



# Internal Audit Report

---

Comprehensive Operational Audit

Port of Seattle  
Ground Transportation

January 1, 2010 – June 30, 2012

Issue Date: September 11, 2012  
Report No. 2012-17

## Table of Contents

Transmittal Letter.....	3
Executive Summary .....	4
Background .....	5
Highlights and Accomplishments .....	5
Audit Scope and Methodology .....	6
Conclusion.....	6
Schedule of Findings and Recommendations.....	7
1. Department Controls Over Concession Agreements and Violations Need Improvement .....	7

## Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed a comprehensive operational audit of the Ground Transportation Department.

We examined information related to the period from January 1, 2010 through June 30, 2012.

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 extend our appreciation to the management and staff of the Ground Transportation Department for their assistance and cooperation during the audit.



Joyce Kirangi, CPA  
Director, Internal Audit

## Executive Summary

**Audit Scope and Objective** We examined the Ground Transportation Department for the period from January 1, 2010 to June 30, 2012.

The purpose of the audit was to determine whether the Department management has established adequate controls to ensure that:

- all applicable tariffs are charged accurately, collected properly, and deposited intact
- concession revenue is properly calculated per the concession agreement and remitted timely
- all violations have been processed

### **Background**

The Ground Transportation Department at Seattle-Tacoma International is a department of 15+ FTEs with a total operating expense budget of \$4.5 million in 2012. The Department is responsible for managing a variety of ground transportation operators consisting of taxis, limousines, courtesy vehicles, charter buses, airporters, shuttle buses, parcel carriers, and crew vans. In 2011, there were over 2 million outbound trips (i.e., from the airport to destinations). The Department collected over \$7.5 million in transportation fees (non-aeronautical revenue) in 2011.

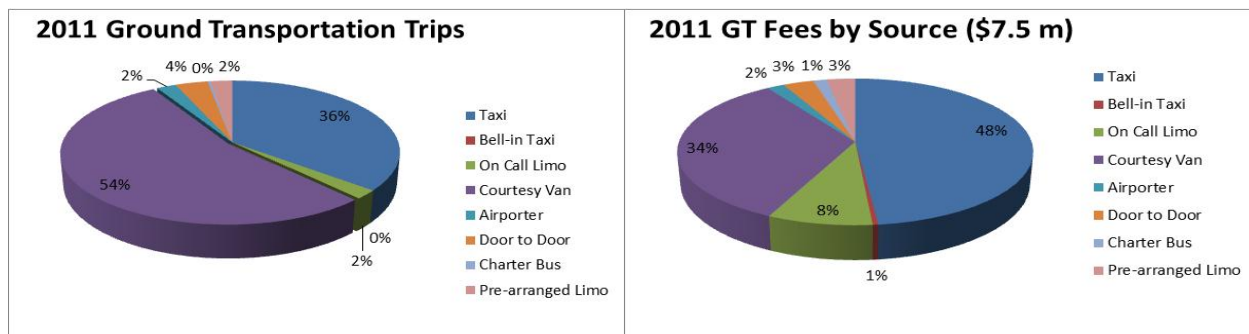
### **Audit Result Summary**

We found that the Ground Transportation Department has adequate controls to ensure all applicable tariffs are charged accurately, collected properly and deposited intact. We noted no significant issues with the timely receipt of monthly concession revenue. However, the controls need improvement over additional concession revenue, payable on a quarterly and annual basis, and completeness of violations.

## Background

The purpose of the Ground Transportation Department at Seattle-Tacoma International Airport is to promote high quality, safe and convenient ground transportation services for the traveling public. Ground Transportation (GT) at Seattle-Tacoma International is a department of 15+ FTEs with a total operating expense budget of \$4.5 million for 2012. The Department manages over 2 million outbound trips each year, as shown below, with taxis and courtesy vans accounting for 90% of the trips. Ground Transportation generated \$7.5 million in airport transportation fees in 2011. Airport transportation fees are non-aeronautical revenue for the airport.

As shown below, taxis, courtesy vans, and on call limos accounted for 90% of the fees.



All GT activities are monitored by ten controllers who oversee the operation by monitoring the upper drive, lower drive, commercial lanes on the third floor of the parking garage, cell phone lots, and airport roadways. The controllers are responsible for inspecting taxis and limos, as well as monitoring commercial vehicles that utilize the airport. The inspections ensure that all vehicle operators follow State, County, and Port regulations. From the Ground Transportation Center (GTC), the controllers dispatch limos and charter buses, as well as assist phone-in and walk-up customers. The GTC is located in the center of the 3rd floor of the parking garage.

Transportation fees are generated in several methods. On-call taxis and on-call limousines are under concession agreements with minimum annual guaranteed payments, payable monthly. Courtesy vans, airporters, and door to door operators (shuttle buses) are invoiced monthly based on per-trip fees. An automated vehicle identification system monitors and records each trip. Charter buses are invoiced monthly based on dispatch logs. Bell-in taxis, pre-arranged limos, parcel carriers, and crew vans purchase annual permits.

## Highlights and Accomplishments

During the course of the audit, we observed the following effective and efficient management practices:

- The Department transitioned from a per-trip billing process to concession agreements for both on-call taxi and on-call limousine services, which increased revenues and improved billing efficiency.
- The Department implemented a new system, Gatekeeper, for recording vehicle operator information, such as vehicle and driver information. The system is integrated with the automated

vehicle identification system that records per-trip data and is used for billing purposes. In the near future, this system will be integrated with the Port's accounting system for greater automation of billing per-trip fees, and thus improving accuracy and efficiency.

## **Audit Scope and Methodology**

We reviewed information for the period from January 1, 2010 to June 30, 2012. We utilized a risk-based audit approach from planning to testing. We gathered information through interviews, observations and analytical reviews, in order to obtain a complete understanding of the Ground Transportation Department.

We identified and tested management controls to determine the areas of audit focus. Our audit focused on the areas with the highest likelihood of significant negative impact to the Port.

We applied additional detailed audit procedures as follows:

- To ensure that all applicable tariffs were charged accurately, collected properly, and deposited intact:
  - We tested a sample of three months per year for each of the years we audited. We validated the per-trip fees by operator type and verified the number of trips billed. We recalculated and checked the accuracy of total charges and timeliness of billing.
  - We tested the accuracy and completeness of permits by operator type. We identified duplicate and out-of-sequence permit numbers and identified the causes.
  - We verified the inventory records by permit type and tested a sample of the daily reconciliation of permit sales with cash receipts. The sample consisted of two reconciliations per month for 2012.
- To ensure that concession revenue was properly calculated per the concession agreement:
  - We tested all concession payments within the audit period and verified the accuracy, completeness, and timeliness of concession payments.
  - We calculated additional trip fees for the concession year for the STILA agreement.
  - We calculated quarterly percentage fees for all quarters for the Puget Sound Dispatch agreement. We also calculated the annual percentage fee for the 2011 contract year.
- To ensure all violations were processed:
  - We analyzed the log of violations for missing records.
  - We tested 25 of the 150 violations in 2012 that were not voided or warnings and verified the timeliness of processing and billing.

## **Conclusion**

We found that the Ground Transportation Department has adequate controls to ensure all applicable tariffs are charged accurately, collected properly and deposited intact. We noted no significant issues with the timely receipt of monthly concession revenue. However, the controls over additional concession revenue, payable on a quarterly and annual basis, and for accounting for all violations, need improvement.

## Schedule of Findings and Recommendations

### 1. The Department's Controls Over Concession Agreements and Violations Need Improvement

We observed the following operational areas where controls could be improved:

#### a) Monitoring Controls Over Concession Agreements

The concession agreement with Puget Sound Dispatch (Yellow Cab) requires a quarterly (based on contract year quarters) Percentage Fee of 13% of gross receipts if the fee exceeds the Minimum Annual Guaranty (MAG). It also requires that the quarterly payments of Percentage Fees be reconciled at the end of each year.

We observed that the concessionaire did not remit the following required quarterly percentage fees:

3rd Quarter, 2011 Ending July	\$60,992
4th Quarter, 2011 Ending October	\$49,037
3rd Quarter, 2012 Ending July	\$79,136

The Ground Transportation Department lacked an established monitoring process to ensure or to verify that the concessionaire complied with the terms and conditions of the agreement. When the concessionaire did not pay the above quarterly percentage fees required by the agreement, the Department had no established controls to identify the non-compliance. Further the Department itself did not comply with the agreement terms which require a year-end reconciliation of the quarterly percentage fee and annual MAG.

The Department's monitoring controls to ensure the correct calculation of the Percentage Fee and timely payments were lacking.

For the 2011 contract year, it happens that the total Quarterly Percentage Fees were less than the Minimum Annual Guaranty (MAG). Thus, other than the foregone cash flows, there was no financial impact of having missed the required quarterly percentage fees for 2011. However, necessary monitoring controls should have been present to ensure full compliance with the agreed-upon terms and conditions of the concession agreement.

#### b) Accountability Over Violations

The Commission approved tariff provides currently a \$150 fine for any violation of provisions specified in Operating Agreements. The Ground Transportation controllers issue violations to enforce compliance. The violation can also record a warning, which has no fine, or could be voided. An issued violation could be appealed and waived or billed. Violations are primarily an enforcement tool of the Department to encourage compliance with their rules and instructions, rather than a mechanism for generating revenue. For 2011, violation fines totaled some \$35,000.

The controls to account for all sequentially numbered violations were not effective. Although a log is used to control issuance of violations to the controllers, we found about 20% of the violations

issued were unaccounted for in 2010 and 2011. There was a lack of clear guidance on what to do with any voided violation and that all violations need to be accounted for. As such, we cannot provide management with reasonable assurance that the recorded violations included all issued violations for the period under audit.

**Recommendations:**

We recommend management strengthen controls:

- To ensure full compliance with concession agreements.
- To account for all violations

***Management Response***

*Landside Operations agrees with the schedule of findings as a result of the Internal Audit Report for Ground Transportation.*

*The control concern regarding the Puget Sound Dispatch Concession Agreement was a result of some misinterpretation on the part of staff and the Concessionaire. Going forward, Ground Transportation will request the assistance of the Accounting and Financial Reporting group to assist in quarterly calculations to ensure additional revenue is received. Further, we will request their assistance with year-end true ups, as they conduct similar work for other departments. Ground Transportation will clarify this to the Concessionaire and consider less complicated terms for future agreements.*

*Going forward with Ground Transportation Violations, the department intends to implement a mobile solution to automate the process and minimize paperwork. This concept has been discussed for years, but deferred while the Automated Vehicle Identification (AVI) project was designed, awarded and implemented. While improvements have been made to the administrative procedures in processing violations, we have not been receiving every paper violation back from staff, such as “voided” or “warning” documents. We have communicated to staff the importance of getting each paper violation back so we can account for every single one, no matter the value or circumstance. Further, we have already matched up the spreadsheets spanning over several years, revealing gaps in any citations issued. This will improve our monitoring process while we await a mobile solution.*