



OFFICE OF THE AUDITOR

**DEPARTMENT OF AVIATION
AMPCO SYSTEM TRANSPORTATION SERVICES
COMPLIANCE AUDIT
JUNE 2008**

*Dennis J. Gallagher
Auditor*



City and County of Denver

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000, FAX 720-913-5247
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Dennis J. Gallagher
Auditor

June 18, 2008

Ms. Kim Day, Manager
Department of Aviation
City and County of Denver

Mr. Larry Deluca
Regional Manager
AMPCO System Parking
2901 Employee Avenue, #100
Austin, TX 78719

Dear Ms. Day and Mr. Deluca:

Attached is the Auditor's Office Audit Services Division's compliance audit report of AMPCO System Transportation Services (ASTS) bus shuttle operations at Denver International Airport. The audit scope included a review of the ASTS subcontractor, Nationwide Parking. The audit was for the period January 1, 2006 through June 30, 2007. The purpose of the audit was to determine whether ASTS and the City and County of Denver complied with the terms of the Award, and whether internal controls in place were adequate. The Audit identified three instances of contract non-compliance.

If you have any questions, please call Kip Memmott, Director of Audit Services, at 720-913-5029.

Sincerely,

Dennis J. Gallagher
Auditor

DJG/kh

cc: Honorable John W. Hickenlooper, Mayor
Honorable Members of City Council
Members of Audit Committee
Cheryl Cohen-Vader, Chief Deputy Manager of Aviation
Stan Koniz, Deputy Manager of Aviation and Chief Financial Officer
Kelly Brough, Chief of Staff
Claude Pumilia, Chief Financial Officer
Chris Henderson, Chief Operating Officer
David Fine, City Attorney
Lauri Dannemiller, Executive Staff Director, City Council
Beth Machann, Controller
Ruth Rodriguez, Deputy Manager of Aviation Maintenance and Engineering Division

The prudent stewardship of Denver's finances, resources and financial records! We are also committed to improving accountability, efficiency, effectiveness and performance in city government. We will scrupulously protect the taxpayer's interests and work collaboratively with all concerned to improve our city and its government.

Ms. Day and Mr. Deluca

June 18, 2008

Page Two

Patrick Heck, Deputy Manager of Aviation-Revenue Management and Business
Development

Greg Holt, Assistant Deputy Manager of Aviation/Special Projects

John Noe, Assistant Deputy Manager of Aviation/Technical Services

Bryan Touchstone, Assistant Deputy Manager of Concession Management

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AUDITOR'S REPORT

We have completed a compliance audit of AMPCO System Transportation Services (ASTS) bus shuttle operations at Denver International Airport (DIA). The audit was for the period January 1, 2006 through June 30, 2007. The purpose of the audit was to determine whether ASTS and the City and County of Denver complied with the terms of the Award, and whether internal controls in place were adequate. We also determined whether ASTS and the Department of Aviation complied with various other terms and conditions of the Award, City rules and regulations, and whether internal controls were adequate in the circumstances.

This audit was included in the Auditor's Office Internal Audit Division's 2007 Annual Audit Plan and is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, *General Powers and Duties of Auditor*. We conducted our audit in accordance with generally accepted government auditing standards. The audit identified three reportable internal control weaknesses.

We extend our appreciation to the personnel who assisted and cooperated with us during the audit.

Audit Services Division

A handwritten signature in black ink that reads "K. Memmott".

Kip R. Memmott, CGAP, CICA
Director of Audit Services

Date: June 18, 2008

Staff: Dick Wibbens, CPA, Audit Manager
Sonia Montano, CGAP, CICA, Internal Audit Supervisor
Wayne Leon Sanford, CICA, Senior Internal Auditor

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.

**AMPCO SYSTEM TRANSPORTATION SERVICES
EXECUTIVE SUMMARY
FOR THE AUDIT PERIOD JANUARY 1, 2006 THROUGH JUNE 30, 2007**

This summary highlights the findings of the expenditure and Award¹ compliance audit, which are more fully described in the Findings and Recommendations section beginning on page 8. Exhibit A starting on page 12 contains the responses from the Department of Aviation. ASTS chose not to respond to our findings.

1. Unauthorized Changes to Agreement

DIA amended the monthly fee calculation without obtaining and documenting written authorization for this change to the Award pricing terms. Additionally, the company received overtime reimbursement without required authorization in writing by the Department of Aviation Contract Administrator. In both of these instances, the Contract Administrator provided verbal approval. Changes that are not documented in writing can lead to questions and disagreement as to the legitimacy and enforceability of the changes. Based on these issues, DIA should implement adequate internal controls that will decrease the risk for noncompliance with contract terms.

2. Non-Compliance with Monthly Driver Record Monitoring Requirements

ASTS did not complete monthly bus driver driving record verification as required by the Award. ASTS officials indicated that they were not aware of this Award provision and therefore did not perform this activity. The failure to conduct monthly driver record checks increases the risk and liability to the City because drivers employed by the company with poor driving records may go undetected. Therefore, it is very important that ASTS fully comply with the contract terms related to driver record checks and that DIA implement internal controls to ensure compliance with agreement requirements.

¹ An Award is issued by and under the overall management responsibility of the Director of Purchasing. An award is approved and issued through the criteria established by Mayor Executive Order No. 33.

**AMPCO SYSTEM TRANSPORTATION SERVICES
BACKGROUND, SCOPE, OBJECTIVE, AND METHODOLOGY
FOR THE AUDIT PERIOD JANUARY 1, 2006 THROUGH JUNE 30, 2007**

Background

AMPCO System Parking, Inc., d/b/a AMPCO System Transportation Services (ASTS) and the City and County of Denver executed an Award under which ASTS provides shuttle bus service for employees working at Denver International Airport. The bus service transports employees between the concourses, the terminal area, and employee parking lots 24 hours a day, seven days a week.

The bus shuttle Award was effective February 1, 2003. The Award was scheduled to terminate January 31, 2006. However, on December 19, 2005, the Award was renewed for one additional year through February 1, 2007. On January 9, 2007, the Award was extended an additional five months through June 30, 2007. On June 7, 2007, the City and ASTS executed an additional extension for an additional seven months through January 31, 2008. A new ASTS contract² went into effect February 1, 2008.

Under terms of the Award, the City pays ASTS a monthly fee as documented by the monthly invoice submitted to the City by ASTS. The monthly fee consists of reimbursement for payroll and a monthly management fee. Overtime is allowed under this Award. The monthly management wage incentive³ is based on a calculated percentage amount for:

- Overhead
- Payroll taxes and insurance
- Uniform charge
- Profit and any other miscellaneous expense

The agreement requires that the monthly invoice be accompanied by supporting documentation, including time records.

ASTS executed a subcontract with Nationwide Parking to provide personnel to be assigned supervisor and clerk duties at the direction of ASTS. These employees are under the direction of ASTS and report their wage and hour component to DIA as part of the regular ASTS monthly invoice transmittal reimbursement request.

² Contracts are issued under the authority of Mayor Executive Order No. 8. Written contracts are initiated by a contract request (Form 42), drafted by Department of Law, signed by the Mayor, countersigned by the Auditor, and filed with the City Clerk's Office.

³ As compensation for operating the Shuttle Bus Services, the City paid ASTS a monthly fee equal to 44.8312% of the monthly reimbursed wages. See Note 1 for details.

Scope

The scope of our audit of ASTS operations at DIA included an evaluation of the adequacy and effectiveness of internal controls and an assessment of whether ASTS and the City complied with Award terms. We audited the executed Award for the period January 1, 2006 through June 30, 2007. Additionally, we verified that the Schedule of Amounts Reimbursed included in this report was in accordance with the Award for the audit period and was not significantly misstated.

Objective

The objective of our audit was to determine that ASTS and the Department of Aviation were in compliance with terms and conditions of the Award. An additional objective included determining whether ASTS submitted to the City: monthly invoice transmittal, adequate supporting documentation, required reports, and that the documentation submitted was accurate. We also determined if the approved reimbursement amount agreed with the amount disbursed by the City. Additionally, we determined whether internal controls were adequate.

Methodology

To meet the audit objectives, we utilized several methodologies. These evidence gathering and analysis techniques included but were not limited to:

- Review of accounting and administrative internal controls;
- Examination of monthly expenditure invoice requests and monthly payroll records; including employee rosters; wage rates; fringe benefits;
- Confirmation of City equipment assigned to ASTS;
- Verification of ASTS drivers license record files;
- Confirmation of ASTS monthly percentage management percentage rate [management fee];
- Assessment of customer complaint monitoring and response procedures;
- Interviews with Department of Aviation and ASTS management and staff;
- Verification of evidence of insurance and bonding requirements;
- Review of ASTS driver accident history; and
- Documentation of subcontractor(s) used by ASTS for this Award.

**AMPCO SYSTEM TRANSPORTATION SERVICES
FINDINGS AND RECOMMENDATIONS
FOR THE AUDIT PERIOD JANUARY 1, 2006 THROUGH JUNE 30, 2007**

1. Unauthorized Changes to Agreement

DIA amended the monthly fee calculation without obtaining and documenting written authorization for the change to the Award pricing terms. In place of written authorization, DIA provided verbal approval to ASTS. However, Award Sections K4.0, *Contract Administration*, stipulates that only the Manager of General Services or the Director of Purchasing is authorized to change or amend the specific terms, conditions or scope of the Award. Additionally, DIA verbally approved payment for a substantial amount of overtime (OT) worked by ASTS employees in December 2006. Award Section K8.0, *Overtime*, stipulates that overtime is allowed under this proposal, but only when expressly authorized, in writing, by the Contract Administrator. Amendments and approvals that are not formally documented in writing can lead to questions and disagreement as the legitimacy and enforceability of resulting activities and expenditures, thereby unnecessarily increasing risks to the City.

2. Non-Compliance with Monthly Driver Record Monitoring Requirements

ASTS was not in compliance with Award terms for bus shuttle driver Colorado driving record verification. Specifically, Award Section P2.0, *Driving Record* stipulates that ASTS will review every bus driver's driving record each month. However, ASTS did not review bus driver records on a monthly basis and DIA was not monitoring the Award terms to make sure the company was compliant with this requirement. ASTS officials indicated that they were not aware of this Award provision and therefore did not perform this activity. However, we did note that ASTS does review bus shuttle driver records on a quarterly basis as required by the Award. The failure to conduct monthly driver record checks increases the risk and liability to the City because drivers employed by the company with poor driving records may go undetected until such a quarterly review is performed.

Recommendations

1. We recommend DIA develop written procedures to establish necessary internal controls for formally documenting any changes or amendments executed for the new contract.⁴
2. We recommend DIA develop procedures and internal controls to review and document that ASTS is in compliance with the contract terms for driver record verification.

See Exhibit A (p. 12) for the DIA response

⁴ As noted in the background section, a new ASTS contract went into effect February 1, 2008.

**AMPCO SYSTEM TRANSPORTATION SERVICES
SCHEDULE OF AMOUNTS REIMBURSED
FOR THE AUDIT PERIOD JANUARY 1, 2006 THROUGH JUNE 30, 2007**

Amounts Invoiced and Approved

	<u>Amount Approved 2006</u>	<u>Amount Approved June 30, 2007</u>	<u>Total Approved</u>
ASTS (Note 2)	\$5,974,914	\$3,153,497	\$9,128,411
Nationwide Parking (Note 2)	340,571	170,751	511,322
Wage Incentive (Note 1)	<u>2,829,860</u>	<u>1,477,610</u>	<u>4,307,470</u>
Total	<u>\$9,145,345</u>	<u>\$4,801,858</u>	<u>\$13,947,203</u>

Amounts Invoiced and Paid

	<u>Amount Paid 2006</u>	<u>Amount Paid June 30, 2007</u>	<u>Total Paid</u>
ASTS (Note 2)	\$5,974,914	\$3,153,497	\$9,128,411
Nationwide Parking (Note 2)	340,571	170,751	511,322
Wage Incentive (Note 1)	<u>2,829,860</u>	<u>1,477,610</u>	<u>4,307,470</u>
Total	<u>\$9,145,345</u>	<u>\$4,801,858</u>	<u>\$13,947,203</u>

The accompanying notes are an integral part of this schedule

Note 1. Monthly Reimbursement

As compensation for operating the Shuttle Bus Services in complete compliance with the provisions of this Award, the City shall pay ASTS a monthly fee as documented by ASTS monthly invoice, which shall be accompanied by supporting documentation, including time records, acceptable to the City. ASTS invoices shall be in accordance with the monthly staffing plans submitted by it to the City and approved by the city as reasonable and necessary for the work to be performed.

Section Q of the AWARD identifies the Award pricing structure as follows:

✓ Net percentage for Payroll Taxes and Insurance	15.9148%
✓ Net Monthly Percentage Charge Uniforms	1.4566%
✓ Net Monthly Percentage for Managers, Assistant Managers and Manager Trainee	9.5377%
✓ Net Monthly Percentage for Overhead	10.9527%
✓ Net Monthly Percentage for Profit and any other miscellaneous expense	<u>6.9694%</u>
Total Percentage to Manage Award	<u>44.8312%</u>

On a monthly basis, ASTS will calculate the amount of the “billable wage incentive” by multiplying 44.8312% times the total amount of billable wages calculated for monthly reimbursement. Please note however, that for a brief period in 2007, the calculation methodology for the monthly wage incentive was amended to include both 44.8312% and 22.4% as factors. The total monthly reimbursable amount requested is the sum of the total billable wages, plus the calculated total wage incentive percentage to manage the Award.

Note 2. Minimum Wage Provision

ASTS shall be required to pay, at a minimum the hourly wage established by the Career Service Authority (CSA) and \$3.94 per hour in fringe benefits for the position of Airport Shuttle Bus Driver. By February 2008 a new rate will be established and will go into effect. Ninety days prior to the expiration of each year of the contract, the Denver CSA will be requested to conduct a survey (using the same methodology for each survey) of similar shuttle bus driver positions in the Denver Metropolitan Area. This process is for this contract only and not a determination of Prevailing Wage Ordinance 20-69. If the yearly survey indicates an increase, the City shall notify ASTS of the new hourly minimum rate and fringe benefits fifteen days prior to the expiration of each year of the contract. ASTS shall, on the first day of the subsequent year(s) of the contract, increase the wages and fringe benefits (if an increase is indicated by the survey) for the position of Airport Shuttle Bus Driver by the wage and fringe benefit amount indicated by the City. In no event shall wages or fringe benefits for Airport Shuttle Bus Drivers fall below the established minimum set out for the previous year of the Award.

The amounts reported in the Schedule of Amounts Reimbursed identify for ASTS and Nationwide Parking respectively, the total amounts ASTS invoiced for actual staffing hours performed for ASTS and Nationwide Parking. The invoiced amounts were accompanied by supporting documentation, including payroll and time records.



City & County of Denver
JOHN W. HICKENLOOPER
Mayor

May 19, 2008

Mr. Kip R. Memmott, CGAP, CICA
Director of Audit Services
Office of the Auditor
201 W Colfax Avenue, Department 705
Denver, Colorado 80202

Dear Mr. Memmott:

The following is in response to the findings in the audit of AMPCO System Transportation Services (ASTS) bus shuttle operations at Denver International Airport for the period January 1, 2006 through June 30, 2007.

Findings and Recommendations:

1. Unauthorized Changes to Agreement:

The Department of Aviation concurs with your recommendation to develop written procedures to establish necessary internal controls for formally documenting any changes or amendments executed for the new contract. We will be developing these written procedures in-house, and we anticipate these written procedures to be completed in June 2008.

2. Non-Compliance with Monthly Driver Record Monitoring Requirements:

The Department of Aviation concurs with your recommendation to develop procedures and internal controls to review and document that ASTS is in compliance with the contract terms for driver record verification. These procedures will be developed in conjunction with the written procedures as noted in our response to finding 1, above. These procedures will be developed in-house, and we anticipate these written procedures to be completed in June 2008.



**DENVER
INTERNATIONAL
AIRPORT**

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www.FlyDenver.com

May 19, 2008
Mr. Kip R. Memmott, CGAP, CICA
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We extend our thanks and appreciation for your and your staff's cooperation.

Sincerely,



Kim Day
Manager of Aviation

KD/lm

cc: Cheryl Cohen-Vader, Chief Deputy Manager
Ruth Rodriguez, Deputy Manager of Aviation, Maintenance & Engineering
Steven Draper, Director of Aviation Maintenance
Sharon Shannon, Internal Audit Supervisor, Department of Aviation