

MIAMI-DADE COUNTY
OFFICE OF THE INSPECTOR GENERAL



FINAL REPORT

*Non-Exclusive Management Agreement Between
the Miami-Dade Aviation Department and Airport Parking
Associates for the Operation of the Public Parking Facilities at
Miami International Airport*

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INTRODUCTION & SUMMARY

The Office of the Inspector General (OIG) reviewed the Miami-Dade Aviation Department's (MDAD) management agreement with Airport Parking Associates (APA) for the operation of the public parking facilities at Miami International Airport (MIA). The current management agreement began in 1997 and was for a 10-year term, which has now expired. It is presently continuing on a month-to-month basis. A new contract proposal recommending APA is awaiting consideration by the Miami-Dade Board of County Commissioners.

Under the current agreement, APA operates and manages the public parking facilities. APA is a joint venture between Central Parking Systems of Florida, Inc. (CPS) and WRP and Associates, Inc., each owning 51% and 49%, respectively. CPS is a subsidiary of Central Parking Corporation, a publicly held entity headquartered in Nashville, TN. CPS is the controlling entity of the joint venture. Hence, for the purposes of this report, the management company or operator will hereafter be referenced as "CPS."¹

CPS is responsible for the overall operation of the parking facilities. The employees assigned to these duties are CPS employees. At its very essence, the primary objective of the management agreement is for the collection of revenue from these facilities, and CPS receives a monthly management fee of \$6,000 for performing these functions. All operating costs are borne by MDAD. These costs primarily include the employee salaries/payroll, maintenance of the garages and equipment, employee uniforms and other miscellaneous operating expenses, including various insurances. Annually, an operating budget is proposed and approved. The annual operating budget is to be presented in a monthly format, and, thereafter, CPS submits a Monthly Revenue/Expense Report to MDAD. "This report serves as a summary of monthly Parking Revenue and Reimbursable Expenses and as a monthly invoice to the Department from the Operator." (Agreement, Article 4.02)

Starting in December 2006, the OIG, along with several other County officials, received information from an anonymous source alleging mismanagement, lack of accountability, overbilling and other financial wrongdoing relating to the aforementioned management agreement. Specific categories of expenses were identified as having been overbilled. In consultation with MDAD Director Jose Abreu, it was agreed that the OIG would focus primarily on the following categories of

¹ References to "APA" will still be used when referring to the written response supplied by the entity commenting on the draft version of this report.

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expenditures: 401(k) retirement plan contributions, workers' compensation insurance, and general/garage keeper's liability insurance. The OIG scope of review covered the last three fiscal years of the agreement: 2004, 2005 and 2006.

As detailed in Article 4.02 of the Agreement:

The Reimbursable Expenses are to be presented in the Monthly Revenue/Expense Report, as directed in the Parking Procedures Manual. ***Reimbursable Expenses shall mean all operating budgeted expenses incurred by the Operator*** in the operation of the Facilities, as well as all other expenses not provided for in the Budget, but which are specifically approved by the Project Manager, or his/her designated representatives, in writing. Intercompany communication shall not be included as a Reimbursable Expense. Reimbursable Expenses are separate from, and in addition to, the Monthly Management Fee. (Emphasis added by OIG)

Our review determined that, as presented in the monthly expense report, which was to serve as an invoice to MDAD, CPS overstated its actual incurred expenses relating to its 401(k) plan employer matching contributions by \$95,818 for the three years reviewed. Under its budgeted line item for retirement plan contributions, CPS expensed a monthly amount equal to 2.5% of its total employee salary costs. However, not all employees participated in the 401(k) plan and, thus, CPS' matching contributions were much less than the amount it received from MDAD.

Regarding the workers' compensation premium payments insurance made on behalf of those employees working at MIA, we recognize CPS' election of very high deductibles, wherein it assumed the risk for claim amounts under the deductible amount; however, other discounts were not passed through to MDAD—which we believe should have been. Furthermore, we found that CPS' workers' compensation charges to MDAD included overtime costs, which should have been excluded. We re-calculated the policy premium for the CPS employees working at MIA based on Central Parking Corporation's actual policy costs as applied to the MIA payroll, excluding overtime and also excluding the Loss Reimbursement Plan deductible. We found that compared to CPS's "incurred" expenses, MDAD overpaid for this coverage by approximately \$110,000 for the three-year period reviewed.

In the expenditure category of garage liability insurance, we found that MDAD ultimately paid an uncompetitive rate for insurance coverage afforded by CPS' parent company, Central Parking Corporation. Central Parking Corporation carried one policy covering its over 140 subsidiaries and thousands of parking management

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agreements nationwide. Again, due to its election of very high deductibles, we recognize that Central Parking Corporation was, in essence, self-insured and, in turn, acting as its own insurance company by setting its own rates to charge its management agreement clients.

CPS set its own rates, which were unchallenged. In other words, MDAD paid much more than it should have. This intra-company charge, as submitted to MDAD, was a *Related Party Purchase and Service* charge, which is prohibited by the agreement (see Article 3.12) unless otherwise approved in writing. Moreover, MDAD's failure to require three bids/quotes for the purchase of insurance, even if one bid came from a Related Party, resulted in the lack of assurance that the rates were competitive. We surmise that the annual insurance coverage paid by MDAD was at least \$100,000 more expensive than comparable liability coverage. TABLE 1 summarizes our monetary findings of overpayments made by MDAD.

TABLE 1 Total Overpayments by Year and Expense Category

Fiscal Year	401(k) plan	Workers' Compensation	Garage Liability (Estimate)	Total by FY
2004	\$48,087	\$61,703	\$100,000	\$209,790
2005	\$35,032	\$23,207	\$100,000	\$158,239
2006	\$12,699	\$25,080	\$100,000	\$137,779
Total Overpayment	\$95,818	\$109,990	\$300,000	\$505,808

During the course of this review, the OIG met with APA/CPS officials and provided them an opportunity to address these areas of concern. APA provided written responses to our inquiries, which are included hereto as **Attachment 1**.

We also provided a "draft" version of this report to APA and MDAD for comment. Their written responses are included in this final report as **Appendix A and B**, respectively.

THE OIG'S JURISDICTIONAL AUTHORITY

In accordance with Section 2-1076 of the Code of Miami-Dade County, the Inspector General has the authority to investigate county affairs and the power to review past, present and proposed County and Public Health Trust Programs, accounts, records, contracts and transactions. The Inspector General has the power to analyze the need

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for, and the reasonableness of, proposed change orders. The Inspector General is authorized to conduct any reviews, audits, inspections, investigations or analyses relating to departments, offices, boards, activities, programs and agencies of the County and the Public Health Trust.

The Inspector General may perform, on a random basis, audits, inspections and reviews of all County contracts. The Inspector General shall have the power to audit, investigate, monitor, oversee, inspect and review County operations, activities and performance and procurement processes including, but not limited to project design, establishment of bid specifications, bid submittals, activities of the contractor and its officers, agents and employees, lobbyists, and of County staff and elected officials, in order to ensure compliance with contract specifications and detect corruption and fraud.

The Inspector General shall have the power to review and investigate any citizen's complaints regarding County or Public Health Trust projects, programs, contracts or transactions. The Inspector General may exercise any of the powers contained in Section 2-1076, upon his or her own initiative.

The Inspector General shall have the power to require reports from the Mayor, County Commissioners, County Manager, County agencies and instrumentalities, County officers and employees, and the Public Health Trust and its officers and employees regarding any matter within the jurisdiction of the Inspector General.

Summary of APA's response to the draft report and the OIG's rejoinder

APA provided the OIG with a seventeen-page response and a binder of attachments containing 347 pages of material. Its seventeen-page response is appended herein as Appendix A; the remainder of the materials may be made available by contacting the OIG.²

² APA's attached materials include seven (7) exhibits, totaling 347 pages, including two (2) Form 10-K submissions prepared by APA peers providing parking garage services—Standard Parking Corporation and ABM Industries Incorporated—both of whom participated in MDAD's recent RFP process. Additionally, APA provided a lengthy compilation of reports, findings and APA responses to various audits conducted between 1997 and 2007. Most of the reports appear to be the result of the annual special-purpose financial statement audits required under APA's management agreement with MDAD. Typically, the Certified Public Accounting firm (CPA) that performed the audit and whose findings are reported, is not disclosed. Often, APA included multiple copies of the same work product. Some of these documents are: *Notes to Special-Purpose Financial Statements* for years ended September 30, 2005, 2001, 2000, and

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Overall, APA “respectfully and emphatically disagrees with each and every one of the OIG’s unsubstantiated ‘findings’ and speculative ‘conclusions’ as set forth in the August 30th Draft Report.”

Its main contention is that each of these expenses were approved in an annual budget process with MDAD staff, which included negotiations of these items, and that during the performance of the contract MDAD had the right to verify the amounts claimed on the monthly expense reports, but never did. It may be true that MDAD never challenged the charges, but it also appears that MDAD staff did not employ specific contract provisions to gauge the reasonableness of CPS’ charges. However, their failure to do so does not negate our independent assessment of the amounts we believe MDAD overpaid.

APA, in its response, presents its interpretation of the term “incurred” to make it synonymous with “approved budgeted expenses.” APA states:

Article 4.02 defines reimbursable expenses as “all operating *budgeted expenses incurred by the Operator* in the operation of the facilities”. The term “budgeted expenses” in that Section refers to the proposed expenses in the annual and monthly budget that are **specifically approved by MDAD**. The phrase “incurred by the Operator” refers to such amounts as the Operator was entitled to charge (incur) for goods or services actually provided by APA based on the approved budget. (Emphasis supplied by APA.)

The OIG finds APA’s circular reasoning convenient to its practice of expensing MDAD for the entire amount approved in the annual budget regardless of its actual out-of-pocket costs. We do not, as we are fairly confident other public officials would not, find that the an expense “incurred by the Operator” is synonymous with what an Operator is “entitled to charge.” This interpretation would seem to exclude the notion

1998. APA included comparative *Supplemental Special-Purpose Statements of Assets and Liabilities* and of *Statements of Revenues and Expenses* for the years ended September 30, 1998, 1999, 2000, 2001, 2002, 2003 and 2004. Other frequently provided reports were the *Memorandum(s) of Internal Control Structure* for the years ended September 30, 2004, 2003, 2002, 1998 and 1997. Other exhibits include work products prepared by the two (2) outside consultants mentioned by APA—John E. Lucas and Robert C. Sullivan, as well as an APA-prepared analysis of workers’ compensation and liability insurance quotes and rates submitted by prospective parking facility operators in response to MDAD RFP No. 02-06. APA, in addition, included copies of the MDAD-executed signature pages for the 1999/2000, 2000/2001, 2001/2002, 2002/2003, 2004/2005 and 2007/2008 *Proposed Operating Budget(s)*.

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that an expenditure category can never be “under” or “over” budget. For example, if the annual budget approved a line item for salaries at \$100,000, but the actual payroll was only \$80,000, does that mean that APA incurs the full \$100,000? We believe any reasonable interpretation would think not.

Specific to its 401(k) employer contributions, APA relates that the 2.5% figure was indeed an estimate of what its actual costs might be. APA further states in its response that “[b]y approving the retirement expense at a constant figure throughout the contract year, the parties, in effect, negotiated a reimbursement for this expense that was easily ascertainable, auditable, and which reflected an agreed upon allocation of risk that no longer fluctuated based upon how many employees participated in any given month.”

But a budget is just that—a budget, and the amount approved in the budget does not automatically translate into an expense that APA is—using its term—“entitled to charge.” APA estimated that its 401(k) contributions would be 2.5% of its payroll, and the OIG does not contest that it is not an unreasonable projection. But when APA’s actual payment on its 401(k) contributions is less than the MDAD-approved budgeted amount, MDAD should not have been the loser. Had APA’s actual contributions exceeded the budgeted amount, as it could have if all the employees participated at the highest contribution level, then we are confident that APA would have renegotiated an increased budget amount for that expense category, which we clearly believe would have been warranted.

Regarding its workers’ compensation and garage liability insurances, APA’s main contention is that its methodology in determining its charges to MDAD for insurance coverage is the same method utilized by the industry. In its exhibits to its written response, APA includes over 200 pages of its competitors’ Security and Exchange Commission Form 10-K reports (Form 10-K) for the fiscal year 2006. Excerpts are quoted in APA’s response on pages 11 and 12 for the proposition that it is common in the industry for publicly-traded parking/garage companies to offer its management contract clients insurance coverage by charging a rate that is an allocated portion of its insurance-related costs. In both quoted excerpts, it states that the company believes that the rate charged these clients is competitive.

APA/CPS, while including the Form 10-K reports of its competitors, Standard Parking and ABM (AMPCO), does not include its own. A quick review of Central Parking

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Corporation's Form 10K for the same year under the heading of *Management Contracts*³ states:

Management contract revenues consist of management fees (both fixed and performance based and *fees for ancillary services such as insurance* ... With respect to insurance, the Company's clients have the option of obtaining liability insurance on their own or having Central Parking provide insurance as part of the services provided under the management contact. Because of the Company's size and claims experience, management believes it can purchase insurance at lower rates than the Company's clients can generally obtain on their own. (Emphasis added by OIG.)

Similarly, under the section heading of *Insurance*,⁴ Central Parking Corporation adds:

Pursuant to its management contracts, the Company charges its management clients for insurance rates it believes are competitive. In each case, the Company's management clients have the option of purchasing their own policies, provided the Company is named as an additional insured. A reduction in the number of clients that purchase insurance through the Company could have a material adverse effect on the operating earnings of the Company. (Emphasis added by OIG.)

The operator, CPS, charges MDAD for insurance provided by, and at rates set by, its parent company. APA/CPS, in its response to the OIG's draft report, provides an expert's opinion that the rates are reasonable. It also emphasizes that by using a "market-based analysis" one would see that APA/CPS' rates are lower than two of its competitors. The competitors that APA/CPS refers to are the other proposers on the recent replacement Request For Proposal (RFP 02-06) for Operation of Public Parking Facilities at MIA.

By suggesting that APA/CPS' insurance rate, as presented in its sample budget that was made part of its proposal, is competitive to its competitors does nothing to assess the

³ Page 9 of 70, Central Parking Corporation, Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934m, for the fiscal year ended September 30, 2006.

⁴ Page 10 of 70, Central Parking Corporation, Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934m, for the fiscal year ended September 30, 2006.

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real competitiveness of the rate to other insurance providers. It only compares proposed rates among parking providers. First, as APA/CPS maintains, it is standard industry practice for parking garage operators to provide their own insurance, i.e. to sell their own insurance product to their management clients. Second, the rate or amount proposed by each of the proposers to the RFP was presented as part of its sample budget. There was no head-to-head financial comparison or evaluation between these rates among the proposers. The only dollar figure that was actually evaluated for RFP-scoring purposes was each proposer's monthly management fee.

This should not be a mere comparison between what parking garage operators charge for insurance. Instead it should be a comparison between the costs of purchasing insurance coverage from a parking garage operator (a related party purchase) versus the cost of purchasing insurance coverage from an insurance carrier. As Central Parking Corporation advises its shareholders in its Form 10-K, insurance—as an ancillary service—is a source of revenue to the company. It believes its rates are competitive but its clients are free to shop around. However, if its clients—such as MDAD—obtain insurance on their own, it will cut into the company's earnings. As such, it behooves MDAD to obtain independent insurance quotes to assess the true competitiveness of CPS' intra-company rate. Likewise, given its contribution to the company's earnings, it is also in CPS' interest to keep clients within its internal insurance structure by pricing its insurance product competitively against the rates of other available insurance policies.

Summary of MDAD's response to the draft report and the OIG's rejoinder

MDAD agrees “that the amounts paid for retirement plan matching, worker's compensation insurance, and garage liability insurance exceeded the actual costs incurred by the parking management company.” MDAD notes that “insurance and retirement-plan related decisions made by the Landside Division during the term of the current parking management agreement were consistent with contract administration practices and the agreement as negotiated over ten (10) years ago.” MDAD states that under new organizational changes, the parking management agreement will no longer be managed by the Landside Division, but instead by the Commercial Operations Division, and business oversight will be handled by the Business Retention & Development and Finance and Strategy Divisions.

MDAD also reiterates the role of its Risk Management Division and notes that it is currently organized so that it becomes involved at the inception of a contract by “review[ing] the insurance requirements of all contracts prior to award and advises as

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to the suitability of both coverage and the form of the policy.”⁵ MDAD also states that going forward it “will also require that all services and procurement contemplated by the management company must be conducted through a competitive process that entails a minimum of three (3) bids unless circumstances justify a lesser number or sole source.”

The OIG recognizes that the agreement under review has its roots from over ten (10) years ago. We strongly believe, however, that the original date of an agreement should not set in stone weak management practices that governed the administration of the agreement. For example, MDAD staff acknowledged to the OIG that it was aware that CPS had changed its employee retirement plan to a 401(k) contribution plan, yet no changes in the reimbursement method of that expense were initiated.

We are encouraged by MDAD’s embracing of the “Purchasing” provision (Article 6.09 of the current contract and Article 6.07 of the new proposed contract) requiring that the operator solicit not less than three bids for services and purchases. While the specific service of insurance is expressly stated in the proposed new contract, we note that this contract provision was also included in the current 1997 contract. Had MDAD contract managers employed this provision, requiring three bids, it would have at least ensured that the insurance rates charged by CPS were competitive.

Moving forward, it will be incumbent upon MDAD to enforce these contract requirements, which exist to protect the County’s interests.

The remaining pages provide the details of the OIG’s review.

CATEGORIES REVIEWED & FINDINGS

401(k) Retirement Plan Contributions

Since the inception of the contract, CPS has requested and been paid an amount equal to 2.5 percent of its salary costs to fund its employee retirement plan. According to APA/CPS, “approximately five years ago, the company went to a 401(k) plan with

⁵ MDAD also attached a copy of its new Department Standard Operating Procedure, effective June 20, 2007, entitled *MDAD Risk Management Review and Approval Of All Management Agreements, Leases, Permits, Concessions Agreements, Professional Service Agreements, Construction Contracts and Procurement Agreements*. The three (3) page procedure is attached to MDAD’s response included herein as Appendix B.

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employer matching contributions, as described in the plan.” (See Attachment 1) Even with the switch in retirement plans, CPS still received 2.5 percent of its employee salary costs from MDAD to cover its retirement payments.

The MDAD officials responsible for overseeing this contract were interviewed by the OIG. They stated that the reimbursement payment by MDAD for all items covered under the approved budget, including retirement, was to be for actual expenses incurred by the operator. The 2.5 percent figure was considered an average since it was known that CPS’ contribution to the employees’ retirement accounts sometimes exceeded 2.5 percent. They did not know the actual number of employees participating in the retirement program and never reviewed any documents that quantified the number of participants. They were in agreement that the payments made by MDAD for this reimbursement category were to closely match the amounts actually expended by CPS for its matching 401(k) contributions, and that CPS was not to profit by being paid in excess of its actual contributions.

In order to determine the extent of any overpayment by MDAD, the OIG requested and analyzed records and other information provided by MDAD, CPS and the administrator of the 401(k) plan, Franklin Templeton. The information identified each CPS employee participant, the amount that each employee contributed to his/her 401(k) account and the CPS/employer matching contribution credited to each employee’s account. This detail was compared against the monthly amount paid by MDAD as a reimbursement to CPS for its expenses. **TABLE 2** below shows that for just the three years reviewed, MDAD paid CPS \$95,818 in excess of CPS’ actual retirement contribution expenditures.

TABLE 2 Amount Paid By MDAD In Excess of CPS’ Total Expenses for 401(k) Plan Contributions

Year	Average Number Of Employees Participating in 401k Plan	Amount Contributed By CPS	Amount Paid By MDAD as a “Reimbursable Expense”	Amount Paid In Excess Of CPS’ Actual Expenses
2004	16	\$15,089	\$ 63,176	\$48,087
2005	27	\$24,619	\$ 59,651	\$35,032
2006	49	\$43,674	\$ 56,373	\$12,699
TOTAL		\$83,382	\$179,200	\$95,818

(See **OIG Attachment 2**, for a detailed schedule by month for all three years reviewed.)

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In light of the relatively low number of employees participating in the 401(k) plan in 2004, it is recommended that MDAD conduct a similar review for the first two years that the 401(k) plan was put in place (2002 and 2003).

The OIG is concerned about the lack of oversight provided by MDAD staff. As mentioned earlier, MDAD contract managers considered the 2.5 percent calculation to be an average. Apparently, there has been no attempt to assess the reasonableness of this figure. No questions were asked about the number of employees participating in the 401(k) plan or the dollar amounts (actual or average) that were expended by CPS as employer matching contributions to the plan.

During the course of our review, we learned that Jackson Memorial Hospital (JMH) also utilized the services of CPS from April 2005 through February 2007. Representatives of JMH stated that JMH had also agreed to reimburse CPS 2.5 percent of its total payroll as reimbursement for retirement expenses. Unlike MDAD, JMH, however, did attempt to determine the actual amount paid by CPS as matching contributions to its employees' retirement plan. In June 2006, JMH negotiated a reduction, which equated to 1.5 percent of its total salaries.⁶

In addition, we also learned that Palm Beach International Airport and Ft. Lauderdale International Airport contracted with CPS, d/b/a USA Parking, to manage and operate their parking garages. They indicated to us that neither airport reimbursed CPS for an employee retirement plan.

Workers' Compensation Insurance

In each of the annual budgets submitted by CPS to MDAD since the first year of the contract, CPS has expensed its workers' compensation insurance (WC) premium at the "state rate" for parking garage employees (Class Code 8392). The state rate is the National Council on Compensation Insurance (NCCI) computed rate for that class of workers in the State of Florida. These rates are periodically reviewed and adjusted as deemed necessary by the NCCI. For the three years reviewed, the Florida rates for Class Code 8392, as computed on CPS's annual policies, were 8.38, 8.38 and 7.95 per \$100 of payroll dollars excluding overtime pay, for years 2004, 2005 and 2006, respectively.

⁶ It is unclear, however, if the 1.5 percent figure is an exact match to actual retirement contribution expenditure or whether, again, it is an average.

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MDAD pays CPS for its WC premium cost based on the state rate multiplied by the payroll for its employees working at MIA. CPS has been calculating, and MDAD has been paying, the total payroll amounts including overtime costs. When overtime is listed separately from regular salary, as was presented under this management agreement, overtime amounts are excluded from WC premium charges.⁷ In other words, MDAD should not have been charged WC premiums based on overtime costs. Just on this basis alone, MDAD was overcharged \$31,914 over the past three years.

However, our analysis does not end there; we looked at the discounts CPS received that were not passed on to MDAD. MDAD was aware that CPS was receiving a discount off the state rate based upon a high deductible that CPS elected to include in its policy. One MDAD official opined that CPS was entitled to that discount based on CPS' assumption of risk. One of CPS' assertions to MDAD was that due to its sheer size, CPS was afforded some type of discount. MDAD's contract managers were not aware of any other discount(s) CPS may have received, but they did state that any other discount(s) should have been passed through to MDAD to offset MDAD's payment to CPS. Consequently, MDAD never confirmed whether discounts were being passed on to MDAD and whether the proper reimbursement amount was being paid by MDAD.

In order to determine the reasonableness of the WC premiums paid by MDAD for those employees working at MIA's parking facilities, we reviewed CPS' monthly expense reports, along with its policies and invoices for the fiscal years ending September 30, 2004, 2005 and 2006.⁸ CPS' WC policy covers its entire national operations and is broken down by state according to each state's rate. Thereafter, the state is broken down into geographical regions and a total is calculated for each geographical location.

As presented in the invoice's policy calculations, the "state rate" is multiplied by the employer's estimated "annual remuneration" for each particular region within the state, prior to the application of adjustments and discounts. These discounts are Experience Premium (claims history), Loss Reimbursement Plan (resulting from a \$250,000 deductible) and Premium (volume) discounts. The Loss Reimbursement Plan discount was, by far, the most significant discount, and it alone accounted for approximately 65%, 85% and 81% of the premium reduction for years 2004, 2005 and 2006,

⁷ See Rule 2-C-2, Basic Manual (2001 Edition) of the National Council on Compensation Insurance, Inc.

⁸ We obtained copies of the policies and invoices for fiscal years 2004 and 2006 from CPS, and 2005 from MDAD.

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respectively. Adjustments include Blanket Waiver, Increase Limits, Tax and other minor inclusions.

Recognizing CPS' higher assumption of risk by electing a very high deductible on its WC policy, we re-calculated its WC premium expense, excluding the Loss Reimbursement Plan discount. As related to CPS' high deductible, we also took into consideration its benefit of the insurance company's blanket waiver. This waiver is the insurer giving up its right to subrogation in excess of the deductible thresholds. In other words, CPS pays its insurer [AIG] to waive its claims against third parties. It is a relatively small added cost to the overall policy, which was also excluded in our analysis. Because of its inextricable relationship, both the monetary benefit (discount for the Loss Reimbursement Plan) and the monetary burden (insurer's blanket waiver) were excluded. We applied all other adjustments and discounts to the adjusted annual payroll (excluding overtime costs) to determine the proper amount MDAD should have reimbursed CPS for as its incurred expense.

TABLE 3 Summary Of Workers' Compensation Premiums

Fiscal Year	CPS' Premium Cost for Miami Region (includes MIA facilities)⁹	Actual Amount Paid by MDAD for Employees at MIA	OIG Determined MDAD portion of premium¹⁰	OIG Determined Overpayment
2004	\$215,048	\$217,464	\$155,761	\$61,703
2005	\$ 69,763	\$186,658	\$163,451	\$23,207
2006	\$ 58,790	\$162,280	\$137,200	\$25,080
TOTAL	\$343,601	\$566,402	\$456,412	\$109,990

⁹ The Miami Region would include the parking facilities at MIA, Jackson Memorial Hospital (JMH), and all other parking lots and garages under CPS operation located in the geographical boundary of the region. For comparative purposes, we note that JMH was also billed by CPS \$53,852 for FY 2005 and \$103,473 for FY 2006 for its WC expenses.

¹⁰ We took the annual adjusted salary totals (excluding overtime) and applied the WC state rate; we then applied the Increase Limits adjustment, Experience Premium discount, Premium discount, Tax Provision in Premium, Expense Constant (minimum) and Terrorism Risk adjustment, which are all specifically listed in the policies. As described above, we did not apply the Loss Reimbursement Plan discount and the Blanket Waiver adjustment.

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It is apparent that by charging MDAD the full NCCI state rate for WC, without benefit of the policy discounts afforded by CPS' insurance provider, CPS received a financial benefit not intended by the plain definition of reimbursable expense. (See Article 4.02) Even taking into account the huge discount afforded to CPS due to its election of a \$250,000 deductible, which, in essence, made it self-insured,¹¹ MDAD should have received the benefit of the other discounts. These discounts are tied to the company's good reputation, experience in the industry, and track-record. These are all the things MDAD (or any other government agency) looks for when selecting a vendor to perform under a management contract (or any type of contract for that matter). Our application of both discounts and adjustments present a more accurate picture of CPS' incurred expenses for its MIA employees, and conversely shows what MDAD should have appropriately paid CPS for WC coverage.

Garage Liability Insurance¹²

The subject management agreement requires the following insurance requirements:

Comprehensive General Liability in an amount not less than \$1,000,000 combined single limit per occurrence for bodily injury and property damage. Metropolitan Dade County must be shown as an additional insured with respect to this coverage. (Article 14.01 B)

GarageKeepers Legal Liability insurance in an amount not less than \$100,000 per occurrence. Metropolitan Dade County must be shown as an additional insured with respect to this coverage. (Article 14.01 C)

For the three-year period under review, MDAD remitted \$635,637 to CPS as reimbursement for its garage liability insurance premium payments. The charges submitted to MDAD for fiscal years 2004, 2005 and 2006 were \$208,353, \$239,058 and \$188,226, respectively. In comparison to the cost of Central Parking

¹¹ CPS' assumption of the risk ended up being very profitable as its actual out-of-pocket claims expenditures were much less than the amount it saved by electing the \$250,000 deductible. As such, by not including the premium discount afforded to CPS for its Loss Reimbursement Plan, we are also not including CPS's out-of-pocket claims expenses in our calculation.

¹² We herein use the term *Garage Liability* because this is the term used by APA/CPS in its annual budgets and in the monthly expense reports.

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Corporation's nationwide policy, approximately \$2.1 million annually for 2004 and 2005, the cost charged to MDAD amounted to 10-11% of Central's total premium cost. The OIG attempted to ascertain the basis for the amounts charged to MDAD.

Essentially, Central Parking Corporation obtained a liability policy to cover its national operation that included more than 140 subsidiaries by name and thousands of parking management agreements. It self-insured for the largest component of the policy—general liability. In a letter dated February 27, 2006 to MDAD, CPS states that it “self-insures a major portion of its insurance program with [a] deductible of \$350,000.” CPS further states that its proactive focus, constant monitoring and safety precautions reduces claims and provides higher customer satisfaction. The letter goes on to say: “We price our policies for locations on a per space and per market basis, which we believe allows us to be more competitive regionally and is a more accurate indicator of actual claims history.”¹³ **(Attachment 3)**

By pricing its own policies, CPS is selling MDAD its own insurance-product. In its response to the OIG's draft report, APA/CPS acknowledged that this is standard industry practice. It also provided an expert's opinion that the average annual premium amount charged to MDAD (\$211,879) was reasonable and that it would be difficult to find “a broad market willing to accept this risk without a substantial increase in premium above the current rate.” (APA's Attachment 7)

The reasonableness of the charged premium amount will never be known in the absence of MDAD challenging CPS' own established premium price. The Management Agreement recognizes a general policy disfavoring *Related Party Purchases and Services* (Article 3.12). The agreement generally prohibits these transactions unless there is full disclosure and written approval by the Department.

The Operator shall not be reimbursed for purchases of products or services, which would otherwise constitute a Reimbursable Operating Expense hereunder, if such purchases have been from “Related Parties.” Related Parties shall mean (a) the Operator itself, (b) any entity which has a direct or indirect ownership interest in the Operator, or (c) any entity in which the Operator has a direct or indirect ownership interest, unless such purchases have been fully disclosed by the Operator to the

¹³ Similarly, in CPS' responses to OIG questions on this issue (see OIG Attachment 1) it states that the liability charge to the airport is “based upon the facility's space count and annual revenue, which, combined, give an estimate of the operation's exposure to liability claims. It is also based upon then current market conditions.”

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Department in writing prior to the proposed purchase and written approval has been given by the Department to the Operator.

While the rationale for disfavoring Related Party transactions is not expressly stated, reason and logic dictate that these types of transactions would not be at arms length. Rather, they would be very close to the vest. Price setting between related parties may be artificial. General market forces and competition do not apply and, thus, similar to a bid waiver, there must be full disclosure and written approval. Even then the Agreement requires “not less than three informal bids or quotes for all purchases of goods and services ...” (See Article 6.09) This requirement carries even more importance when one of the bids/quotes is a related party transaction.

Given the flexibility that the operator has in setting its own price, we believe that CPS’ insurance price could be competitive if required to compete against the price MDAD could obtain from a stand-alone policy. Central Parking Corporation states in its Form 10-K: “A reduction in the number of [management contract] clients that purchase insurance through the Company could have a material adverse effect on the operating earnings of the Company.” (See section heading *Insurance*, 2006 Form 10-K.)

As we noted in our rejoinder to APA/CPS’ response, Central Parking Corporation’s selling of insurance to its management clients is a noteworthy source of revenue, as highlighted in its Form 10-K (see page 7 of this Report). That it makes money from this ancillary service is not the issue. The issue is how that product—garage liability insurance—is recognized by MDAD. First, MDAD needs to recognize it as a Related Party transaction. Second, MDAD needs to recognize it as it would any other service or product that requires third party quotes, in order to assess the competitiveness of the quoted price. While APA/CPS states that its insurance rates are competitive, MDAD seemingly never challenged CPS’ competitive rate by obtaining third-party quotes.

For the three years reviewed, using CPS’ method of charging a per location, per parking space rate, MDAD paid a per space charge of \$24.82, \$28.49 and \$22.43 for fiscal years 2004, 2005 and 2006¹⁴, respectively. For comparative purposes, we note that during part of the same time periods, JMH contracted with Central Parking Systems to operate and manage its parking garages. Specifically for liability insurance, JMH paid a per space charge of roughly \$10 per space.

¹⁴ For 2006, the last two months of the fiscal year were not billed until the following fiscal year.

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Referring back to CPS' letter to MDAD on February 27, 2006 (**Attachment 3**), CPS goes on to suggest that "all clients are always free to seek competitive bids from insurance companies or to purchase the insurance and include CPS on the policy. Our very high retention rate of those clients who survey the market confirms that our pricing strategy most often represents a discounted rate than what they would typically be charged on a stand-alone basis."

In March of 2007, while in the process of negotiating a new agreement to replace the current contract, inquiries were made by MDAD staff regarding the liability insurance amounts charged by CPS at other airports. In a written response dated March, 20, 2007, CPS explained its risk assessing measures and denied MDAD the information on other airports citing confidentiality restrictions. (**Attachment 4**) Consequently, during these contract negotiations, MDAD's Risk Management Division was consulted and it was decided that CPS would be required to obtain an individual policy for Miami International Airport. The proposed premium for this stand-alone policy is \$86,712, which equates to a charge of \$10.33 per parking space.¹⁵

The OIG recognizes that it is difficult to precisely compute the amount we believe MDAD overpaid. However, using the recently obtained premium rate as noted above, along with JMH's similarly charged rate beginning in 2005, a basis exists to conclude that MDAD overpaid by approximately \$100,000 per year for garage liability insurance.¹⁶ We find this overpayment to be unreasonable.

CONCLUSION & RECOMMENDATIONS

The contract between MDAD and APA is a management agreement. APA is paid a monthly management fee for its performance of those activities undertaken on behalf of MDAD. MDAD pays the costs of those operating expenses. APA's profit should be driven by its management fee, not by its insurance premiums. Additional monies realized through APA/CPS' overbilling for expenses estimated, budgeted but not incurred, unjustly enriches APA/CPS.

¹⁵ There are 8,392 parking spaces managed under the agreement.

¹⁶ The OIG did consider CPS' claims history at MIA. We obtained a copy of the loss runs since the inception of the contract in 1997. CPS has experienced total claims amounting to \$40,976.60 since the contract's inception. In actuality, \$12,872.04 represents monies paid and \$28,104.56 represents amounts placed in reserve.

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While the annual operating budget is based on projections for each expense category, MDAD personnel seemingly never checked during the course of the year to determine if those expenses were incurred. By their own admission, MDAD personnel knew the 2.5 percent retirement plan contribution to be an average, but there was never any follow-up to see if it was close to average. Similarly, MDAD staff stated that insurance discounts were to be passed on to MDAD, but no one ever checked to see what discounts CPS was, in fact, getting. Finally, the liability insurance expenditure was simply an unsubstantiated premium that CPS imposed on MDAD without the benefit of a competitive pricing comparison among insurance providers.

The two MDAD divisions that should have been able to unearth these excess billings did not produce the conjoined effort necessary to do so. Landside Operations and Risk Management each proceeded with posing appropriate management inquiries to CPS, but failed to capitalize on the combined knowledge that would have ceased these overpayments roughly a year and a half ago when concerns arose.

These concerns finally took center stage due to an onslaught of anonymous emails that questioned past practices and demanded the production of certain records. And while these concerns eventually surfaced in 2006, we are concerned about the lack of contract oversight during the first nine years of the contract. For the three years reviewed by the OIG, we determined that MDAD overpaid CPS over \$200,000 in excess of its 401(k) and WC expenses. Moreover, MDAD was overcharged—at what we estimate—by at least \$100,000 per year for garage liability insurance.

During the past year, MDAD initiated a new Request for Proposal (RFP) for the operation and management of MIA's public parking facilities. APA is the recommended awardee of the management agreement. The agreement is pending approval by the Miami-Dade Board of County Commissioners (BCC). We believe one important consideration for the BCC in awarding this contract should be APA/CPS' responsibilities to MDAD under its current agreement.

As for specific recommendations, the OIG tenders:

1. That MDAD recoup overpayments in the categories of 401(k) reimbursement and WC premiums, as identified in this report. It should be re-emphasized that the OIG report only focuses on fiscal years 2004, 2005 and 2006. Hence, MDAD may want to audit the entire period of the contract to assess the full extent of overpayments.

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2. That in light of the relatively low number of employees participating in the 401(k) plan in 2004, it is recommended that MDAD conduct a similar review for the first two years that the 401(k) plan was put in place (2002 and 2003).
3. That MDAD ensure that workers compensation premiums are assessed and paid based on the appropriate salary amounts (i.e. excluding overtime) and that premium discounts are passed through to MDAD by the Operator.
4. That prospectively, MDAD requires APA/CPS, or any other parking operator, to positively identify all Related Party Purchases and Services and requires that no less than three bids/quotes are obtained for all purchases of goods and services. In instances where a related party purchase is considered (e.g. insurance), MDAD staff—not the Operator—should obtain the bids/quotes from other providers.

The OIG appreciates the cooperation and assistance afforded to us during this review by MDAD staff and APA representatives.