

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
March 20, 2018
“*Communications Received and Filed*” Item

To: Board of Supervisors

From: Department of Finance

Subject: LAZ Parking Contract Agreed-Upon Procedures For Its Parking Lot Management Operations For The Period Of April 1, 2016 To March 31, 2017

Supervisory
District(s): All

Contact: Joyce Renison, Assistant Auditor-Controller, 874-6454

DISCUSSION

The Agreement for Parking Lot and Shuttle Bus Management Services at Sacramento International Airport allows the Department of Airports (Airports) to have an audit performed of LAZ Parking California, LLC’s (LAZ Parking) records. As such, Airports requested the Department of Finance to perform agreed-upon procedures (AUP) for the period April 1, 2016 to March 31, 2017 to verify that LAZ Parking has reported gross sales and proper expenses for reimbursement according to the Agreement for its parking lot operations.

The procedures and results are documented in the attached AUP report.

Respectfully submitted,

Ben Lamera
Director of Finance

Attachment

ATT 1 - LAZ Parking Contract Agreed-Upon Procedures for its Parking Lot Management Operations for the Period of April 1, 2016 to March 31, 2017

Department of Finance

Ben Lamera
Director



Agenda Date: March 20, 2018

ATT 1
Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

February 20, 2018

To: John Wheat
Director of Airports

From: Ben Lamera
Director of Finance

By: Alan A. Matré
Chief of Audits

A handwritten signature in blue ink, appearing to read "Alan A. Matré".

Subject: **LAZ PARKING CONTRACT AGREED-UPON PROCEDURES FOR ITS PARKING LOT MANAGEMENT OPERATIONS FOR THE PERIOD OF APRIL 1, 2016 TO MARCH 31, 2017**

We have performed the procedures enumerated below, which were requested and were agreed to by you for the County of Sacramento, Department of Airports' (Airports) contract agreement (Contract) with LAZ Parking California, LLC (LAZ Parking) for its parking lot management services as listed below:

- Agreement for Parking Lot and Shuttle Bus Management Services for the period April 1, 2016 to March 31, 2017.

These agreed-upon procedures were performed solely to assist Airport in evaluating LAZ Parking's compliance as outlined in the Contract related to its parking lot management services. These procedures were performed solely to verify that LAZ Parking has reported gross sales and proper expenses for reimbursement according to its Contract with Airports. Airports' management is responsible for LAZ Parking's compliance with the Contract.

The sufficiency of the procedures is solely the responsibility of Airports. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred to below and is not intended to pertain to any of LAZ Parking's other operations, procedures, or compliance with laws and regulations.

The procedures and associated findings are as follows below and on the next page:

- Evaluated the internal controls over accounting and administrative procedures pertaining to the recording of revenue.

Finding: We did not note any exceptions as a result of our procedures.

- Performed certain tests of the accounting controls and transactions to determine both the reliability and accuracy of these controls and concessionaire operations.

Finding: We did not note any exceptions as a result of our procedures.

- Tested revenues reported to Airports by the concessionaire, including the corresponding management fees and reimbursable expenses payable to LAZ Parking.

Finding: We noted several exceptions as a result of our procedures. See Finding Numbers 1, 2, 3 and 4 at Attachment II, *Findings and Recommendations*.

- Prepared operating statements based on LAZ Parking's financial records for the period April 1, 2016 to March 31, 2017.

Finding: We noted several exceptions as a result of our procedures. See Attachment I, *Schedule of Activity* and Attachment II, *Findings and Recommendations*.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform an audit or examination, or review, the objectives of which would be the expression of an opinion or conclusion, respectively, on LAZ Parking's financial statements, compliance, or results of our procedures referred above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Airports' responses to the findings identified during our procedures are described in Attachment II, *Current Findings and Recommendations*. We did not perform procedures to validate Airports' responses to the findings and, accordingly, we do not express opinions on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, and Airports' management. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Attachments

Attachment I, *Schedule of Activity*

Attachment II, *Findings and Recommendations*

cc: Members, Sacramento County Board of Supervisors
Nancy Newton, Assistant County Executive
David Villanueva, Deputy County Executive, Administrative Services
Britt Ferguson, Chief Fiscal Officer, Office of Budget and Debt Management
Camelia Radulescu, Senior Airport Manager, Airports

County of Sacramento
 Department of Airports
 LAZ Parking California, LLC (LAZ Parking)
 Parking Lot Management Services Contract
 Schedule of Activity
 April 1, 2016 through March 31, 2017

	<u>Reported Revenue</u>	<u>Reviewed Revenue</u>		
Revenues:				
Transient Parking	\$ 56,351,608	56,351,608		
Monthly Parking (Collected by LAZ)	131,317	131,317		
Monthly Parking (Collected by SMF)	<u>59,915</u>	<u>59,915</u>		
Gross Revenue	<u>56,542,840</u>	<u>54,542,840</u>		
Annual Net Revenue:	<u>56,542,840</u>	<u>56,542,840</u>		
	<u>Reported Expenses</u> ⁽¹⁾	<u>Reviewed Expenses</u>	<u>Questioned Costs</u> ⁽²⁾	<u>Disallowed Costs</u> ⁽³⁾
Reimbursable Operating Expenses:				
Payroll	1,601,491	1,601,491	1,325	
Payroll Taxes	156,605	156,605		18
Workers Compensation Insurance	116,212	116,212		125
Health Insurance	378,621	378,621	6,276	
401K Company Match	625	625		43
Recruiting	920	920		
Vehicle	3,278	3,278		
Maintenance	11,329	11,329		
Maintenance - Computers	3,345	3,345		
Maintenance - Other	34	34		
Operating Supplies	24,238	24,238		
Uniforms	29,277	29,277		
Licenses and Permits	527	527		
Office Supplies	1,234	1,234		(84)
Printing	97	97		
Postage and Shipping	139	139		
Bank Fees	858	858		
Credit Card Fees	2,914	2,914		
Payroll Fees	24,044	24,044		
Telephone	2,078	2,078		
Cell Phone	174	174		
Signage	2,645	2,645		
Management Fee	139,442	139,442		
Computer	1,043	1,043		
Tickets/Cards	53,872	53,872		
Professional Services	13,990	13,990		
Marketing	207	207		
Office Storage	2,062	2,062		
Administrative Expense	<u>1,573</u>	<u>1,573</u>		
Total Operating Expense	<u>2,572,874</u>	<u>2,572,874</u>	<u>7,601</u>	<u>102</u>
Net Income	<u>\$ 53,969,966</u>	<u>53,969,966</u>	<u>7,601</u>	<u>102</u>

⁽¹⁾ Amount represents reported expenses that were billed and reimbursed to LAZ Parking for their parking operations.

⁽²⁾ Questioned Costs column are expenses with inadequate support. See Finding Numbers 3 and 5 at Attachment II, *Findings and Recommendations*.

⁽³⁾ Disallowed Costs represents amounts that were overclaimed or underclaimed from inspection of the backup support. See Finding Number 1 at Attachment II, *Findings and Recommendations*.

County of Sacramento
Department of Airports
LAZ Parking California, LLC (LAZ Parking)
Parking Lot Management Services Contract
Findings and Recommendations
April 1, 2016 to March 31, 2017

1. Expense Testing

Comment

During our testing, we noted that LAZ Parking California, LLC (LAZ Parking) claimed reimbursement in the amount of \$4 under its office supplies on September 2016's invoice claim. We noted the amount that should have been claimed was \$88 for ink cartridges and a phone charger. Since the amount claimed for reimbursement was incorrect, we recalculated the amount of \$84 (\$88-\$4) that was under claimed by LAZ Parking. See Attachment I, *Schedule of Activity*.

In addition, we noted that the payroll tax expense was over claimed by LAZ Parking on February 2017's invoice claim. As part of the County of Sacramento, Department of Airports (Airports) review process, Airports recalculated the payroll tax expense in the amount of \$43, but we recalculated that amount to be \$61. As such, \$18 (\$61-\$43) was over claimed by LAZ Parking, which we considered to be disallowed costs. See Attachment I, *Schedule of Activity*.

In addition, we noted expenses associated with an individual that was not an employee of LAZ Parking - Sacramento location was claimed to Airports for reimbursement on February 2017's claim. This individual's workers compensation insurance and employer 401k match were claimed in the amounts of \$125 and \$43, respectively. As such, \$168 (\$125 + \$43) was over claimed by LAZ Parking, which we considered to be disallowed costs. See Attachment I, *Schedule of Activity*.

Recommendation

We recommend Airports contact LAZ Parking to resolve the \$186 (\$18+\$125+\$43) in disallowed costs. We further recommend the expenses be reviewed more thoroughly by LAZ Parking staff and Airports staff prior to remitting payment for the invoice claims.

Airports' Management Response

The \$186 in questioned costs has been resolved with appropriate credit on subsequent invoices. Airports staff has reviewed all findings with LAZ accounting leadership at their headquarters. Appropriate review will be required moving forward before invoices are submitted and approved for reimbursement.

2. LAZ Parking Self-Insurance Health Expense

Comment

During our testing, we noted that LAZ Parking had self-insurance for dental, life, and medical for its employees. LAZ Parking provided a rate sheet and a letter that describes how the rates were calculated per person. We requested and were not provided the detail

County of Sacramento
Department of Airports
LAZ Parking California, LLC (LAZ Parking)
Parking Lot Management Services Contract
Findings and Recommendations
April 1, 2016 to March 31, 2017

worksheet that shows how the rates per person were calculated. As such, we could not determine if the rates were reasonable. We considered the self-insured health costs claimed for the two sample months, September 2016 and February 2017, in the amounts of \$2,972 and \$3,304, respectively, to be questioned costs.

Recommendation

We recommend Airports ensure LAZ Parking has adequate supporting documentation for each expense claimed for reimbursement. If there is not, the amount claimed by LAZ Parking should not be reimbursed by Airports. We further recommend Airports contact LAZ Parking to develop a resolution to resolve the questioned costs in the amount of \$6,276 (\$2,972 + \$3,304).

Airports' Management Response

Airports have been in contact with LAZ Parking to resolve the \$6,276 in question. LAZ has yet to provide Airports with requested supporting rate calculations; however they have told us they are working to provide such documentation. Medical expenses will not be reimbursed until rate calculations are received from LAZ. Airports will ensure LAZ Parking has adequate supporting documentation for each expense claimed for reimbursement.

3. LAZ Parking Employee Credit for Health Insurance

Comment

As mentioned at Finding Number 3, the detail worksheet that shows how the self-insurance rates per person were calculated was not provided. Amounts deducted from employees' wages for life and dental insurance should reduce the life and dental expenses claimed for reimbursement by LAZ Parking to Airports. As such, we were unable to determine if the employee's deductions were included in the rate calculation. In addition, we were not able to determine the amount of credit that should be applied to September 2016 and February 2017's invoice claims.

We further noted that the Kaiser medical credits to the health insurance expense account are fixed rates that were calculated by LAZ Parking's corporate benefits division in the beginning of the year. These rates will be applied to certain, eligible employees as a credit to the monthly Kaiser expenses for that year. We requested and were not provided with the worksheet that shows how the credit rate per person/family was calculated. As such, we were not able to determine if the Kaiser credit was reasonable.

County of Sacramento
Department of Airports
LAZ Parking California, LLC (LAZ Parking)
Parking Lot Management Services Contract
Findings and Recommendations
April 1, 2016 to March 31, 2017

Recommendation

We recommend Airports ensure all appropriate credits be applied to the health insurance expense accounts when reviewing the claim reimbursements. We reiterate the recommendation at Finding Number 3.

Airports' Management Response

Airports will ensure all appropriate credits are applied to the health insurance expense accounts when reviewing invoices. LAZ has provided supporting documentation for employee contributions and will continue to do so.

4. Timesheet

Comment

Per the Agreement, LAZ Parking “*shall retain records pertaining to each year of its operations under this Agreement for not less than five (5) calendar years following a completed audit by County [of Sacramento].*”

During our testing, we noted that LAZ Parking was unable to provide support for timesheet changes for terminated employees. Therefore, we were unable to determine if the changes were appropriate and the amount paid was correct for a terminated employee on September 2016's invoice. The amount claimed and paid was \$1,325 for the pay period August 15, 2016 through August 28, 2016, which we considered to be questioned costs. In addition, LAZ Parking was not in compliance with the Agreement.

Recommendation

We recommend Airports ensures LAZ Parking maintain changes to timesheets for all current and terminated employees, and all other records, for not less than five calendar years following a completed audit by the County of Sacramento. We further recommend Airports contact LAZ Parking to develop a resolution to resolve the questioned costs of \$1,325.

Airports' Management Response

LAZ does maintain its payroll records at their corporate offices to meet the five year retention requirement. The questioned cost of \$1,325 is related to a terminated employee's total compensation for the period. LAZ made an error in calculation and overpaid 6.5 hours for a total overpayment of \$129.20. This amount has been credited on the invoice dated January 2018.