, Statement of Economic Interests.[14] The current NRB rules provided to local and state elected officials do not include the above language nor make reference to the reportable gift rules.

- The Municipal Code does not include tenant managers as among those eligible for free parking which is current Airport policy.

- As noted above, Airport policy states that NRBs may only be used for approved Airport events or meetings, conducting official business at the Airport, or traveling on official business. The Municipal Code is ambiguous on when the use of an NRB is allowable in public parking facilities. In one section, free parking is allowable only for an Airport-related activity or event or for Airport-related purposes. In another section, it allows for free parking for official government or City business.

[13] For this section, elected local and state officials include "*elected representatives of Santa Clara County who are members of the United States Congress, California State Assembly or State Senate, or County of Board of Supervisors, if such elected representatives request to park without charge while on official government business.*"

[14] According to the City Attorney's Office, the parking privilege does not create a reportable financial gift/interest for City employees and elected City officials because it may only be used for work-related purposes during the normal course of their employment

Because of the potential that NRBs may be used for non-official business and to ensure Airport policy conforms to the Municipal Code, we recommend that the Airport:

Recommendation #15

1. **Revise the Non-Revenue Badge (NRB) policy to require that all NRB holders, including elected officials, acknowledge and agree on an annual basis to use the NRBs in accordance with the program's rules and regulations;**

2. **Include in the written rules and regulations provided to local and state officials that the NRBs are only intended for use while on official government business; that acceptance of free parking at the Airport may disqualify them from taking official action on Airport-related matters in the conducting of official duties; and that the free parking privilege may be a reportable financial gift/interest to be included on their California Form 700, Statement of Economic Interest; and**

3. **Request the City Manager annually approve the list of NRB holders or delegate authority to approve NRB requests to the Director of Aviation. (Priority 3)**

To ensure that the Municipal Code conforms to current Airport policy and reflects the program purposes, we recommend the City Manager:

Recommendation #16

1. **Propose amending Municipal Code Section 25.16.050.C to include tenant managers working in the terminal area as persons authorized for parking without charge.**

2. **Propose amending the relevant Municipal Code sections to clarify whether parking without charge is allowable for official government or City business or is only allowable for Airport-related purposes. (Priority 3)**

City Council Resolution No. 74875

The City Council establishes the Airport's parking fees through an annual rate resolution. Per the rate resolution, Airport tenants can purchase employee parking permits for $30 per month which allows for parking in the employee parking lot. Airport policy allows tenants to purchase an additional "non-revenue" badge for every 30 employee parking permits. These badges permit parking in public parking facilities (which are closer to the Airport terminals) and cost $100 per month. The rate resolution does not authorize the purchase of these permits.

To ensure that the Airport policy conforms to the rate resolution, we recommend that the Airport:

Recommendation #17

Propose amending the City Council rate resolution pertaining to the Airport's fees and charges to allow the Director of Aviation to authorize a limited number of monthly permits for tenants to park in public parking areas. (Priority 3)

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: Sharon Erickson

FROM: William F. Sherry A.A.E.

SUBJECT: **Airport Parking Management Agreement Audit**

DATE: 4/6/10

Approved Date

This memorandum is a response to the recently completed audit of the Airport's Parking Management Agreement. We appreciate the efforts and comments made by the Auditor's Office in the completion and documentation of the audit. We appreciate and recognize the finding that the "Airport has controls in place to ensure it receives all the revenues generated in its parking facilities".

The comments below address the recommendations and related opportunities suggested in the audit report to help us improve controls, achieve potential cost savings, enhance customer service and to assist us with our upcoming request for proposal process for our next parking management agreement.

Recommendation #1 - Revise procedures related to reconciling credit card transactions to reflect the new operating environment once the new PARCS is installed and implemented.

Airport staff agrees with the recommendation and will evaluate the procedures related to reconciling credit card transactions, recognizing the reporting flexibility and options that will be available when the new PARCS is installed and implemented.

Recommendation #2 – Develop audit procedures to detect unreported revenue theft or fraud once the new PARCS is installed.

Airport staff agrees with the recommendation and will develop audit procedures that place greater emphasis on detecting unreported revenue theft or fraud.

Recommendation #3 – Clarify its procedures for calculating the monthly management fee to match the specific language of the management agreement and train staff on those procedures.

The intent of the language in the management agreement is to calculate the management fee based on the parking fees generated in the previous month, as long as the fees are deposited to the City's account within a reasonable time. As noted, the lag time for the deposit of cash transactions is generally one business day and up to 72 hours for credit card transactions. Interest is charged for delays in the deposit beyond this time.

Airport staff agrees with the recommendation and will ensure that the procedures for calculating the monthly management fee will be clearly outlined in the next parking management agreement.

Recommendation #4 – Identify the Airport or City official to whom the operator should submit its performance and fidelity bonds in its next Request for Proposal and Airport Parking Management Agreement.

Airport staff agrees with the recommendation and the City official to whom the operator should submit the document to will be clearly specified in the RFP and parking management agreement.

Recommendation #5 – Consider using a cost plus management agreement for its next Request for Proposal and Airport Parking Management Agreement.

Airport staff agrees with the recommendation and the cost plus management model will be used in the RFP and parking management agreement.

Recommendation #6 – Include specific provisions to protect against the reimbursement of costs which are overstated or unrelated to Airport parking operations in its next Request for Proposal and Airport Parking Management Agreement.

Airport staff agrees with the recommendation and will include in the RFP verbiage similar to Portland's management agreement to ensure controls are in place to protect against overstatement of costs and charges for unrelated charges.

Recommendation #7 – Consider reducing the frequency of nightly LPI inventory and eliminating the unaccounted vehicles provision in the next Request for Proposal (RFP) and Airport Parking Management Agreement/. The RFP should also include specific language describing how the inventory is conducted, i.e., the use of LPR and LPI technology.

Airport staff agrees with the recommendation and the RFP will specify inventories required and the method (physical count vs. LPI vs. LPR verification). Verbiage similar to the SFO paragraph will be included in the RFP.

Recommendation #8 – Explore the possibility of contracting with a vendor to install space locator dispensers in the Airport's parking facilities.

Airport staff will work with City Purchasing staff to determine if vendors are available and interested in providing space locator dispensers in the Airport's parking facilities with a goal of implementation when all of the new parking facilities are in place by mid-2011.

Recommendation #9 – Include a clause that allows the City, with notice, to become the bankcard merchant for credit card transactions at its parking facilities in the next Request for Proposal and Airport Parking Management Agreement.

Airport staff agrees with the recommendation and the RFP and parking management agreement will include a clause that will allow the City to become the bankcard merchant with 30-day notice.

Recommendation #10 – Include in its next Request for Proposal and Airport Parking Management Agreement the required controls to guard against the risks of theft or fraud from the new pay-on-foot machines and automatic exit gates.

Airport staff agrees with the recommendation and will use the PARCS installation consultant to assist in developing language to include in the RFP to guard against the risks of theft or fraud associated with the use of Pay-on-Foot and automated exit equipment.

Recommendation #11 – In its next Request for Proposal and Airport Parking Management Agreement:

- *Include a provision that the operator provide quarterly or annual evidence of a Certification of Compliance with PCI standards and*
- *Outline the PCI requirements for which the operator is responsible.*

Airport staff agrees with the recommendation and the RFP and parking management agreement will include requirements for quarterly and annual certification of compliance with PCI standards and the specific responsibilities and requirements of the operator related to PCI compliance.

Recommendation #12 – Develop performance standards that reflect customer service goals and a mechanism to monitor them.

Airport staff agrees with the recommendation and will develop customer service standards and measures for performance to be met by the operator for inclusion in the RFP and parking management agreement.

Recommendation #13 – Clarify Airport and operator responsibilities related to customer complaints and the operation of the employee lot in its next Request for Proposal and Airport Parking Management Agreement.

Airport staff agrees with the recommendation and specific standards and measurements for complaint handling and the operation of the employee lot will be included in the RFP and Agreement.

Recommendation #14 – Obtain certified payroll records from Ampco for July 2007 through the current month to determine whether any employees were paid less than the City's living wage rate.

The Office of Equality Assurance has contacted Ampco and has requested the certified payroll records to ensure compliance with the City's living wage policies.

Recommendation #15 –

1. *Revise the Non-Revenue Badge (NRB) policy to require that all NRB holders, including elected officials, acknowledge and agree on an annual basis to use the NRBs in accordance with the program's rules and regulations.*
2. *Include in the written rules and regulations provided to local and state officials that the NRBs are only intended for use while on official government business; that acceptance of free parking at the Airport may disqualify them from taking official action on Airport related matters in the conducting of official duties; and that the free parking privilege may be a reportable financial gift/interest to be included on their California Form 700, Statement of Economic Interest; and*

3. *Request the City Manager annually approve the list of NRB holders or delegate authority to approve NRB requests to the Director of Aviation.*

Airport staff agrees with the recommendations and has revised Airport policy to require annual acknowledgements and statements regarding use for official business, potential effects on official actions and possible Form 700 implications. The City Manager will be provided the option of approving the list of NRB holders or delegating the duty to the Director of Aviation.

Recommendation #16 –

1. *Propose amending the Municipal Code Section 25.16.050.C to include tenant managers working in the terminal area as persons authorized for parking without charge.*
2. *Propose amending the relevant Municipal Code sections to clarify whether parking without charge is allowable for official government or City business or is only allowable for Airport related purposes.*

Airport staff understands the recommendation and will consult with the Attorney's Office to determine the most appropriate action to take.

Recommendation #17 – Propose amending the City Council rate resolution pertaining to the Airport's fees and charges to allow the Director of Aviation to authorize a limited number of monthly permits to tenants to park in public parking areas.

Airport staff agrees with the recommendation and a City Council memo will be drafted to recommend approval of Director of Aviation ability to authorize monthly permits to tenants to park in public parking facilities.

Please let me and my staff know if you have any questions related to our responses. We appreciate your efforts and recommendations and expect to implement them within well the timeframes provided for in the audit.

Sincerely,

William F. Sherry, A.A.E.
Director of Aviation

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class[1]	Description	Implementation Category	Implementation Action[3]
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.[2]	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists.[2]	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

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1 The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

2 For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of $50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of $100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

3 The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.