PRELIMINARY REVIEW

OF

CONTRACTORS

DETROIT METROPOLITAN WAYNE COUNTY AIRPORT

PREPARED FOR

THE JOINT LEGISLATIVE SELECT COMMITTEE

ON THE WAYNE COUNTY DETROIT METROPOLITAN AIRPORT

27-614-00L6

July 3, 2000

The Honorable Glenn D. Steil
Michigan Senate
Co-Chairperson, Joint Legislative Committee
1020 Farnum Building
Lansing, Michigan
and
The Honorable James L. Koetje
Michigan House of Representatives
Co-Chairperson, Joint Legislative Committee
N1093 House Office Building
Lansing, Michigan

Dear Senator Steil and Representative Koetje:

This is our special report on our preliminary review of contractors at the Detroit Metropolitan Wayne County Airport (the Airport). This report is in response to a request from the Joint Legislative Select Committee on the Wayne County Detroit Metropolitan Airport (the Committee) that we perform a preliminary review of the Airport.

The Committee identified seven general issue areas for us to consider in our preliminary review. This report on contractors addresses one of the seven issue areas.

This special report contains a background, purpose of report, overview of Airport contractors, scope of preliminary review, comments, and various exhibits.

Our procedures were of limited scope. Therefore, our review should not be considered an audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

We are available to present this special report to the Committee upon request. If this is the Committee's desire or if you have any questions or concerns regarding this review, please contact me.

AUDITOR GENERAL

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*All exhibits of the Wayne County Detroit Metropolitan Airport Preliminary Review Reports are available by contacting the Office of the Auditor General in writing and specifying the exact exhibits that you would like to receive. Your written request, with your name and address, must be sent to: The Office of the Auditor General, 201 N. Washington Square, 6th Floor, Lansing, Michigan, 48913.

PRELIMINARY REVIEW OF CONTRACTORS AT THE DETROIT METROPOLITAN WAYNE COUNTY AIRPORT

BACKGROUND

In 1928, the Wayne County Airport was established pursuant to Act 182, P.A. 1927, which authorized political subdivisions, such as Wayne County, to acquire land for the operation of an airport. Renamed the Detroit-Wayne Major Airport in 1947 and the Detroit Metropolitan Wayne County Airport in 1958, the Airport today is operated under the authority of the Aeronautics Code of the State of Michigan (Sections 259.1 - 259.208 of the *Michigan Compiled Laws*). Section 259.126 of the *Michigan Compiled Laws* authorizes political subdivisions, such as Wayne County, to operate airports.

The Airport is served by all major domestic airlines and serves as a "hub" for Northwest Airlines, which operates 60 of the Airport's 103 aircraft gates. The Airport currently consists of three passenger terminals (one international terminal and two domestic terminals) as well as an on-site user-financed parking operation that is managed by a private contractor. The Airport presently has five runways (three north-south runways and two crosswind runways).

With the completion of the $10.8 million expansion to its Concourse A in November 1999, the Airport increased its number of aircraft gates to 103. In addition, the Airport and Northwest Airlines formulated an agreement in October 1996 to construct a new terminal complex, located southwest of the existing passenger terminal, called the Midfield Terminal Project. It includes a terminal building consisting of a terminal, a connecting link, an East Concourse with 66 jet aircraft gates, a passenger tunnel, and a West Concourse with 8 jet aircraft gates and 25 commuter aircraft gates; a new parking structure; an energy plant; a south entry road to the airport; a sixth runway, apron, and taxiways; and support facilities. The Midfield Terminal is scheduled for completion at the end of calendar year 2001.

PURPOSE OF REPORT

This special report is in response to a request from the Joint Legislative Select Committee on the Wayne County Detroit Metropolitan Airport that we perform a preliminary review of the Airport. The Committee identified seven general issue areas for us to consider in our preliminary review. This report contains the results of our preliminary review covering the general issue area of Airport contractors, including vendors, concessions, construction, and parking.

OVERVIEW OF AIRPORT CONTRACTORS

Wayne County enters into numerous and diverse contractual agreements on behalf of the Airport. The County engages in traditional contractual agreements for the purchase of goods and services necessary to operate the Airport. Examples of purchased goods include automobiles, maintenance equipment and supplies, office equipment and supplies, emergency medical equipment, uniforms, and firearms. Examples of purchased services include trash disposal, construction, maintenance, landscaping, snow removal, and consulting.

The County also enters into contractual agreements with various concessionaires, who operate revenue-generating services, such as food and beverage, advertising, transportation, and merchandise shops, on Airport property. These concessionaires contractually agree to compensate the County for the privilege of operating an Airport concession. Compensation is typically based on a percentage of concession revenue.

Finally, the County has contractual agreements with the airlines and others who conduct air transportation activities at the Airport. For example, landing fees and charges are levied upon aircraft operated and landed at the Airport. In addition, airlines and other entities lease certain premises and facilities at the Airport.

SCOPE OF PRELIMINARY REVIEW

Our procedures were of limited scope. Therefore, our review should not be considered an audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

We requested a listing of all Airport contracts on August 26, 1999. On September 21, 1999, the Airport provided us with its listing of all Airport contracts. We have reproduced in Exhibit A the pertinent columns from the Airport's contract listings exactly as they were presented to us by the Airport. The Airport stated that the contract listing was incomplete in the description section because its software program was limited to 64 characters. This is the reason for the incompleteness of certain columns contained in Exhibit A.

We reviewed and analyzed Wayne County ordinances, policies, and procedures applicable to Airport contracting and contractors. We discussed these ordinances, policies, and procedures with Airport management.

We identified and analyzed the various contract types. We described the contract type, compared and contrasted it to other contract types, and commented on the specific provisions associated with certain contracts.

To obtain an understanding of the procedures and practices employed by the Airport to monitor Airport contractors and subcontractors for quality of services, compliance with contract provisions, proper remittance of all concession revenues owed, etc., we identified and reviewed written Airport policies and procedures pertaining to internal control over Airport contractors. Airport management also identified additional unwritten internal control processes that it declared are employed by Airport personnel pertaining to Airport contractors. We did not verify the performance of the internal control processes that the Airport declared are employed.

We studied the Airport's policies and procedures pertaining to curbside space management (i.e., the enforcement of rules regarding stopping, standing, or parking curbside) at the Airport, as well as curbside space assignments (i.e., issuing permits) granted to Airport contractors.

We examined audit reports and reviews of the Airport performed by the Wayne County Auditor General, annual reports of the Airport's independent public accounting firm, and reports of a consulting firm engaged by the Airport to examine Airport concessions. We inquired into the Airport's efforts taken to address the issues identified in these reports.

Finally, we reviewed efforts by the Wayne County Commission to increase oversight of the Airport's operations, concessions, and contractors.

COMMENTS

Overview of Wayne County Purchasing Policies and Procedures

The Airport contracts under Wayne County purchasing policies. On April 30, 1998, the Wayne County Department of Management and Budget issued a written general purchasing policy and procedure statement. The policy encourages competition in County contracting by promoting full and open competition in soliciting offers and awarding County contracts. The County's purchasing policy also identifies situations where soliciting competitive bids or proposals is not required.

Once the decision whether to solicit bids or proposals is made, the County purchasing policy requires the Airport to determine the type of contract best suited for the procurement. The policy lists four different types of contracts: fixed-price contracts, cost-reimbursement contracts, time-and-materials contracts, and concession contracts. The policy also describes labor-hour contracts, which is not recognized as a separate contract type under the policy. A description of each type of contract is found on pages 10 through 12.

Once the Airport has decided on the type of contract, bids or proposals are solicited and evaluated (if applicable) and a contract is awarded to the appropriate contractor pursuant to County policy. County policy also states that a contractor must list its proposed subcontractors in the contractor's bid. Furthermore, County policy states that, if a contractor subsequently chooses to hire a subcontractor not listed in its bid, the contractor must select the subcontractor from at least three quotes for the subcontracted services.

In addition, County policy states that the Airport may exercise approval authority over a contractor's hiring of subcontractors when the subcontract work is complex, the dollar value is substantial, or the type of contract or subcontract (i.e., cost-reimbursement, time-and-materials, or labor-hour) does not adequately protect the County against excessive cost increases.

Airport Response:

The Wayne County Department of Management and Budget published a comprehensive policy statement that is followed by all departments and agencies in procuring goods and services. The County's Purchasing Director and the County's Chief Financial Officer administer the provisions of the policy. The policy is premised on sound, generally accepted business practices intended to promote full and open competition in County contracting.

The policy is intended to be used as a guideline for most purchasing activities. It is generally understood, however, that requirements may be waived at the discretion of the County Purchasing Director when circumstances warrant.

Contract Classification

Background:

The Wayne County purchasing policy identified four different types of contracts:

a. Fixed-Price Contracts

A fixed-price contract is a contract requiring the contractor to complete work at a fixed price regardless of the contractor's cost of performing the contract. According to County policy, an Airport contract must be awarded on a fixed-price basis when soliciting competitive bids.

The Airport benefits from having a fixed-price contract because the contractor, not the Airport, bears the risk of incurring additional, unforeseen costs. Fixed-price contracts are also the simplest type of contract for the Airport to administer.

b. Cost-Reimbursement Contracts

In a cost-reimbursement contract, the County reimburses the contractor for allowable costs that the contractor incurs when performing the contract. The contractor bears little, if any, risk in performing such a contract because it guarantees that the contractor will be reimbursed for its costs.

County policy states that cost-reimbursement contracts are not favored and are only to be used in extremely urgent or highly unpredictable contracting situations. Such situations are defined as instances in which a fixed-price contract cannot be used because the cost of performing a contract cannot be estimated with sufficient accuracy.

County policy permits a fixed-price contract or a cost-reimbursement contract to be used when a contract is awarded based on a proposal or is negotiated, such as with a sole-source procurement. To use a cost-reimbursement contract, the Airport must demonstrate that the contractor's system of accounting will allow the County to determine costs allocated to the contract, that Airport personnel will monitor contractor performance to ensure that the contractor is working efficiently and economically, and that a cost-reimbursement contract is ultimately less costly and the only practical way to procure the services.

c. Time-and-Materials Contracts

A time-and-materials contract is a combination of a fixed-price contract and a cost-reimbursement contract. The contractor provides labor on an indefinite quantity, fixed-price basis and provides materials on a cost-reimbursement basis. County policy provides that a contractor may include profit in the labor rate, but may not add profit to the materials cost.

County policy allows contractors to include reasonable and allocable materials handling costs to its materials charge only to the extent that the contractor has excluded them from the hourly rate. Materials handling costs are to be indirect costs, such as general and administrative expenses allocated to direct materials under the contractor's accounting practices, and consistent with the County's cost principles and procedures.

County policy limits time-and-materials contracts with the same conditions that restrict cost-reimbursement contracts because time-and-materials contracts impose similar administrative and cost burdens. County policy indicates that time-and-materials contracts are suited for repair, maintenance, or emergency construction services for which the County knows the type of goods and services required, but cannot estimate the extent or duration of the work.

d. Concession Contracts

A concession is a revenue-generating service operated on Airport property. The highest responsible bidder is selected, typically based on the percentage of anticipated revenue. Criteria for qualification include the quality of management staff, the firm's experience, and financial stability.

County policy states that the length of a concession contract depends largely on the amount of capital the contractor must spend to meet the contract requirements. The higher the contractor's investment, the longer the contract term because the contractor needs time to amortize the capital outlay.

e. Labor-Hour Contracts

Although not specifically recognized as a separate contract type under County policy, labor-hour contracts are also described in the County's policy. A labor-hour contract is used where the contractor provides only labor to the County. The County pays the contractor for the actual hours that the contractor's staff work, based on agreed fixed hourly rates for specified classes of labor. These rates include the contractor's indirect costs and profit.

A labor-hour contract resembles a fixed-price contract in that fixed hourly rates are used. However, a labor-hour contract is not a fixed-price contract. Although the hourly rates of a labor-hour contract are fixed, the quantity of hours, and thus the total contract price, is not.

County policy states that a labor-hour contract that includes the cost of the contractor's purchase of materials is actually a time-and-materials contract. County policy requires the Airport to reimburse the contractor for materials on a strict cost basis.

Procedure:

We reviewed applicable County policy pertaining to the various types of Airport contracts. We inquired into the existence and number of cost-plus/cost-reimbursement contracts at the Airport. We also considered our observations of contract provisions made previously in our Preliminary Review of Competitive Bidding of Contracts.

Comment:

a. Cost-Plus/Cost-Reimbursement Contracts

In its March 9, 2000 response to our March 1, 2000 request for information on each cost-plus/cost-reimbursement contract existing at the Airport, the Airport indicated that it had three cost-reimbursement contracts: APCOA, Inc. - parking management, Commuter Transportation Company - employee shuttle, and One Source - janitorial service (see Exhibits B-1 and B-2).

The Airport asserted that these were the only contracts with cost-plus or cost-reimbursement features. However, from our limited sample of contracts reviewed in our report on competitive bidding, we identified three other contracts that also contained cost-plus and/or cost-reimbursement features.

The Airport maintenance assistance contract (American International, Inc.) provides for payment ". . . on a cost/plus basis for skilled trade maintenance assistance services . . . ." Furthermore, the contract obligates the Airport to pay the contractor reimbursable expenses incurred by the contractor or its subcontractor for all work performed pursuant to a maintenance assistance work order. Reimbursable expenses include the expense of "special procurements" which "shall be billed on a cost/plus basis not to exceed seven and one-half percent (7.5%) of such cost."

Similarly, the Airport's landscape maintenance contract (Torre & Bruglio, Inc.) contains one cost-plus-35% provision, one cost-plus-30% provision, one cost-plus-20% provision, and one cost-plus-15% provision.

In addition, the Airport's professional management services contract for the Capital Improvement Program (The Program Managers Team, LLC) has compensation provisions allowing direct cost reimbursement for expenditures

made by the contractor or its consultants. The contract provides for the following reimbursements "without limitations":

(1) Long distance telephone calls and telegrams and fees paid for securing approval of authorities having jurisdiction over projects.

(2) Handling, shipping, mailing, and reproduction of project-related materials.

(3) Transportation and living expenses when traveling in connection with a project.

(4) Purchase and/or rental of electronic data processing equipment.

(5) Premiums for carrying insurance which is required as a result of the contract with the Airport.

(6) Relocation of employees and families (to and from the project area), subject to Airport approval.

(7) Temporary living expenses of employees who are not relocated but assigned to the project, subject to Airport approval.

(8) Sales or use taxes and other similar taxes required to be paid as a result of the contract.

(9) Field office and field office expenses, including field telephones, utilities, field furniture, and equipment and supplies.

(10) Any other reimbursable direct costs incurred by the contractor.

This contract also allows the contractor to engage its own consultants at a reimbursed rate of cost times a multiple of 1.05 (i.e., cost-plus), up to $500,000.

The relevant cost-plus/cost-reimbursement contract provisions described in the preceding are included in Exhibit C.

b. Time-and-Materials Contracts

In its March 9, 2000 response to our cost-plus/cost-reimbursement contracts inquiry, the Airport indicated that many contracts are based upon usage rather than a fixed payment amount. The Airport stated that these service contracts include set hourly rates and are based upon the contracted hourly rate times the hours worked (labor-hour contracts). The Airport cited elevator and escalator maintenance, guard service, snow removal, and skilled trades as examples.

However, the Airport did not discuss the materials cost components of these services in its response. From our limited sample of service contracts reviewed in our report on competitive bidding, we identified three Airport service contracts that also contained cost-plus and/or cost-reimbursement provisions pertaining to materials. The Airport maintenance assistance contract is contractually described as "cost/plus" and provides for purchases of "special procurements" which are "billed on a cost/plus basis not to exceed seven and one-half percent (7.5%) of such cost." Similarly, the landscape maintenance contract provides for live goods rates at cost plus 35%, subcontractor rates at cost plus 30%, rental equipment rates at cost plus 20%, and hard goods rates at cost plus 15%. Also, the professional management services contract for the Capital Improvement Program allows for $3,006,000 in reimbursable costs over a five-year period, including up to $500,000 for consultant services at cost times a multiple of 1.05.

Wayne County's general purchasing policy and procedure statement requires materials cost reimbursements to be made only on a strict cost basis. The policy does allow for a "reasonable and allocable" materials handling cost fee to be added to cost reimbursable materials (i.e., cost plus handling fee) but only if the contractor has excluded these fees from the hourly rate. Based on the contractor's hourly rate schedule, if such fees had already been incorporated into the hourly labor fees paid by the Airport, paying an additional materials handling fee would violate the policy.

In addition, the professional management services contract for the Capital Improvement Program provided for non-materials handling reimbursements for subcontracted consulting services. These contract provisions violated the

policy because they were not associated with materials handling but were reimbursable at cost plus 5% rather than on a strict cost basis.

In response to our Overview of Wayne County Purchasing Policies and Procedures, the Airport stated that it is generally understood that the policy's requirements may be waived "when circumstances warrant."

Airport Response:

As stated in this report, Office of the Auditor General (OAG) staff requested Airport personnel to identify all "cost-plus/cost-reimbursement" type contracts. Airport personnel in responding to the OAG's request reasonably assumed the reference was to cost-reimbursement type contracts as defined in the County's purchasing policy. Airport personnel identified three contracts in their response that provide for full reimbursement of all costs incurred by the contractor. The Airport believes that it responded fully to the OAG's request for information and that the list provided to the OAG represents a complete and accurate disclosure to the specific inquiry.

The alleged omissions in the Airport's response that are cited in this report represent contracts that contain provisions to reimburse contractors for materials costs and/or incidental expenses incurred in performing the contracted services. The referenced contracts include: (1) the American International, Inc., contract for skilled trade maintenance assistance services, (2) the Torre & Bruglio, Inc., contract for landscape maintenance, and (3) the Program Managers Team, LLC, contract for professional management services. As the report suggests, these contracts contain "cost-plus features." However, the Airport does not believe that these contracts are cost-reimbursement type contracts as defined in the County's general purchasing policy and procedure statement or "cost-plus" type contracts, as the Airport understands the reference.

The report also suggests that the three contracts contain provisions contrary to the County's policy requiring materials cost reimbursement on a strict cost basis. The policy and procedure statement to which the OAG refers clearly states: "A *time-and-materials contract* is a combination of the fixed-price and cost-reimbursement contract. In this type of contract, the contractor provides labor on an indefinite quantity, fixed-price basis and provides material on a cost-reimbursement basis." Further, "[t]he contractor may include reasonable and allocable material handling costs to its materials charge only to the extent that the contract has excluded them from the hourly labor rate."

The American International, Inc., contract is a "time-and-materials" contract as defined in the policy. The County's policy provides for reasonable allowances for materials handling and administrative overhead expenses over and above the actual cost of materials and subcontracted services. The specific provision in the American International, Inc., contract allows the contractor to recover up to 7.5% on certain reimbursable expenses to help offset legal, accounting, and other administrative costs incurred by the contractor. The contract provisions were reviewed and approved by the County Purchasing Director, the County Corporation Counsel, the County Chief Financial Officer, and the County Commission before the contract was ultimately executed.

With any type of set standards, provisions have to be made for some nontypical areas of contracting. The contracting service that Torre & Bruglio, Inc., provides to the Airport is a nontypical service. But one should note that there is a clause in the contracting policy and procedure for this type of exception. This contract is an industry standard for landscape services. The contract provisions were reviewed and approved by the County Purchasing Director, the County Corporation Counsel, the County Chief Financial Officer, and the County Commission before the contract was ultimately executed.

The Program Managers Team, LLC, contract represents a standard professional services contract and not a "cost-plus" type contract. The Airport believes that it is generally accepted practice to reimburse professional services contractors for incidental expenses incurred in performing the required services. The contract provisions were reviewed and approved by the County Purchasing Director, the County Corporation Counsel, the County Chief Financial Officer, and the County Commission before the contract was ultimately executed.

Epilogue:

The Airport believes that it has fully responded to our request to identify all cost-plus/cost-reimbursement type contracts and that it reasonably assumed that the reference was to cost-reimbursement type contracts as defined in the County's purchasing policy. In support of this assertion, the Airport states that it does not believe that the three contracts in question are cost-reimbursement type contracts or cost-plus type contracts, as the Airport understands the reference. The Airport understood the reference in its March 9, 2000 response to our request (see Exhibit B-2) as follows:

> The Airport does not utilize "cost-plus" contracts. ("cost-plus" as defined as actual cost plus a percentage markup). Almost all contracts are bid as a percentage ***decrease*** from list price, not cost plus a markup. In fact, we can not identify any that use a "cost-plus" arrangement.

Exhibit C contains the relevant contract provisions for the three cost-plus contracts that came to our attention. Two of the contracts contained the actual terms "cost-plus" repeatedly within the contract language.

With respect to the Program Managers Team, LLC, contract, the Airport states that it is accepted practice to reimburse professional services contractors for "incidental expenses." The Airport's response does not recognize that the contract provision not only provides for "cost reimbursement" for "incidental expenses," but also provides for "cost reimbursement" of up to $500,000 for consultant services at "cost-plus" 5% (see Exhibit C-3).

Monitoring of Goods and Services Contractors

Background:

The Airport pays contractors for the goods and services delivered. A requisite level of Airport monitoring of these contractors is required to ensure that all goods and services purchased are obtained and conform to the terms of the contract.

Procedure:

We conducted interviews with Airport personnel to determine and understand the procedures and practices used by the Airport to monitor goods and services contractors.

Comment:

During discussions with various Airport staff, we were informed that the Airport did not have written procedures for monitoring Airport contractors or subcontractors. The Airport also indicated that it did not have written procedures documenting its payment processes. However, the Airport maintained that it did have internal control processes in place that it followed for Airport payments.

On December 28, 1999, we requested that the Airport to provide us with detailed descriptions of its monitoring of contractors and subcontractors (see Exhibit D). The Airport responded to our request on February 4, 2000 by providing us with 40 pages of various narratives and internal correspondence documenting its unwritten processes. The Airport described the following payment processes and practices:

a. All payments paid on vouchers or contracted services are verified for supporting documentation, allowability under contract provisions, reasonableness, and/or mathematical error as applicable. Payments are made only upon approval by the Director of Airport Finance and are processed by the County Treasurer.

b. Purchase order payments are accompanied by supporting invoices, delivery reports, and signed purchase orders. After confirming the availability of sufficient funds and approval by the Director of Airport Finance, payments are processed by the County Treasurer.

c. Because of the unique and complex nature of Airport construction and capital outlay, the Airport utilizes a private construction manager to assist in overseeing most of the Airport's building projects. The Program Managers Team, LLC, is a joint venture of Barton Malow Company, M2 International, Inc., and Sverdrup Facilities, Inc. Since 1986, the Program Managers Team, LLC, has been the Airport contractor providing professional services associated with managing the Airport's Capital Improvement Program (CIP). The Program Managers Team's duties include: monitoring CIP activities, such as construction and professional service contracts associated with CIP; reviewing and approving contractor invoices; tracking project funding (bond funds, grants, letters of intent, etc.) and committed costs for each CIP project; measuring construction progress; and monitoring CIP contract compliance.

d. With the exception of CIP (explained in item c.), the Airport's staff stated during various discussions that it did not monitor the performance of goods and services contractors. Similarly, the Airport's written response did not provide any indication that it monitored the performance of goods and services contractors.

Airport Response:

There are three statements in this section of the report that the County disagrees with. The first statement is that the Airport did not have written procedures for monitoring Airport contractors and subcontractors. The second is that the Airport did not have written procedures documenting its payment processes. The third statement is that, with the exception of CIP, the Airport did not monitor the performance of its goods and services contractors.

The responsibility for monitoring contract performance is fixed with the Airport division responsible for the related area of operation. The Division of Airport Finance is generally responsible for financial compliance of all contracts. The Division of Concessions and Quality Assurance conducts day-to-day monitoring of contractor performance as explained further in the Monitoring of Revenue-Generating Contractors section of this response.

The Division of Airport Operations conducts daily inspections of the entire Airport. The pertinent sections of the Operations Training Manual were provided for OAG review. This training manual and the written Standard Operating Procedures for Operations clearly define the day-to-day monitoring and reporting procedures for Airport contractors supervised by the Division of Airport Operations.

The Division of Properties and Facilities is responsible for issuing all permits for construction and alterations on Airport property. Each permit is reviewed by the heads of each division prior to the approval of the Director of Airports.

Applications are filed with the division. The applications are reviewed and forwarded to the appropriate Airport personnel (depending on the construction/alteration), such as the fire department, electrical, etc. The Airport has engineers, architects, construction inspectors, and a health inspector all on staff to review such applications. Upon approvals from the required individuals, the permit is issued.

Even after the permit is issued, inspectors go out and review the work from start to completion with period reviews noting required changes and enhancements. Final signoffs are received when the projects are completed to satisfaction.

The Division of Maintenance and Power monitors contracts in accordance with the provisions set forth in its Quality Manual for ISO 9002. ISO 9000 is the generic term for a series of standards sponsored by the International Organization for Standardization. The Division's Quality Manual was incorporated into its Standard Operating Procedures, which are currently in draft form until the Division receives its ISO 9002 certification. These draft Standard Operating Procedures were reviewed and reported on by the OAG in its Preliminary Review of Maintenance dated May 11, 2000. Pages 9 through 14 of the OAG report on maintenance specifically reference the review of the Division's Standard Operating Procedures and find that no deficiencies were found. These Standard Operating Procedures explain in detail the procedures followed by this Division for monitoring contracts. These same procedures are included in the Division's Quality Manual, which has been accepted by the International Organization for Standardization.

It should be noted that the Airport expects it will be the first airport in the world to have a complete ISO 9002 rating.

With respect to written procedures for payment processing, it is important to understand that, until recently, the Cash Management Division, Wayne County Department of Management and Budget, handled all payment processing from a central downtown location. Certain accounts payable functions were only recently transferred to the Division of Airport Finance effective October 1999. Unfortunately, the OAG was not referred to review or discuss centralized payment processing procedures with the responsible County Cash Management Division staff. Nevertheless, Division of Airport Finance personnel believe that all of the information that was specifically requested in the course of the review was in fact provided to the OAG staff.

Epilogue:

Our written correspondence to Airport staff pertaining to our request for internal control processes over Airport contractors and subcontractors is contained in Exhibit D. We also participated in several face-to-face meetings with Airport staff regarding the topic of contractor and subcontractor monitoring and controls. Specifically, on September 21, 1999, we met with two members of the Division of Airport Finance to discuss contractor and subcontractor monitoring and controls. Airport monitoring of and controls over contractors and subcontractors were also topics of discussion during a September 30, 1999 meeting we had with the Director of Airports, Deputy Director of Airport Administration, Deputy Chief Financial Officer - Airport Finance, and Airport General Counsel. The monitoring of Capital Improvement Program contractors and subcontractors was discussed with the Program Managers Team, LLC, on November 9, 1999. During a December 16, 1999 meeting with the two members of the Division of Airport Finance, we again inquired into the monitoring of and controls over contractors and subcontractors. On December 28, 1999, we sent the Airport a written request for contractor and subcontractor monitoring and internal control processes. On January 10, 2000, at the suggestion of the Deputy Chief Financial Officer - Airport Finance, we met with the Assistant Director of Airport Finance to further discuss and explain our December 28, 1999 written request.

After our various discussions, written requests, and verbal clarifications, the Airport responded to our inquiries on February 4, 2000. The response contained 40 pages of various narratives and internal correspondence documenting unwritten contractor and subcontractor monitoring processes that the Airport indicated were employed.

On June 21, 2000, after reviewing a draft copy of this report, the Airport produced an additional 838 pages of written materials pertaining to the monitoring of Airport contractors and subcontractors, summarized as follows:

1. **Contract Oversight Material for the Restrooms at Detroit Metropolitan Wayne County Airport** (Restroom Quality Assurance Program, with a stated inception date of July 20, 1998)

2. **Correspondence Between the County and Thrifty, Inc., and the County and Metro Service Center, Inc., Regarding Noncompliance With Financial Statement Submission** (indicated that the Airport was aware of the noncompliance and made at least one request for compliance from Thrifty, Inc., and Metro Service Center, Inc.)

3. **Midfield Concession Contract Provisions Regarding Competitive Pricing, Customer Service Performance Standards, Sanitation and Cleanliness Standards, Books and Records, and Financial Statements**

4. **Various Narratives and Internal Correspondence of Monitoring and Control Processes Previously Provided**

5. **Generic ISO Information**

6. **Listing of Insurance and Bonding Requirements**

7. **Draft Copy of ISO-9002 Quality Manual**

8. **Building Daily Inspection Checklist** (either created or revised on February 15, 2000)

9. **Airport Incident Report Form**

10. **Application for Construction or Alteration**

11. **Airport Operations Procedure Manual - Functions and Duties of Landside Operations** (dated December 1998)

12. **Airport Operations Procedure Manual - Ground Transportation Configuration** (dated December 1998)

13. **Airport Operations Procedure Manual - Airport Taxicabs** (dated December 1998)

14. **Airport Operations Procedure Manual - Shuttle Buses** (dated December 1998)

15. **Airport Operations Procedure Manual - Parking Enforcement Procedures for Employee Lot #5** (dated December 1998)

16. **Airport Operations Procedure Manual - Green Curb Zones** (dated December 1998)

17. **Airport Operations Procedure Manual - Transportation Contractors** (dated December 1998)

18. **Section G (Terminal Operations) of Operations Training Manual**

19. **Purchasing Policy and Procedure Statement**

20. **Division of Maintenance and Power Standard Operating Procedure Manual - Buildings and Trades** (draft)

21. **Division of Maintenance and Power Standard Operating Procedure Manual - Field Maintenance** (draft)

22. **Division of Maintenance and Power Standard Operating Procedure Manual - Power Plant** (draft)

23. **Division of Maintenance and Power Standard Operating Procedure Manual - Contracts and Services** (draft)

24. **Purchasing Process**
    a. Wayne County Financial System Implementation Project Process Work Sheet for Purchasing Process (dated September 28, 1998)
    b. Wayne County Financial System Implementation Project Process Work Sheet for Airport Purchasing Process (dated September 28, 1998)
    c. Wayne County Financial Implementation Flow Chart for the Purchasing Process (dated September 28, 1998)
    d. Wayne County Financial Implementation Flow Chart for the Airport Purchasing Process (dated September 28, 1998)

25. **Wayne County Accounts Payable/Cash Management Operating Procedures** (revised May 5, 2000)

26. Accounts Payable Processes

a. Wayne County Financial System Implementation Project Process Work Sheet for Accounts Payable Non-Purchase Order Travel Payments (dated September 18, 1998)

b. Wayne County Financial System Implementation Project Process Work Sheet for Accounts Payable Non-Purchase Order Batch Processing Payment Process (dated September 22, 1998)

c. Wayne County Financial System Implementation Project Process Work Sheet for Accounts Payable Non-Purchase Order Utility Payments (dated September 22, 1998)

d. Wayne County Financial System Implementation Project Process Work Sheet for Airport Accounts Payable Service Voucher Payment Process (dated September 23, 1998)

e. Wayne County Financial System Implementation Project Process Work Sheet for Accounts Payable Non-Purchase Order Service Voucher Payment Process (dated September 29, 1998)

f. Wayne County Financial System Implementation Project Process Work Sheet for Accounts Payable Purchase Order Payment Process (dated September 24, 1998)

g. Wayne County Financial Implementation Flow Chart for Accounts Payable Non-Purchase Order Service Voucher Payment Process (dated September 29, 1998)

h. Wayne County Financial Implementation Flow Chart for Accounts Payable Non-Purchase Order Utility Payment Process (dated September 15, 1998)

i. Wayne County Financial Implementation Flow Chart for Accounts Payable Non-Purchase Order Travel Payment Process (dated September 18, 1998)

j. Wayne County Financial Implementation Flow Chart for Accounts Payable Non-Purchase Order Batch Processing Payment Process (dated September 15, 1998)

k. Wayne County Financial Implementation Flow Chart for Accounts Payable Purchase Order Payment Process (dated September 25, 1998)

l. Wayne County Financial System Implementation Flow Chart for Airport Service Voucher Payment Process (dated September 22, 1998)

27. Accounts Receivable Process

a. Wayne County Financial System Implementation Project Process Work Sheet for Accounts Receivable at Detroit Metropolitan Wayne County Airport (draft dated June 16, 2000)

b. Wayne County Financial Implementation Flow Chart for Accounts Receivable at Detroit Metropolitan Wayne County Airport (draft dated June 16, 2000)

28. General Ledger Processes

a. Wayne County Financial System Implementation Project Process Work Sheet for Post Journal Entry Correction to General Ledger (dated September 23, 1998)

b. Wayne County Financial System Implementation Project Process Work Sheet for Month-End/Year-End Close to General Ledger (dated September 23, 1998)

c. Wayne County Financial System Implementation Project Process Work Sheet for Cash Reconciliation Process (dated September 18, 1998)

d. Wayne County Financial System Implementation Project Process Work Sheet for Wire Transfer Recording Process (dated September 23, 1998)

e. Wayne County Financial System Implementation Project Process Work Sheet for Monitor/Review of Fixed Assets Process (dated September 23, 1998)

f. Wayne County Financial System Implementation Flow Chart for Cash Reconciliation Process (dated September 23, 1998)

g. Wayne County Financial System Implementation Flow Chart for Monitor/Review of Fixed Assets Process (dated September 23, 1998)

h. Wayne County Financial System Implementation Flow Chart for Wire Transfer Recording Process (dated September 23, 1998)

i. Wayne County Financial System Implementation Flow Chart for Month-End/Year-End Close to General Ledger (dated September 23, 1998)

j. Wayne County Financial Implementation Flow Chart for Post Journal Entry Correction to General Ledger (dated September 23, 1998)

29. Inventory Processes

a. Wayne County Financial System Implementation Project Process Work Sheet for Inventory Ordering Processes (dated September 22, 1998)

b. Wayne County Financial System Implementation Project Process Work Sheet for Inventory Issuing Processes (dated September 22, 1998)

c. Wayne County Financial System Implementation Project Process Work Sheet for Inventory Receiving Processes (dated September 22, 1998)
d. Wayne County Financial Implementation Flow Chart for Inventory Receiving Processes (dated September 18, 1998)
e. Wayne County Financial Implementation Flow Chart for Inventory Issuing Processes (dated September 22, 1998)
f. Wayne County Financial Implementation Flow Chart for Inventory Ordering Processes (dated September 22, 1998)

The Airport and County also indicated that there were additional policies and procedures that were available, but they would require a field visit to the County's Department of Management and Budget because the documentation was voluminous.

Because of the recent date on which the Airport provided us this additional information, as well as the magnitude of the additional data, we have not attempted to reinitiate our review procedures or conduct further fieldwork by examining this data.

Monitoring of Revenue-Generating Contractors

Background:

Contracts for revenue-generating activities generally require the contractors to pay the Airport for the right to operate at the Airport. Sound business practices also require that the Airport monitor revenue-generating contractors.

Revenue-generating contracts often require contractors to submit periodic financial statements to the Airport and to make available upon request all records that may be required for audit purposes. These contracts may also require an annual audit of the contractor's financial statements by an independent public accounting firm. This is especially critical for revenue-generating or cost-reimbursement contractors, such as concession contractors and the parking contractor. Because concession contractors periodically remit fees to the Airport based on their revenues and the parking contractor collects and deposits parking fees on behalf of the Airport, active monitoring procedures are necessary to ensure the collection of concession and parking fees owed to the Airport. Similar verification procedures are needed for contractors who are reimbursed for costs under their contracts, such as the maintenance assistance contractor, landscape maintenance contractor, and

construction manager. Access to all records, books, and other pertinent information is critical for audit and verification of the reasonableness of revenue reported and cost reimbursements charged.

Concessionaires are generally contractually obligated to submit periodic financial statements, certified by an independent public accounting firm, that support the amount of concession fees remitted to the Airport. Although the Airport stated that it did not have written internal control procedures, Airport management indicated that monthly fees and revenue percentages were reconciled to certified financial statements as part of the Airport's unwritten internal control processes. In addition, as with most other Airport contracts, concession contracts generally contain provisions for County access to contractor records for audit purposes.

The Airport's parking facility also generates revenue for the Airport. The parking contractor manages the Airport's user-financed parking facility in exchange for a management fee based on a percentage of parking revenue. Parking fees are collected by the parking contractor on the Airport's behalf. The Airport reimburses the parking contractor for the costs of operating the parking facility, making the parking contract a cost-reimbursement contract.

The monitoring of Airport contractors also includes Airport efforts to ensure compliance with Wayne County ordinances pertaining to ethics in public contracting. Section 121-13 of the Wayne County Code requires certain disclosures by County employees, as well as disclosures by contractors, to preclude conflicts of interest.

Procedure:

We asked the Airport to provide us with its internal control processes that were in place over Airport contractors, absent written internal control procedures. We also obtained the Airport's description of its revenue receipt process for revenue-generating contractors' fee remittances and the internal control processes employed to ensure that all revenue is received. Unless otherwise indicated, we have not verified whether the Airport's internal control processes are being employed as indicated.

We requested financial statements of all Airport concessionaires for the three-year period from 1996 through 1998.

We reviewed internal control practices pertaining to parking operations. We obtained and analyzed the parking contractor's financial statements. We identified monitoring practices employed by the Airport over the parking contractor's activities.

We reviewed Wayne County ethics in public contracting requirements and obtained a copy of the forms used by contractors to disclose required information.

Comment:

a. Written Procedures

In response to our inquiries, the Airport stated that it did not have written procedures pertaining to the monitoring of Airport concession contractors or subcontractors. The Airport also stated that it did not have written procedures for its revenue receipt process or documentation of its internal control. However, the Airport maintained that it did have internal control practices in place for concession contractors.

b. Concession Contract Internal Control

In response to our written requests (see Exhibits B and D), the Airport described the following internal control practices for concession contracts:

(1) Concession fees are typically collected on a monthly basis. An accounts receivable clerk is responsible for collecting concession fees from concessionaires and for reconciling amounts. Flat fee concessions received are reconciled to the amount required by the contract. Concession fees based on the higher of a minimum annual guarantee or percentage of revenue basis are reconciled to the required minimum monthly amount and the monthly operating statements provided by the contractor.

The Airport stated that an accounts receivable manager supervises the work of the accounts receivable clerk. In addition, a collections agent monitors concession and airline agreements to ensure that payments are submitted in a timely manner.

(2) Internal control procedures are incorporated into concession contracts which require concessionaires to have an annual audit conducted by an independent public accounting firm. The Airport also stated that its

practices include reconciling the audited figures to the monthly reports submitted by concessionaires with monthly payments.

c. Concession Contractor Oversight

With regard to concession contractor oversight, we noted:

(1) Concession agreements generally require concessionaires to provide the Airport with annual financial statements "certified" by an independent public accounting firm. The Airport indicated that its internal control practices include reconciling concession revenue receipts to these financial statements. We did not verify whether the Airport employed the indicated internal control practices. However, our review of 20 concession contracts for the 1996 through 1998 contract periods disclosed evidence that financial statements had not been reconciled by the Airport to payments remitted by the concessionaires for two concession contracts.

(2) On September 30, 1999, we requested 1996 through 1998 financial statements for all concessionaires operating at the Airport. On October 22, 1999, the Airport provided financial statements for 18 concessionaires plus the parking contractor, stating that any remaining concession contracts at the Airport did not contain a contractual requirement that financial statements be submitted, but that these concession contracts allowed the Airport open access to the books and records at any time (see Exhibit E). The Airport did not identify the remaining concessionaires to which this applied.

On February 2, 2000, the Airport identified three concessionaires (Ameritech Mobile Communications, Inc., AT&T Corporation, and Smarte Carte, Inc.) that the Airport stated were not required by contract to submit financial statements, but were contractually obligated to allow the Airport open access to their books and records. We requested these three concession contracts to verify that financial reporting was not required and that open access to books and records was required:

(a) The Ameritech Mobile Communications, Inc., contract did require the contractor to submit reports along with its concession payments, contrary to the Airport's assertions. The contract did not require

open access to the contractor's books and records, also contrary to the Airport's assertions.

(b) The AT&T Corporation contract was not provided to us. The Airport provided us with page 18 of the Ameritech Mobile Communications, Inc., contract, which provided for an Ameritech subcontract with AT&T Corporation for long distance services for pay phones and for the sale of prepaid calling cards pursuant to a proposal submitted by Ameritech. We could not determine the details of the agreement reached with AT&T Corporation or confirm what, if any, financial reporting or open access to records requirements existed.

(c) The Smarte Carte, Inc., contract did not contain financial reporting requirements, consistent with the Airport's assertions. However, contrary to the Airport's assertions, the contract did not contain a provision requiring open access to books and records. Smarte Carte's successor (American Locker Security Systems, Inc.) was awarded the contract on September 20, 1999. The American Locker Security Systems, Inc., contract required open access to books and records and also required monthly and annual financial reports.

(3) The Airport possessed 1996 through 1998 financial statements for 18 of 20 concession contracts that we reviewed. The Airport did not have the 1996 through 1998 financial statements for 2 concession contracts (Metro Service Center, Inc., and Thrifty, Inc.). Although these statements were ultimately produced by the concessionaires as a result of our request, the Airport could not have been reconciling revenue receipts to financial statements for these two contractors because the Airport did not posses the financial information to do so.

The Airport indicated that one of the concession contractors (Metro Service Center, Inc.) refused to provide audited annual financial statements despite the fact that the contractor was contractually obligated to do so at its own expense. The Airport did not exercise its contractual right to cancel the contract. However, the Airport hired an outside consultant (Pierce, Monroe and Associates, Inc.) to conduct a review of the contractor's compliance with contract provisions. Airport funds were

used to compensate Pierce, Monroe and Associates, Inc., for the costs associated with ascertaining financial information that Metro Service Center, Inc., was contractually obligated to prepare and submit to the Airport at its own expense.

(4) In addition to the three concession contractors discussed in item (2), we identified an additional concession contractor (Metro Cars, Inc., - luxury sedan taxi service) that was not contractually required to provide either financial reports or open access to books and records under its contract provisions. As noted on page 61, the Wayne County Auditor General performed a review of the Metro Cars, Inc., concession lease in 1995. However, the review was limited to the Airport's own records of the accounts receivable activity and lease payments received by the Airport.

The Airport indicated that the Metro Cars, Inc., contract provides for a lump sum payment for each car authorized under the contract, and thus no reconciliation is necessary.

(5) To date, the Airport has provided us with financial statements for 20 of the 32 Airport concession agreements. As noted in items (2) and (4), the Smart Carte, Inc., and Metro Cars, Inc., contracts did not require financial statement submission and the agreement with AT&T Corporation was not provided to determine what, if any, financial reporting was required. The Ameritech Mobile Communications, Inc., contract required submission of financial reports, but these were not provided. In addition, a new contract (Laptop Lane Limited) was created in 1999 and financial statement submission was not applicable at the time of our review. According to the Airport, all remaining contracts did not contain financial reporting requirements.

(6) Upon inquiry during our fieldwork, the Airport indicated that routine monitoring of concession contractor performance is not undertaken. The Airport stated that, if a concession problem was brought to the Airport's attention, appropriate action or monitoring may occur. The Airport stated that it did not conduct independent monitoring of concession contractor performance, pricing, quality of service, etc.

(7) The Airport has engaged its own consulting firm (Pierce, Monroe and Associates, Inc.) to conduct occasional reviews of some Airport concessions on its behalf. There is no prescribed schedule as to when the consulting firm may conduct a review. Nine reviews of the Airport's 32 concession contracts have been conducted by Pierce, Monroe and Associates, Inc., since 1996, including 2 of Metro Service Center, Inc., which were necessary in response to the contractor's refusal to submit contractually required financial statements. The reviews conducted by Pierce, Monroe and Associates, Inc., dealt almost exclusively with matters related to the remittance of concession fees. The reports did not consider concessionaire pricing, cleanliness, quality of services and merchandise sold, or other customer service related issues. The only exception to this was one report on the news/general merchandise/specialty shop, which noted that the contractor had not complied with contractually required hours of operation.

(8) As an additional indication of concessionaire oversight, the Airport cited the fact that the Wayne County Auditor General has performed audits and reviews of Airport concessions. However, the Wayne County Auditor General does not conduct audits or reviews of the Airport on a prescribed schedule and has conducted only 3 audits and 1 review of the Airport's 32 concessions since 1991.

(9) The Airport also cited the fact that an independent audit of the Airport's financial statements is conducted by the public accounting firm of KPMG, LLP. However, this audit is limited to expressing an opinion on the Airport's financial statements. Although KPMG's audit provides assurance that the total amount of concession revenues collected by the Airport is presented fairly in all material respects in the Airport's financial statements, KPMG, LLP, has not been engaged to audit specific concession contractors directly, to ensure that the Airport has collected all concession revenue that the Airport is contractually entitled to, or to assess individual concession contractor performance, compliance with contract provisions, or service quality.

d. Parking Operations Internal Control

With regard to parking operations internal control:

(1) The Airport indicated that its parking operations utilize revenue control equipment and revenue control software. We have not examined or reviewed any of the Airport's revenue control equipment or revenue control software. Although parking tickets are pre-numbered and serialized upon issuance, a sequential listing of parking slips, along with the corresponding parking fee, is not generated. However, the Airport stated that a daily master report is compiled from all cashier shift reports. The Airport also stated that the number of vehicles paying at the exits are reconciled with the tickets collected daily based on cashier reports and the number of gate openings. We did not verify the performance of the internal control processes indicated by the Airport.

(2) The Airport stated that: parking receipts are kept in a secure location, checks are restrictively endorsed at the point of sale, credit transactions are paid directly to Wayne County, deposit envelopes are deposited daily, deposit envelopes are tabulated before deposit, the parking contractor's internal auditors perform a daily and monthly review of deposits to reported deposits, and deposit slips provided by the parking manager are reconciled to the County Treasurer's report of deposits on a monthly basis by the Division of Airport Finance. We have not verified the performance of the internal control processes indicated by the Airport.

e. Parking Operations Oversight

With regard to parking operations oversight, we noted:

(1) The Airport did not have a detailed budget covering parking operations. The parking contract executed in 1992 did not require the parking manager to submit a budget. A new parking contract, awarded to the same parking contractor (APCOA, Inc.) and signed April 5, 1999, did require an annual budget to be submitted by the parking contractor to the Director of Airports for approval. However, the Airport rescinded the April 5, 1999 parking contract on July 2, 1999. Upon rescission, the parking contract reverted to the 1992 contract provisions and, at the time

of our review, a detailed budget of parking operations had not been produced.

Because of the inherent nature of a cost-reimbursement contract, the parking contractor lacks incentive to contain costs. A detailed budget is a control to help contain costs and assign accountability that would benefit the Airport in monitoring the parking contractor's spending that is reimbursed by the Airport. It is the responsibility of the Airport to ensure that contractors and subcontractors operate efficiently, especially in cost-reimbursement contracts.

Without an operating budget, the Airport limits its means with which to measure the parking contractor's performance in terms of planned spending levels, targets, and goals. Conversely, the parking contractor has no incentives to seek more efficient or economical spending for parking operations because there are no adverse consequences for the parking contractor.

In addition, the parking contract was not awarded based on the proposed parking budgets that were required to be submitted with bidder responses. Instead, the management fee bid played a dominant role in the selection, with the lowest management fee bid winning the contract. Our review of the Airport's 1998 bid information applicable to the parking contract executed and rescinded in 1999 disclosed that, although the successful bidder (APCOA, Inc.) proposed the lowest management fee, its proposed first year expenses were $680,000 to $2,860,000 higher than the other four competitors.

Compared to reimbursed expenses, the management fee is a relatively insignificant cost to the Airport. Consider the management fee bids and the accompanying proposed budgets from the 1999 parking contract bids:

Company	Management Fee Percentage	Management Fee (Based on Parking Revenue of $30,000,000)	Proposed Budgeted First Year Expenses	Total Cost of Parking Operations
APCOA, Inc.	0.23297%	$ 69,891	$12,573,700	$ 12,643,591
AMPCO System Parking	0.7499%	$ 224,970	$ 11,893,707	$ 12,118,677
Park-Rite, Inc.	0.6100%	$ 183,000	$ 10,849,224	$ 11,032,224
Republic Parking System	0.97926%	$ 293,778	$ 10,091,637	$ 10,385,415
American International, Inc.	0.7498%	$ 224,940	$ 9,709,426	$ 9,934,366

(2) The Wayne County Auditor General conducted two audits of the Airport parking contract, one in 1991 and the other in 1998. The significant audit findings and the Airport's actions taken in response to the 1998 audit are detailed on pages 56 through 60. As noted on page 47, in response to the 1998 audit, the Airport indicated that it has heightened its monitoring of the parking contract through increased scrutiny of parking subcontractors and their cost reimbursements.

(3) The parking contractor is required to submit annual financial statements. We reproduced the parking contractor's financial statements for fiscal years 1995-96 through 1997-98 in Exhibits F-1 through F-3. A year-by-year comparison of the parking contractor's financial statements is illustrated in Exhibit G. Finally, the parking contractor's explanations for certain expenditures and significant year-to-year fluctuations in parking operations expenditures are chronicled in Exhibit H.

f. Ethics in Public Contracting

Our review included an evaluation of ethical considerations pertaining to the awarding of Airport contracts:

(1) Section 121-13 of the Wayne County Code is entitled "Ethics in Public Contracting." The stated purpose of this section is to establish a means to maintain integrity in County contracting, to ensure fair and open award of all County contracts by avoiding private arrangements to secure special and unfair advantage in competing for County contracts, and to establish an enforcement mechanism for this policy.

(2) Pursuant to Section 121-13(d) of the Wayne County Code, County employees who regularly make contracting decisions must annually disclose specific information pertaining to their relationships with contractors. Similarly, pursuant to Section 121-13(e), before award of a County contract over $20,000 or which requires Commission approval, contractors must also disclose certain specified relationships with these County employees.

(3) We noted vendor disclosure forms pertaining to contractors' disclosures of contractor relationships with certain County employees during our competitive bidding review of the Airport's contractor files. However, our review of contractor bid and proposal documentation also uncovered instances in which this form was either not completed or not included in the bid or proposal documents provided by the Airport. A vendor disclosure form, instructions, definitions, and a listing of County contract decision makers (Contract Managers List) are included in Exhibit I.

(4) Under Section 121-13(d) of the Wayne County Code, a County employee with a conflict of interest shall not take part directly or indirectly in that contract, unless a waiver is granted pursuant to subsection (1).

(5) Although our review uncovered instances of potential conflicts of interest, further review would be necessary to determine whether there was an actual conflict of interest and whether the parties properly disclosed the relationship and were appropriately granted a waiver.

g. Paradies - Metro Ventures, Inc.

The Paradies Shops, Inc. (Paradies), is an airport concession business based in Atlanta, Georgia, that operates over 250 shops in 53 airports throughout the United States and Canada. Effective April 1, 1991, the Detroit Metropolitan Wayne County Airport granted Paradies - Metro Ventures, Inc., a Michigan corporation with principal offices located in Atlanta, Georgia, the exclusive right to operate a combined news/general merchandise/specialty shop concession at the Airport for a period of 10 years. The agreement required the concessionaire to initially establish disadvantaged business enterprises that would receive not less than 50% of the gross revenues of the concession and to purchase not less than 15% of the concessionaire's gross merchandise from Metropolitan Detroit disadvantaged business enterprises. To achieve the 50% requirement, Paradies secured Metro Ventures as a 50% participant in Paradies - Metro Ventures, Inc.

The concession agreement was signed by Lawrence P. Doss and Daniel M. Paradies, the chairman and president, respectively, of Paradies - Metro Ventures, Inc. The agreement required the concessionaire to comply with all applicable federal and State laws and regulations. Failure to comply with any term, condition, or covenant of the contract would constitute default by the concessionaire, which would warrant termination at the option of the Airport.

Paradies was also a subconcessionaire of Dobbs Paschal Midfield Corporation (Dobbs) at the City of Atlanta's Hartsfield International Airport. Dobbs has also been paying a concession fee to Detroit Metropolitan Wayne County Airport as an airline-retained in-flight catering service since 1972 and was an unsuccessful bidder for the concession currently held by Paradies - Metro Ventures, Inc.

Dobbs' agreement with the City of Atlanta contained a 35% minority participation requirement for the Atlanta Airport concession. According to the United States Court of Appeals for the Eleventh Circuit, that requirement provided subconcessionaire Daniel M. Paradies and his co-defendant, Ira Jackson, an incentive to enter into a series of sham loan transactions, in addition to other corrupt payments by Paradies to Atlanta City Council members, including Jackson, in exchange for specific official acts. *United States* v *Paradies*, 98 F3d 1266, 1271 (11th Cir, 1996).

On July 9, 1993, a federal grand jury returned a 133-count indictment charging Daniel M. Paradies, two of his Paradies airport concession companies, and former Atlanta City Council member and Commissioner of Aviation Ira Jackson with various offenses stemming from the Paradies concessions at Atlanta's Hartsfield International Airport.

Following a lengthy jury trial in the United States District Court for the Northern District of Georgia (No. 1:93-cr-310), Daniel Paradies and Ira Jackson were found guilty of various offenses, including conspiring to make corrupt payments to public officials, tax fraud, and mail fraud. Daniel Paradies was sentenced to 33 months in prison, a $7,500 fine, and a special assessment of $4,200. The two Paradies companies were fined and assessed a total of $1,533,200. Ira Jackson received 42 months in prison and $14,000 in fines and special assessments. Their convictions were upheld on appeal by the United States Court of Appeals for the Eleventh Circuit.

The Court of Appeals' opinion also implicated Paradies' Michigan operations, reporting the following:

> The district court admitted two days and seven witnesses regarding evidence that the Paradies defendants violated the Michigan Campaign Finance Act ("MCFA") from 1990 through 1993 by illegally reimbursing employees for contributions to political candidates and concealing those reimbursements through phony travel vouchers.
>
> *United States* v *Paradies, supra* at 1291.

Under *Federal Rules of Evidence* (Fed.R.Evid. 404(b)), introducing evidence of a defendant's violation of a Michigan state law in a federal court in Georgia is admissible only if the jury could reasonably have found that Paradies had committed the act. The United States Court of Appeals for the Eleventh Circuit determined that this was the case, concluding:

> The government contends that the evidence was sufficient to find that Mr. Paradies was involved in his companies' illegal contributions that violated the MCFA. We agree with the government on this point, in light of the overwhelming evidence regarding the high degree of control D. Paradies had over his

> companies and the intricacy of the reimbursement plan. Specifically, the evidence showed that on two travel vouchers, the annotation "Per Dan" was included next to a dinner expense for which there was no dinner. Also, the evidence showed that Mr. Paradies was active in attempting to influence, or "lobby," decisionmakers for the benefit of his companies. The jury could infer from this evidence that Mr. Paradies was involved in the clandestine scheme to contribute to political campaigns and influence those in political office who could control his airport operations.
>
> *United States* v *Paradies, supra.*

Paradies operates concessions at both Detroit Metropolitan Wayne County Airport as well as Flint's Bishop International Airport. Further inquiry would be necessary to determine the circumstances surrounding the violations of Michigan law alleged in the United States Attorney's case against Paradies.

Airport Response:

Monitoring of Revenue-Generating Contractors

The Division of Airport Finance provided the audit staff with financial statements for 18 concessionaires that constitute 99.45% of total concession revenues. This report, however, focuses attention on 2 concessionaires (Metro Service Center, Inc., and Thrifty, Inc.) that did not provide annual financial statements to the Airport in accordance with their contractual requirements. These concessionaires provided the Airport with monthly revenue reports. The annual statements, when received, verify the monthly reports.

Division of Airport Finance personnel were aware that the financial statements for these two companies had not been provided. Several attempts were made to obtain the missing financial statements prior to the OAG's review. Additionally, both companies are small business enterprises. The County has an ongoing effort to promote contracting with small business enterprises and has historically been more indulgent in working through routine contract compliance issues with these companies.

The report discusses that there is no routine monitoring of concessionaire performance. Concessionaire reports are reviewed, monitored, and evaluated each month. A comparison of the prior year identical month and year-to-date revenue performance is evaluated for each concessionaire each month. Annual reviews and comparisons to prior years by revenue categories are also performed. Both the staff that prepare the reports as well as the Director or Deputy Director of Airport Finance perform this analysis. In addition, the Director of Concessions also reviews the monthly reports. Upon review of this data, as well as other relevant information that is obtained from other Airport management, differences or concerns are followed up on. This may result in either inquiries or the requirement that the concessionaire be reviewed in detail. This was the purpose of engaging the services of Pierce, Monroe and Associates, Inc. Pierce, Monroe and Associates, Inc., which was approved by the Wayne County Commission, was engaged to do reviews, as requested, by the Airport.

The inference that Pierce, Monroe and Associates, Inc., was brought in to do a review of Metro Service Center, Inc., just because of its refusal to submit an audit is incorrect. There were many other concerns that the Airport had with the gas station operations that lead to its request to send out Pierce, Monroe and Associates, Inc. The OAG staff who reviewed the Pierce, Monroe and Associates, Inc., report should have recognized that and commented on all the issues that Pierce, Monroe and Associates, Inc., comment on. Instead, the report incorrectly focuses *solely* on the one issue of the failure to provide an audit.

With respect to routine performance monitoring of concession contracts, the Airport's Division of Concessions and Quality Assurance has focused significant attention on improving customer service in the concessions operations at Detroit Metropolitan Wayne County Airport. There are several formal and informal procedures currently in practice, some of which are summarized below:

a. <u>Concession General Manager Meetings</u> – The Director of Concessions and Quality Assurance and her staff meet regularly (at least once every other month) with the general managers of the major airport concessions: food and beverage, news and gift, display advertising, luggage carts, and business centers. The purpose of these meetings is threefold: to educate the concessionaires about Airport management's goals and requirements of the concessions program; to inform the concessionaires about issues of common

interest or concern; and to provide a forum for the concessionaires to share concerns, problems, celebrations, and changes to their businesses. These meetings have been very productive for all involved parties. The team works together on common issues and the concessionaires all hear the same, consistent message about customer service and performance standards.

b. Lower Prices – Early in 1999, Airport management directed concessionaires in restaurants and shops to lower prices on a wide variety of items. The food and beverage operator lowered prices on approximately 30 items in the Airport's restaurants and the retail operator lowered prices on all health and beauty products. The Division of Concessions and Quality Assurance has a very close working relationship with the operators, and the two groups work closely together to adapt to changing customer demands.

c. Major Delay Plan – The Division of Concessions and Quality Assurance worked with the food and beverage and retail operators to establish a firm, reliable plan that takes effect during major delays at the Airport (due to weather, mechanical failure, or systemwide problems). Prior to the development of this plan, passengers stranded in the Airport during significant delays had very limited access to food and other concession items. The plan specifies that at least six restaurants and two major gift shops will remain open late (and in some cases for 24 hours) during a delay. Concessionaires receive notice of delays from the Division of Concessions and Quality Assurance and put the plan into action. Since this policy has been in effect, complaints from customers about availability of food and merchandise during unexpected delays has decreased significantly.

d. Operational Audits – The Division of Concessions and Quality Assurance conducts daily inspections of all the Airport's concessions. Staff take note of cleanliness, speed of service, staff friendliness, product appearance, and general facility operation on a daily basis. In any occurrence of noncompliance of an individual contract, the Division of Concessions and Quality Assurance staff through written memorandum inform the Director of the noncompliance and the steps which will be taken to bring the contract into compliance as soon as possible. The Division maintains an up-to-date contact list for the general managers and front-line supervisors of each concession and, if problems arise, the Division of Concessions and Quality Assurance staff act to resolve them immediately. This Division also works closely with the

Airport's Divisions of Properties and Facilities, External Relations, Operations, and Public Safety to ensure that the concessionaires follow all Airport rules and regulations. The Division of Concessions and Quality Assurance receives regular sales and operating reports from the operators. These reports enable staff to track historical performance, ensure contract compliance, and spot sales or service trends.

e. Customer Service Agents (CSAs) – The Division of External Relations' corps of CSAs helps the Division of Concessions and Quality Assurance monitor performance in the Airport's concessions. The CSAs are in constant contact with the public and they can quickly relay information about problems or potential problems to the Concessions and Quality Assurance team. The CSAs are familiar with the Division of Concessions and Quality Assurance's customer service policies and staff work together during unusual events to provide the best possible experience for the traveler. Along with Division of Concessions and Quality Assurance employees, the CSAs also act as secret shoppers. In this role, they patronize the Airport's shops and restaurants without identifying themselves as employees to ensure that customer service standards are upheld. The Division of Concessions and Quality Assurance addresses any concerns with the concessionaires immediately. Corrections generally take place on the day the concern is identified.

The Paradies Shops

The remarks about the Paradies shops and the Daniel Paradies' conviction in Atlanta are highly prejudicial and bear no resemblance to the operations in Detroit. First, Paradies Shops, Inc., and Metro Ventures entered into a joint operating agreement with controlling interest held in Detroit by Metro Ventures. Lawrence Doss, who is one of the most respected minority businessmen in Detroit, is the Chairman of Metro Ventures. Secondly, Daniel Paradies freely divested himself from all assets in the company and control over its daily operations. Finally, as far as the allegations of violations of the Michigan Campaign Finance Act, these items were referred to the Department of Attorney General and the Attorney General did not seek separate indictments.

Epilogue:

In response to our inquiry concerning monitoring and internal control over revenue-generating concession contractors, the Airport cited as an internal control strength that it obtains annual independent audits of concessionaire financial information and reconciles monthly concession revenues receipts to the audited financial information. We did not verify whether the Airport performed any of the reconciliation procedures that it declared were employed because of the limited scope of this preliminary review. We have focused attention on the concessionaires that did not provide the audited financial information because this fact indicated that the Airport did not possess the audited financial information necessary to perform the internal control processes that had been represented to us by the Airport, for at least these two concessions. Thus, we have disclosed pertinent additional facts that have subsequently come to our attention with respect to concession contractor monitoring and internal control.

With regard to the Pierce, Monroe and Associates, Inc., review of Metro Service Center, Inc., this report has not focused *solely* on the one issue of failure to provide an audit, as the Airport's response suggests. As shown on pages 62 and 63, this report has recognized and commented on six additional issues raised by Pierce, Monroe and Associates, Inc., including: 1) the discovery of unpaid concession fees on unreported revenue; 2) the concessionaire was not submitting gasoline sales information; 3) the concessionaire was not submitting gasoline pump meter readings; 4) the concessionaire was not submitting financial documentation supporting concession fees paid (in addition to not submitting annual statements prepared by a public accounting firm); 5) a recommendation that the Airport review prior year financial information of the concessionaire to ensure that accurate amounts are annually remitted; and 6) the concessionaire violated the concession agreement by charging for parking not incidental to providing other services, such as vehicle repair.

With regard to the Airport's response pertaining to routine performance monitoring of concession contracts, we had originally requested this information on December 28, 1999 (Exhibit D-1) and March 1, 2000 (Exhibit B-1). No additional concession monitoring procedures came to our attention during our fieldwork. The additional information described in the Airport's response was not shared with us until June 26, 2000, subsequent to our fieldwork.

Monitoring of Subcontractors

Background:

Contractors provide goods, services, materials, equipment, or supplies to the Airport. Subcontractors provide goods, services, materials, equipment, or supplies to contractors.

Most Airport contractors are paid their bid or negotiated price for the goods, services, materials, equipment, or supplies that they agreed to provide to the Airport. However, some Airport contractors are paid in part on an open-ended, cost-reimbursement basis. Reimbursable costs include the goods, services, materials, equipment, or supplies provided by a subcontractor to the contractor for the benefit of the Airport.

A contractor may lack the incentive to competitively bid or otherwise seek to contain costs when they are paid on an open-ended, cost-reimbursement basis. As a result, an inefficient or high-priced subcontractor could unnecessarily increase costs to the Airport.

In addition, the existence of subcontractors under any Airport contract, cost-reimbursement or otherwise, poses the risk that a subcontractor may not meet or adhere to applicable County standards, such as insurance protection, fair labor practices, and ethics considerations (such as conflicts of interest, affirmative action, or nondiscrimination covenants).

Therefore, Airport internal control procedures, such as subcontractor monitoring, auditing, and reimbursement verification, are necessary to ensure that reimbursed costs are contained to acceptable levels and to help determine whether any other applicable contractor obligations and County contracting requirements are being circumvented through the use of subcontractors.

In addition to the Airport, the Wayne County Commission also has responsibilities pertaining to subcontractor monitoring, pursuant to its contracting and purchasing authority under Sections 3.115 and 3.116, respectively, of the Wayne County Charter. We examined the Budget Execution Instructions of Wayne County Appropriations Ordinances dating back to the fiscal year 1994-95 appropriation. In each year, prior commission approval was required if a subcontractor had not yet

been identified or determined when the prime contract was approved. In addition, the fiscal year 1994-95 appropriation required prior commission approval if a subcontract had been let by a method other than by competitive sealed bids to the lowest conforming and responsible bidder. Beginning with the fiscal year 1995-96 appropriation, prior commission approval is required if subcontracted costs will be passed on to the County, rather than absorbed by the contracts, and if the work will be let by a method other than competitive sealed bids to the lowest conforming and responsible bidder.

The Airport indicated that it does not generally monitor subcontractors, nor does it submit subcontracts to the Wayne County Commission for approval.

The parking contractor is paid based on invoices it submits for costs reimbursable under the parking contract. The parking contractor's invoices are supported by invoices submitted by subcontractors who have previously been paid by the parking contractor. The Airport does not pay subcontractors directly.

The Airport informed us that it has recently heightened its monitoring of parking subcontractors, in response to concerns raised in an audit by the Wayne County Auditor General dated December 9, 1998.

The Airport stated that, in April 1999, it assigned a department executive to monitor, review, and approve parking contractor invoices submitted to the Airport for parking contract cost reimbursements. The Airport stated that the department executive is also responsible for enforcing the Airport's June 2, 1998 mandate that the parking contractor comply with Wayne County purchasing policies pertaining to competitive bidding of subcontracts.

On September 27, 1999, the Airport hired a retired Wayne County employee on a part-time contractual basis as project consultant to assist the department executive. Prior to the hiring of the department executive and project consultant, the Airport paid parking contractor invoices without monitoring cost reimbursable subcontractor expenses for evidence of competitive bidding or the reasonableness of the charges invoiced by the parking contractor.

Procedure:

On November 24, 1999, we requested a listing of subcontractors associated with 48 Airport contracts. This request was subsequently withdrawn when we learned that the Airport did not monitor its subcontractors and, thus, had no subcontractor information on file to provide us. However, after determining that some contractors had cost-reimbursement contracts, we renewed our request for a limited amount of subcontractor information.

To reduce the Airport's response burden, we limited our request to only subcontracts associated with two cost-reimbursement contracts, for the years 1997, 1998, and 1999, for Airport payments to subcontractors exceeding a total of $5,000 in any one year. Although the Airport indicated to us that there were only three cost-reimbursement contracts at the Airport (APCOA, Inc. - parking management, Commuter Transportation Company - employee shuttle, and One Source - janitorial service), other contracts with cost-reimbursement provisions came to our attention during our preliminary review of competitive bidding of Airport contracts. The contracts include American International, Inc. (maintenance assistance), Torre & Bruglio, Inc. (landscape maintenance), and Program Managers Team, LLC (Capital Improvement Program professional management services). We requested a listing of subcontractors associated with two of the contracts, APCOA, Inc. (parking management), and American International, Inc. (maintenance assistance). We have not verified the completeness or accuracy of this listing (see Exhibit J).

We reviewed the Airport's June 2, 1998 instructions to the parking contractor that it follow the County's purchasing policy in awarding contracts to major parking subcontractors and the 1998 Wayne County General Purchasing Policy and Procedure Statement.

We discussed the monitoring of the parking contractor's operations with Airport management to gain an understanding of the Airport's past procedures and recent improvements to its procedures pertaining to the parking contractor and parking subcontractors.

Comments:

a. Subcontracts (in General)

With regard to subcontracts in general, we noted:

(1) Wayne County requires all contractors receiving a contract of $20,000 or more to disclose all subcontractors receiving $20,000 or more to the Wayne County Corporation Counsel, Human Relations Division. The form pertaining to this disclosure (contractor's designation of subcontractors form) must be completed and included with submission of a prospective contractor's bid or proposal, even if no subcontractors will be used. However, our review of contractor bid and proposal documentation disclosed numerous instances in which this form was not completed or was not included in the bid or proposal documents provided by the Airport. An example of an uncompleted contractor's designation of subcontractors form that was included in the bidding documentation of a successful bidder awarded an Airport contract in 1998 is included in Exhibit K.

(2) Effective April 30, 1998, Wayne County purchasing policy began requiring contractors to list proposed subcontractors in the contractor's bid or to obtain at least three subcontractor quotes if a contractor chooses to hire a subcontractor not listed in its initial bid.

(3) The Airport does not submit subcontracts in excess of $50,000 to the Wayne County Commission for approval. Although Section 45(C) of Wayne County Appropriations Ordinance 98-544 requires Commission approval for Airport contracts in excess of $50,000, the Airport interprets the ordinance to apply to a contract, not a subcontract of a contract.

(4) The Airport does not submit subcontracts to the Wayne County Commission for approval as required under the Budget Execution Instructions of Wayne County Appropriations Ordinances.

b. Subcontracts of the Parking Contractor

With regard to subcontracts of the parking contractor, we noted:

(1) The Airport stated that, in May 1999, it began reviewing and assisting in the parking contractor's preparation and issuance of bids and proposals soliciting Airport work to perspective parking subcontractors in excess of $5,000. Prior to May 1999, the Airport did not actively monitor the parking contractor's selection of subcontractors. The Airport informed us that it did not possess evidence pertaining to competitive bidding of parking subcontracts prior to this time.

(2) The Airport stated that, in May 1999, it began actively examining the appropriateness of expenditures, contract compliance, and mathematical computation of subcontractor invoices submitted for the parking contractor's cost reimbursement. Prior to May 1999, the Airport did not actively monitor the details of the parking contractor's submission of subcontractor invoices for cost reimbursement.

c. Subcontracts of Cost-Plus or Cost-Reimbursement Contractors

With regard to subcontractors of cost-plus or cost-reimbursement contractors:

(1) In addition to the parking contractor, the Airport indicated that there are two other cost-reimbursement contracts (employee shuttle and janitorial service).

(2) We have identified three additional cost-plus/cost-reimbursement contracts (maintenance assistance, landscape maintenance, and professional management services for the Capital Improvement Program). Subcontractors associated with the maintenance assistance contract were identified by the Airport and are included in Exhibit J-2. A provision for consultant subcontracts is contained in the contract for professional management services for the Capital Improvement Program. Further review would be necessary to determine the existence and extent of subcontractors that may be associated with these or other Airport cost-plus/cost-reimbursement contracts.

d. Subcontracts of Goods and Services Contractors

The Airport stated that it does not generally monitor goods and services subcontractors because subcontractors are the responsibility of contractors.

e. Subcontracts of Concession Contractors

The food and beverage concession contractor (Michigan Host, Inc.) subcontracts with independent business owners who operate food and beverage concessions, such as snack bars, restaurants, and franchises (e.g., Burger King and Pizza Hut). The Airport does not monitor these concession subcontractors.

Airport Response:

After 1998, the Director of Purchasing requires all additional subcontractors, not included in the original bid, to be bid on by a minimum of three companies.

The Director of Purchasing may exercise approval authority over the contractor's hiring of subcontractors when the work is complex, the dollar value is substantial, or where the subcontract does not adequately protect the County against excessive cost increases.

Curbside Space Management

Background:

Landside Operations of the Airport's Division of Airport Operations is responsible for monitoring the Airport's curbside space and for enforcing Airport policy. The Airport's curbside space assignments are shown in Exhibit L.

Airport management indicated that anyone is allowed to drop passengers off and pick them up curbside. However, only certain vehicles may stop at the curb and wait for passengers or park curbside. Curbside space assignments are made by the Director of Airports. For example, choice curbside space is allocated to certain car rental concessionaires based on their bid amount. Similarly, the luxury sedan taxi service contract provides that the Airport shall furnish curbside pickup points for picking up passengers by luxury sedan. Airport-permitted taxicabs and a commuter van company under contract with the Airport are assigned curbside space as well.

Curbside space is also provided to other vehicles on an assigned basis. Pursuant to written Division of Airport Operations policy, persons or companies who meet the following criteria may apply for a Green Zone parking permit curbside assignment:

a. Vehicles of parties that provide repair, replacement, or delivery services to the Airport or Airport tenants.

b. Vehicles of Airport contractors that have an operational need to use Green Zone permit space in order to perform obligations under agreement with the Airport.

c. Airport parking permitted government or Airport tenant vehicles.

d. Companies that perform a dual function (perform passenger transportation and pickup or delivery of packages and luggage) are only eligible for daily permits and only when carrying packages.

Green Zone permits may be issued on either a quarterly (unlimited use during the quarter) or daily (coupon) basis. A Green Zone permit holder is limited to a maximum of 5 permits under Airport written policy.

The Airport indicated that quarterly Green Zone permits (unlimited use) cost $185, and daily coupon books cost $37.50. The Airport also indicated that a Green Zone booth is located approximately five feet from the Green Zone curb at the Smith Terminal and that monitoring of Green Zone curbside space is conducted from that location by an attendant. The Airport further indicated that vehicles parked in the Green Zone must have a Green Zone permit in their window, which has the company name on it, and a company logo on the vehicle. Also, the Airport stated that the Green Zone booth maintains a record of current Green Zone permits issued.

Procedure:

We obtained a diagram from the Airport displaying curbside space assignments and physically observed curbside space usage. We examined the Airport's written procedures pertaining to curbside space assignments. We reviewed contract provisions pertaining to curbside space for certain contractors. We inquired into the Airport's recordkeeping and monitoring procedures and examined Airport

records of curbside assignments for vehicles for hire (i.e., taxis, luxury sedans, and commuter vans). We also examined curbside space assignments for Green Zone permit holders.

Comment:

a. The Airport maintains a record of Airport taxicab permits issued. The record includes the taxicab operator name and designated Airport taxicab number. The Airport also maintains a separate listing of all taxicab operators approved for a public vehicle license. A public vehicle license is mandatory for all Airport taxicab drivers.

b. Our comparison of the Airport's taxicab records to the taxicab numbers of 22 Airport taxicabs parked in the Airport's designated Airport taxicab curbside space disclosed that 4 of the 22 Airport taxicabs were not included in the Airport taxicab records provided by the Airport.

c. The Airport does not maintain any record of commuter vans licensed to operate at the Airport.

d. Except for Green Zone permit holders, the Airport's curbside space assignments appeared generally consistent with contract provisions and with our observations of vehicles occupying the curbside space (i.e., taxicabs, rental car vans, etc., were parked in their assigned curbside space).

e. Our review of the Airport's policies and procedures disclosed the following regarding Green Zone permit holders:

(1) The Airport does not limit the number of quarterly or coupon Green Zone permit holders. Although the number of Green Zone permit spaces is limited, the number of Green Zone permit holders is infinite. There are approximately 14 Green Zone permit spaces. However, we identified 100 quarterly Green Zone permit holders and 36 daily coupon Green Zone permit holders from the Airport's records.

(2) The Airport did not limit the number of Green Zone permits issued to an approved permit holder in accordance with its policy. Airport policy limits a Green Zone permit holder to 5 permits. Our review of the Airport's

master listing of Green Zone permit holders disclosed one holder with 6 permits and another holder with 12 permits.

(3) Airport policy states that Green Zone quarterly permits are issued upon request based on demonstrated need and are automatically reissued for an additional quarter unless permit rights have been abused. Airport policy also states that Green Zone daily coupon permits are only available in books of 25 and may not be purchased individually.

(4) Many Green Zone permits are not assessed a charge. Of the 136 Green Zone permit holders, 49 holders were exempt from paying. The Airport indicated that government agencies (e.g., United States Customs), concessionaires, and Airport contractors are exempt because they are providing a service to the Airport.

f. Our review of the Airport's recordkeeping of Green Zone permits disclosed:

(1) The Green Zone permit master listing and Green Zone curbside coupon distribution list were not consistent with the Green Zone application files. We identified companies on the listings without an application on file, as well as application files for companies not on the listings.

(2) Of the 100 quarterly permit holders, 94 had permit termination dates extending into the year 2001, well beyond the automatic quarterly renewal date.

(3) The Airport subsequently informed us that the master listing provided to us was incomplete. The Airport attributed this to new software programming.

g. We reviewed the Airport's monitoring of Green Zone curbside space:

(1) We periodically observed Green Zone curbside space occupancy from September 23, 1999 through November 2, 1999. Our observations disclosed 13 Metro Cars, Inc., commuter vans parked in Green Zone curbside spaces during this period. We also observed 2 Metro Cars, Inc., commuter vans parked in the Green Zone as recent as April 14, 2000.

An attendant occupied the Green Zone booth but did not instruct the vans to leave the area.

We noted and the Airport confirmed that Metro Cars, Inc., does not have a commuter van contract with the Airport, either separately or as part of its luxury sedan contract. Also, Metro Cars, Inc., has not been issued any Green Zone permits.

(2) The Airport stated that curbside space monitoring is an ongoing activity and that most vehicles are given the opportunity to move along before a ticket would be issued. However, the Airport acknowledged that Metro Cars, Inc., vans are not, and have never been, authorized to park in the Green Zone and should have been immediately instructed to leave the Green Zone.

Airport Response:

The Airport understands that at different times during the day different persons will be using their Green Zone permits. Since people use the Airport at different times during the day, the Airport does not feel it necessary to unduly limit the number of permits.

Follow-Up of Findings From Audits and Reviews of the Airport

Background:

Some monitoring of Airport contractors has taken place through 3 audits and 1 review by the Wayne County Auditor General and 9 reviews by Pierce, Monroe and Associates, Inc. Although audits and reviews of Airport contractors are a demonstration of Airport contractor oversight, audits do not replace management's responsibilities. Thus, the effectiveness of such oversight is contingent upon the action taken by the Airport to correct the deficiencies identified in the audits and reviews.

Procedure:

We obtained and reviewed the audit and review reports of Airport contractors. We identified significant findings contained in 2 audit and 2 review reports that were recently issued. We determined whether corrective action was taken by the Airport to address significant findings identified in the audits and reviews of Airport contractors.

Comment:

a. Wayne County Auditor General Financial Related Audit of Parking Operations, December 9, 1998

(1) Underreported Parking Taxes

(a) Audit Finding: The report stated that $1.4 million in parking tax was underreported because of the parking contractor's practice of calculating the parking tax after deducting valet parking labor costs from total valet parking charges, rather than calculating the parking tax based on the entire valet parking charges.

According to the report, the daily rate for valet parking in 1997 was $17 for corporate customers and $18 for all others. Instead of computing the tax based on the entire $17 or $18 charge, the parking contractor computed the tax on $4, the portion that the parking contractor estimated to be the value of the parking (the amount of the parking fee less the labor cost). However, the apparent value of parking at the Airport (the amount charged to park a vehicle without valet service) ranged from $6 to $24 per day.

In addition, the report added that the parking contractor was overpaid approximately $11,000 in management fees because of the underreported parking taxes. This occurred because the management fee is based on gross receipts net of parking tax. If the parking tax was understated, the amount of revenue on which the fee was based was overstated.

(b) Action Taken by the Airport in Response to the Audit Finding: The Airport indicated in its audit response that it directed the parking contractor to calculate the parking tax based on the full amount of the

valet parking charge from that time forward. However, the Airport decided not to submit the underreported parking taxes for the period in question until receiving a formal determination from the Michigan Department of Treasury regarding the practice of deducting labor costs before computing the valet parking tax.

The Airport provided us with a June 14, 1999 letter from the Michigan Department of Treasury to the parking contractor, APCOA, Inc. The Department's letter stated that the Department had decided not to assess additional parking taxes for the period July 1, 1995 through December 31, 1998 despite the parking contractor's practice of deducting its estimated labor costs before computing the valet parking tax.

Section 207.373 of *Michigan Compiled Laws* (the Airport Parking Tax Act) states:

> There is hereby levied upon and shall be collected from a person engaged in the business of providing an airport parking facility an excise tax at the rate of 30% of the **amount of the charge for the transaction.** [emphasis added]

The "amount of the charge for the transaction" was the amount that APCOA, Inc., charged for the transaction ($17 or $18) and not the $4 net of the estimated labor costs.

As a result of the Department's decision not to assess additional taxes, the Department has foregone parking tax revenue imposed under Section 207.373 of the *Michigan Compiled Laws* that the Department is required to collect under Section 207.375 and deposit in the State treasury to the credit of the Airport Parking Fund under Section 207.376. Airport Parking Fund revenue is distributed to qualified counties and cities, including Wayne County and the City of Romulus, based on a distribution formula contained in Section 207.377.

We contacted the Michigan Department of Treasury regarding its decision not to assess additional parking taxes for the period July 1, 1995 through December 31, 1998 based on the parking contractor's practice of

deducting its estimated labor costs before computing the valet parking tax.

The Department indicated to us that APCOA, Inc., had argued that, under its interpretation of the Act, "the amount of the charge for the transaction" did not include APCOA's valet parking services. APCOA, Inc., contended that valet parking services were an additional and separate service and charge, distinct from operating the airport parking facility (even though non-valet parking charges range from $6 to $24 per day and APCOA, Inc., estimated the value of parking associated with valet service to be only $4).

Although the Department stated that it does not interpret the statute in this way, the Department decided that APCOA's argument had merit, absent further direction from the Department. Thus, without a Department interpretation, the Department decided that APCOA's practice was justified. The "amount of the charge for the transaction" under Section 207.373 of the *Michigan Compiled Laws* was allowed to be net of APCOA's estimated labor costs for the tax period July 1, 1995 through December 31, 1998.

The Department produced a letter dated August 27, 1999 to APCOA, Inc., directing the parking contractor to discontinue its practice of deducting estimated labor costs from the valet parking charge for all parking receipts after August 31, 1999. The Department has not pursued the discrepancy between the $6 to $24 in parking charges compared to APCOA's $4 estimated valet parking value.

The Department stated that, after August 31, 1999, APCOA, Inc., will be required to pay tax on the full amount of the charges received for valet parking transactions, including any costs attributable to providing valet parking. Thus, the Department decided to apply its interpretation of the Act prospectively, rather than retroactively.

(2) Lost Interest Revenue

(a) Audit Finding: The report indicated that the Airport lost as much as $210,000 in interest revenue because of the parking contractor's practice of depositing the tax portion of the parking receipts in the parking

contractor's own bank account rather than a County-controlled bank account. The report stated that Section 4.243 of the Wayne County Charter requires all County funds to be under the control of the County Treasurer. The report also stated that the parking agreement required all gross receipts to be deposited to the credit of the Airport's account.

(b) Action Taken by the Airport in Response to the Audit Finding: The report indicated that the Wayne County Department of Management and Budget and the County Treasurer were devising a process to have the interest on Airport parking tax receipts credited to the Airport. The Airport has subsequently informed us that, upon discussions with the County Treasurer, the Airport does not collect interest on the tax receipts held by the operator (APCOA, Inc.). Instead, any resulting interest revenue realized by APCOA, Inc., is offset by the one to two months' carrying costs for payroll and other expenses that APCOA, Inc., must bear before it is reimbursed by the County.

(3) Vehicle Leases and Maintenance Costs

(a) Audit Finding: Several parking contract cost-reimbursement expenses paid by the Airport were identified in the audit report as appearing "excessive" and "questionable." Those expenses included as much as $400,000 in excessive costs for 37 vehicle leases, as well as excessive maintenance and repair costs for 4 of 18 parking revenue collection machines.

(b) Action Taken by the Airport in Response to the Audit Finding: Since the audit report, an additional 54 vehicle leases have been examined and over $1 million in excessive costs has been identified. The matter is currently being litigated in the Wayne County Circuit Court. In addition, on September 7, 1999, the Airport indicated that the 4 parking revenue collection machines had been replaced and were being tested.

(4) Competitive Bidding and Related-Party Transactions Representation

(a) Audit Finding: Several parking subcontracts (vehicle leases, maintenance contracts, and towing services) were identified as not being competitively bid by the parking contractor on behalf of the Airport.

The Wayne County Auditor General requested written representation whether the subcontractors reviewed were related to officials from the County or the parking contractor. The report indicated that the Airport would not provide written but only verbal representation that no related-party transactions occurred between County officials and the parking contractor. Further, the audit report indicated that the Airport would not make a representation concerning related-party transactions between County officials and the parking contractor's subcontractors because the Airport believed County officials' relationship with subcontractors is not relevant because the County has no contractual relationship the subcontractors.

(b) Action Taken by the Airport in Response to the Audit Finding: As noted on page 49, the Airport has recently instituted measures to secure the competitive bidding of parking subcontracts in excess of $5,000.

b. Wayne County Auditor General Rental Car Concessionaire Fee Audit of National Inter-Rent Car Company, October 1, 1994 through September 30, 1995

(1) Outstanding Receivables Not Reported

(a) Audit Finding: According to the audit, National Inter-Rent Car Company has operated at the Airport since 1967. Although the audit confirmed that $22.9 million in gross revenue, from which concessionaire fees were calculated, was accurately reported from October 1, 1994 through September 30, 1995, National Inter-Rent Car Company failed to report receivables as part of its gross revenue. The actual amount of corresponding fees due to the Airport was not readily determinable for the entire previous 30-year period. However, receivable balances were available from December 1995 through November 1996, totaling $10,538 in additional fees owed to the Airport. In addition, National Inter-Rent Car Company estimated a similar receivable balance for the period 1990 - 1995, for an additional $63,228 in estimated additional fees, or $74,000 in total fees owed according to the report.

(b) Action Taken by the Airport in Response to the Audit Finding: The Airport indicated that it did not recover the entire $74,000 in fees cited in the report. The Airport stated that, because the amount due was based in

part upon estimates, the Airport and National Inter-Rent Car Company settled the issue in the amount of $39,730, which the Airport reported was paid on September 17, 1997.

c. Wayne County Auditor General Review of Metro Cars, Inc., Concession Lease, December 20, 1993 through July 17, 1995

(1) Underreporting of Number of Operating Vehicles and Delinquency in Payment of the Concession Fee

(a) Review Finding: The report identified $43,000 in delinquent concession fee payments not made to the Airport. In addition, the report indicated that Metro Cars, Inc., added 19 cars without increasing its payments to the Airport as required by contract.

(b) Action Taken by the Airport in Response to the Review Finding: The Airport indicated to us that the $43,000 in delinquent concession fee payments has been paid by Metro Cars, Inc. With respect to the 19 additional cars, the review report stated that Metro Cars, Inc., was billed an additional $72,667 for the 19 additional cars, which was reduced to $50,000 by the Airport for unsubstantiated reasons. The report further stated that Metro Cars, Inc., agreed to increase its monthly payment by $1,500 to reflect the additional cars in service and to pay an additional $5,000 monthly to offset the outstanding balance from prior underpayments. The review report indicated that Metro Cars, Inc., had failed to make its minimum monthly payment since this agreement was reached. However, the Airport indicated to us on March 9, 2000 that Metro Cars, Inc., consistently pays its minimum payments in a timely manner. The Airport also indicated to us on April 3, 2000 that the $50,000 negotiated settlement for Metro Cars, Inc., had been paid.

d. Pierce, Monroe and Associates, Inc., Compliance Review of Metro Service Center, Inc., Automobile Service Center, December 1, 1996 through November 30, 1997

(1) Remittance of specified items

(a) Review Finding: The report uncovered an additional $3,301 in concession fees on unreported revenue. The report also indicated that gasoline sales, gasoline pump meter readings, financial documentation

supporting concession fees paid, and annual statements prepared by a public accounting firm were not submitted by Metro Service Center, Inc. Finally, it was recommended that the Airport review prior year financial information for Metro Service Center, Inc., to ensure that accurate amounts are annually remitted.

(b) Action Taken by the Airport in Response to the Review Finding: The Airport indicated that it had billed and received payment from Metro Service Center, Inc., for the $3,301 in additional fees. Metro Service Center, Inc., indicated in the report that it is not required to submit gasoline sales or meter reading information. However, the concession contract does require this information be submitted to the Airport (even though gasoline sales are expressly excluded from gross sales in calculating the concession fee). Metro Service Center, Inc., also indicated in the report that the contractually required gasoline sales and meter reading information was not available. The Airport indicated that Metro Service Center, Inc., provided gasoline information for October 1998, then ceased. The Airport further indicated that this refusal to provide information will be taken into consideration the next time that the contract is bid.

To address the issue of financial documentation supporting concession fees paid, the Airport indicated that a new monthly remittance form was created and has been submitted by Metro Service Center, Inc., since September 1998. The Airport also indicated that Metro Service Center's refusal to submit annual statements prepared by a public accounting firm will be taken into consideration the next time the contract is bid.

(2) Parking Only Charges

(a) Review Finding: Of 327 receipts examined, 80 were for parking only. No other services were provided. This violated the concession agreement, which prohibits charging for parking unless incidental to providing other services, such as vehicle repair.

(b) Action Taken by the Airport in Response to the Review Finding: The Airport indicated that, according to Metro Service Center, Inc., there is no more parking of vehicles without some service being provided to the vehicles.

Airport Response:

There are several findings extracted from the Wayne County Auditor General's audits and reviews of the Airport. These are addressed individually below:

a. Underreported Parking Taxes:

In 1995, the Airport developed a plan to offer affordably priced valet parking to business travelers and others willing to pay a premium for this service. The valet operation not only met a demand for a segment of the Airport's customers, it also diverted parking demand from the structures and lots in close proximity to the terminals. At the time, Corporation Counsel advised the Airport that the Airport Parking Tax Act could be interpreted in a manner that would permit the valet parking operator to separate the charge for valet services from the parking charge for purposes of determining the amount of the tax.

The Michigan Department of Treasury ultimately determined that the position of the Wayne County Auditor General could not be justified.

b. Lost Interest Revenue:

The Michigan Department of Treasury has confirmed the Airport's understanding that the parking "operator" is responsible for the collection and remittance of the tax. The Airport has no legal claim on the interest earned on those funds.

The Airport believes that the Wayne County Auditor General is wrong.

c. Vehicle Leases and Maintenance Costs:

Airport parking operations generated $31.5 million in revenue for fiscal year 1998-99. After deducting expenses, the parking operations contribute $17.3 million to offset airline cost of operations.

The Airport and the Wayne County Department of Management and Budget continue to dispute the Wayne County Auditor General's estimate of the amount of overpayment.

d. Competitive Bidding and Related-Party Transactions Representation:
This is related to the parking management contract. All subcontract work for the parking operations is currently approved by an individual in the Airport's Division of Concessions and Quality Assurance, pursuant to County policy on subcontractors. In fact, the parking manager was made aware of this change in County policy and was required to bid out any subcontract work that was not already bid. All expenditures need the approval of the Division of Concessions and Quality Assurance prior to any payments being made to the parking manager.

e. Outstanding Receivables Not Reported:
This was in relation to the National Inter-Rent Car Company. Receivables were not included as part of gross revenue for purposes of calculating National Inter-Rent Car Company's concession fee to the Airport. This was considered to be a differing interpretation of gross revenue pursuant to the contract and hence a settlement was negotiated.

f. Underreporting of Number of Operating Vehicles and Delinquency in Payment of the Concession Fee:
This was in relation to Metro Cars, Inc. This luxury car service was just in its infancy with neither the Airport nor Metro Cars, Inc., knowing whether this service would be viable. There was a lot involved in getting this "off the ground." The oversight on the additional vehicles was resolved and back concession fees were remitted to the Airport. There has been no delinquency in payments as reported by the Wayne County Auditor General. Metro Cars, Inc., has always paid its minimum concession fee on a timely basis, contrary to what the Wayne County Auditor General stated in his report.

Assignment of On-Site Independent Auditors at the Airport

Background:

Since 1994, numerous attempts have been made by the Wayne County Commission to assign auditors from the Wayne County Office of the Auditor General to regularly audit the Airport:

a. Resolution 94-480 (July 21, 1994) provided for the hiring of two auditors to audit the Airport in the annual amount of $127,395.

b. Resolution 94-481 (July 21, 1994) directed the costs of the two auditors to be charged to the Airport Fund.

c. Resolution 94-482 (July 21, 1994) directed the Wayne County Auditor General to report to the Commission within six months regarding the progress of the auditors and any cost savings resulting from their work.

d. Enrolled Ordinance 97-597 (October 30, 1997) directed the Director of Airports to obtain Federal Aviation Administration (FAA) approval and funding of $300,000 in Airport revenue for the Wayne County Auditor General to conduct audits of the Airport's operations, concessions, and contractors.

e. Enrolled Ordinance 98-544 (August 27, 1998) directed the Director of Airports to obtain FAA approval and funding of $300,000 in Airport revenue for the Wayne County Auditor General to conduct audits of the Airport's operations, concessions, and contractors.

Resolution 96-501 (September 19, 1996) also attempted to establish Airport auditors, providing for the hiring of two auditors for a one-month period (ended November 30, 1996) in the amount of $10,460 to audit Airport accounts.

The Wayne County Auditor General clearly has authority (under Section 3.119 of the Wayne County Charter and Wayne County Enrolled Ordinance 92-622) to conduct audits of the Airport, but has conducted a total of only 3 audits and 1 review of the Airport to date. The Wayne County Auditor General has a staff of 11 auditors and 4 audit supervisory managers and resources of $1.7 million with which to conduct his audit responsibilities throughout Wayne County, which has $2.2 billion in appropriations.

Airport management has repeatedly reminded us that the Airport is primarily a user-financed operation that does not generally use tax dollars (a notable exception being governmental grants). Because the Airport primarily funds its operations through revenue derived from landing fees, concessions, rentals, and parking, funding for Airport audits by the Wayne County Auditor General could be fully recovered from Airport-generated revenue instead of Wayne County tax dollars. However, the 3 audits and 1 review of the Airport performed by the Wayne County Auditor General were funded entirely with Wayne County tax dollars

derived from the Wayne County Auditor General's annual budget allocation, rather than from the Airport's revenue sources. Thus, the assignment of auditors at the Airport by the Wayne County Auditor General has become partly a matter of limited allocation of Wayne County budgetary resources.

Procedure:

We identified efforts to establish auditors at the Airport by the Wayne County Commission. We reviewed funding matters pertaining to audits of the Airport. We considered other audits and reviews of the Airport conducted by other entities hired by the Airport and their effectiveness in supplanting a presence by the Wayne County Auditor General. We contacted representatives at 5 other major airports in the United States regarding audits at those airports.

Comment:

- Despite the various attempts by the Wayne County Commission, neither permanent on-site auditors nor regular audits have been established at the Airport.

- Since December 9, 1994, the FAA has supported the concept of using Airport revenue to fund Wayne County Auditor General audits of the Airport.

- The FAA has stated that the use of Airport revenue for accomplishing Wayne County Auditor General audits should be based on direct costs unless Wayne County has an approved cost allocation plan covering any indirect costs. The Wayne County Commission has directed the Wayne County Chief Financial Officer to establish the Wayne County Office of the Auditor General as an independent internal service fund (see Enrolled Ordinances 99-497 (Revised) (August 31, 1999) and 98-544 (August 27, 1998)). This would enable the Wayne County Auditor General to charge and fully recover costs from the several major line and support functions and activities of the County by a direct service charge system, an indirect cost allocation system, or a combination of the two. If implemented, such a system would allow the Wayne County Auditor General to charge County departments (e.g., the Airport) for eligible costs for audits performed (under FAA regulations, U.S. Office of Management and Budget Circular A-87 cost principles, etc.).

- As noted earlier, the Airport has hired an outside consultant (Pierce, Monroe and Associates, Inc.) to conduct several reviews of Airport concessions. These reviews are funded by Airport revenue. However, these reviews have been limited to only concession contractors and the accuracy of their concession fee remittance. No comprehensive review of the Airport's operations, business practices, or contracting policies was performed by Pierce, Monroe and Associates, Inc. Pierce, Monroe and Associates, Inc., is a consulting firm, not a public accounting firm adhering to professional auditing standards that pertain to independence and reporting. Furthermore, Pierce, Monroe and Associates, Inc., is accountable to the same executive branch of County government (Department of Airports) that it reviews. Thus, Pierce, Monroe and Associates' reviews are helpful in assisting the Division of Airport Finance in identifying and collecting revenue from concessions, but these reviews do not supplant regular independent audits and reviews of the Airport's activities, practices, or operational performance.

- An annual financial audit of the Airport is conducted by the independent public accounting firm of KPMG, LLP. This audit is funded by Airport revenue. However, this audit is limited to expressing an opinion on the accuracy of amounts and disclosures contained in the Airport's financial statements. The audit does not provide a comprehensive review of the Airport's management practices or measure operational performance.

- Airport audits and reviews conducted to date by the Wayne County Auditor General have been limited in scope to concessions, although they have encompassed Airport concession management practices as well as the accuracy of concession fees remitted. Wayne County Auditor General audits and reviews have not been funded with Airport revenue, but rather have been funded entirely with Wayne County tax dollars derived from the Wayne County Auditor General's annual budget allocation.

- The Bureau of Aeronautics, Michigan Department of Transportation, provided us with a list of 6 airports comparable in size (by number of passengers) to the Detroit Metropolitan Wayne County Airport. We were successful in contacting the audit departments of 5 of the 6 airports to discuss their audit activities:

a. Phoenix/Sky Harbor International Airport

- No permanent, full-time auditors are assigned to the airport.

- Periodic audits are performed by auditors from the city auditor department.

- Audits of airport concessionaires, airline rates and charges, and process audits (such as payroll) are conducted according to a schedule, generally every year, 3 years, or 5 years depending on the risk associated with the particular audit area.

- City auditor audits of the airport are funded by airport revenue.

- Deloitte & Touche currently conducts the annual financial audits. It also conducts audits of Passenger Facility Charges and Single Audits. A different public accounting firm is hired every five years.

b. JFK International Airport and Newark International Airport

- Both of these airports are operated by the Port Authority of New York and New Jersey.

- The Port Authority has an audit department. The audit department is considered independent because it reports to the Port Authority, not the airports.
- No permanent, full-time Port Authority auditors are assigned to the airports.

- Routine audits and reviews of the airports are conducted, generally according to a schedule.

- The Port Authority is an enterprise fund and a pooled entity. Therefore, airport audits are funded by airport revenue through the allocation of pooled resources.

c. Miami International Airport

- An average of 8 permanent, full-time county auditors are assigned to the airport.

- The county auditors are considered independent of the airport.

- Audits and reviews of concessions, internal processes, etc., are conducted by the county auditors according to a schedule.

- County auditors are funded by airport operating revenue through indirect cost allocation.

- The Office of Inspector General also has a presence at the airport, investigating suspicious activities. Its function is also funded by airport operating revenue.

- An independent public accounting firm is hired to conduct the airport's annual financial audit. The firm is also used to conduct an occasional concession audit or review.

- Subcontractors are also audited, reviewed, and monitored for contract compliance. Subcontractors are required to submit audited financial statements. County auditors monitor subcontractor activities based on risk factors associated with their work.

d. Minneapolis/St. Paul International Airport

- Three full-time auditors and 1 temporary auditor are currently assigned to the airport.

- Auditors report to the Metropolitan Airports Commission. The Commission owns and operates the airport and hires an executive director who oversees day-to-day operations. The Commission reports to the Minnesota State Legislature and the Governor.

- The auditors audit and review according to a schedule. The auditors are not restricted in their activities and audit or review every aspect

of airport operations, including complaints, concessions, construction, contract compliance, etc.

- Audit activities are funded by airport revenue.

- Annual financial audits of the airport are conducted by an independent public accounting firm.

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Airport Response:

This report states that numerous attempts have been made by the Wayne County Commission to assign auditors from the Wayne County Office of the Auditor General to regularly audit the Airport. It has consistently been the position of Airport management and the Wayne County Department of Management and Budget that the Wayne County Commission and the Wayne County Office of the Auditor General may assign all the auditors they want to routinely audit the Airport. The Airport has no disagreement with the Wayne County Commission on this point. Further, the current Director of Airports has also publicly stated that the County would make space available at no charge to the Auditor General.

What is at issue is who should pay for the cost of these auditors.

Stating that the FAA has supported the concept of using Airport revenue to fund Wayne County Auditor General audits of the Airport is misleading. The FAA only stated that the FAA would not consider the services provided by the Auditor General to be a diversion of Airport revenue but that the necessity and reasonableness of the costs for such audits would be under the control of the Director of Airports.

The Wayne County Department of Management and Budget has consistently maintained that the Wayne County Auditor General, pursuant to the Wayne County Home Rule Charter, provides a legislative function and that most of the cost of his Office is considered general government costs as defined by U.S. Office of Management and Budget (OMB) Circular A-87.

Per OMB Circular A-87, the Chief Financial Officer of the governmental entity must certify that all costs included in an indirect cost allocation plan are allowable in accordance with this OMB Circular and are properly allocable to federal programs. To date, legislative costs or general government costs are not allowable under this OMB Circular. The Auditor General serves as the legislative auditor general and, as such, the majority of his Office's costs are unallowable. Where appropriate, allowable costs of the Auditor General have been appropriately charged to County departments. The foregoing policy is consistently followed for all County departments and elected offices.

The County's Corporation Counsel has affirmed on several occasions that the Commission can use the Appropriations Ordinance, including the "Budget Execution Instructions" portion of that ordinance, neither to direct the day-to-day activities of executive branch departments nor to restrict the executive and administrative power of the County vested in the County Executive by the Wayne County Charter. It is well-settled law in Michigan that, to the extent that an ordinance conflicts with the Charter, it is void. Similarly, to the extent an ordinance conflicts with the Michigan Constitution or other State law provisions, it is null and void.

Perhaps more importantly, as a general business principle, the Airport and the Wayne County Department of Management and Budget feel that the operating function that derives benefit from the audits and/or reviews should foot the bill. The Airport, to date, has seen little, if any, value in the work product of the Wayne County Auditor General. If the airlines that are responsible for the net operating cost of the Airport can be convinced to support this additional cost, the Department of Management and Budget would be happy to reconsider its position on reimbursement.

The OAG should also consider the role of the Wayne County Department of Management and Budget satellite office at the Airport. The co-existence of two departments at the Airport provides some level of checks and balances with respect to the overall system of internal controls. Many of the perceived benefits of independent internal auditors at other airports may be accomplished through an independent finance function.

Epilogue:

By averting the use of Airport revenue to fund independent audits by the Wayne County Auditor General, independent oversight of Airport activities is diminished. This practice is also contrary to the practices employed by other airports that we surveyed and puts an unnecessary burden on Wayne County taxpayers by charging public funds, instead of charging Airport users, for the costs of independent oversight of Airport activities.

Although independent oversight of certain facets of the Airport's operations are currently conducted by the State or federal government (e.g., licensing inspections of the Bureau of Aeronautics, Michigan Department of Transportation, and FAA oversight of Airport safety and security), these independent entities do not conduct comprehensive examinations of the Airport's fiscal accountability, operational efficiency, effectiveness of administration, and compliance with Wayne County ordinances and policies prescribed by law.

The Wayne County Auditor General is also limited in his ability to identify and report opportunities to improve the Airport's operational performance because Section 3.119 of the Wayne County Charter limits the Auditor General to making audits of financial transactions and compliance audits. The Charter expressly restricts the Auditor General from conducting performance audits unless requested by the executive officer.

In its response, the Airport stated that it has seen little, if any, value in the work product of the Wayne County Auditor General. The facts indicate that the Wayne County Auditor General's work product has uncovered:

a. Underreported airport parking tax revenue totaling $1.4 million that has changed the way the parking contractor calculates parking tax remittances and led to a concurring Michigan Department of Treasury airport parking tax interpretation.

b. As much as $400,000 in excessive costs for 37 vehicle leases, which resulted in: 1) an investigation by the Wayne County Prosecutor that uncovered an additional 54 vehicle leases that were also excessively reimbursed, 2) litigation for the recovery of a total of over $1 million in excessive vehicle lease reimbursements, 3) improvements in the Airport's monitoring of parking

contractor reimbursements, 4) establishment of competitive bidding of parking subcontracts in excess of $5,000, and 5) the rescission, rebid, and recommendation of award of the parking contract to a different contractor.

c. Excessive maintenance and repair costs for parking revenue collection machines, which has led to the purchase of more cost-effective parking revenue collection machines.

d. As much as $74,000 in rental car concession fees, which resulted in the recovery of $39,730 in additional Airport concession revenue.

e. Delinquent luxury sedan concession fee payments totaling $43,000.

f. Additional luxury sedan concession fees for additional cars totaling $72,667, which resulted in the recovery of $50,000.

These tangible benefits of independent oversight have resulted from only 3 audits and 1 review of the Airport by the Wayne County Auditor General since 1988.

The Airport's response indicates that airlines are responsible for the net operating cost of the Airport, and Airport management would reconsider its position on reimbursement if the airlines could be convinced to support the additional cost of independent audits. Our limited survey of 5 airports comparable to Detroit Metropolitan Wayne County Airport disclosed that all 5 airports funded airport auditors through airport revenue. This included the Minneapolis/St. Paul International Airport, which shares the same hub carrier airline as that of the Detroit Metropolitan Wayne County Airport.

Neither the Wayne County Department of Management and Budget nor the co-existence of two executive branch departments at the Airport supplants the necessity of independent oversight at the Airport. Wayne County's Chief Financial Officer and the Director of Airports are both appointed by and report to the same executive branch Chief Executive. Along with the County's Corporation Counsel, these officials are not functionally independent in fact or appearance in order to provide necessary checks and balances of the executive branch or independent oversight of the administration of the Detroit Metropolitan Wayne County Airport.

Requests for Information

On June 5, 2000, we sent a draft copy of this report to Airport management in order to obtain the Airport's input regarding the accuracy of the facts presented in the report. We requested that the Airport provide any input in this regard by June 12, 2000. Members of Airport management indicated that they desired to meet with OAG staff to discuss the content of the draft report, but that they were unavailable to meet until June 21, 2000. In addition, on June 19, 20, 21, and 22, 2000, the Airport delivered 6 separate written correspondences, responding to the content of the draft report. The Airport also provided additional records and information to us on June 21, 2000. On June 26, 2000, the Airport provided us with its official response that is contained within this report.

The additional records and information provided by the Airport included additional facts about the existence of more cost-plus/cost-reimbursement contracts (the Airport has not provided us, and we have not requested, a supplemental listing of additional cost-plus contracts) and additional internal control procedures (which were provided). This additional information included documentation that had been previously requested by us several months earlier (see Exhibits B-1 and D-1). The Airport stated that this information had not been provided earlier because Airport staff had misunderstood our requests.

Because of the recent date on which the Airport provided additional information, as well as the magnitude of the additional data, we have not attempted to reinitiate our review procedures or conduct further fieldwork. We have, when practical, included the Airport's assertions regarding this additional information within the body of this report. We have not verified the accuracy of any of the additional information provided.

If the Joint Legislative Select Committee on the Wayne County Detroit Metropolitan Airport is interested in further details regarding these additional internal control procedures and whether such procedures have been employed by the Airport in monitoring its contractors and subcontractors and for how long, further review would be necessary. Similarly, further information would have to be obtained from the Airport if the Committee desires a more comprehensive listing of Airport cost-plus contractors.