



State of Rhode Island and Providence Plantations
Office of Management and Budget
OFFICE OF INTERNAL AUDIT
One Capitol Hill
Providence, Rhode Island 02908-5889
TEL #: (401) 574-8170
www.audits.ri.gov

January 7, 2020

Mr. Iftikhar Ahmad
President & CEO
Rhode Island Airport Corporation
2000 Post Road
Warwick, RI 02886

Dear Mr. Ahmad:

The Office of Internal Audit has completed its limited scope performance audit of the Rhode Island Airport Corporation (RIAC). OIA reviewed RIAC's compliance with the Quasi-Public Corporations Accountability and Transparency Act as well as the concession and parking program performance. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with Rhode Island General Laws (RIGL) § 35-7.1. The audit results were discussed with members of management in the preparation of this report.

The OIA found RIAC in compliance with the Quasi-Public Corporations Accountability and Transparency Act; additionally, our procedures performed to evaluate the concession and parking performance did not reveal control weaknesses or issues that rise to the level of reportable.

We would like to express our sincere appreciation to the RIAC staff for the cooperation and courtesy extended to the members of our team during this audit.

Respectfully yours,

Dorothy Z. Pascale, CPA
Chief

c—Honorable William J. Conley Jr., Chairperson, Senate Committee on Finance
Honorable Marvin Abney, Chairperson, House Finance Committee
Internal Audit Advisory Group
Steven Whitney, Senate Fiscal Office
David Trembly, Senate Fiscal Office
Jonathan Savage, Chair, Rhode Island Airport Corporation Board of Directors
Brian Schattle, Senior Vice President, Chief Financial Officer, Rhode Island Airport Corporation

Audit Executive Summary

Why the Office of Internal Audit Did This Review

Rhode Island General Law 42-155-7, Audit of quasi-public corporations, requires the Office of Internal Audit (OIA) to conduct a performance audit of all quasi-public corporations once every five years. The OIA established an initial five-year schedule; this audit of the Rhode Island Airport Corporation (RIAC) was performed in compliance with the statute and the established schedule.

The OIA conducted a limited scope audit of the RIAC to review its compliance with the Quasi-Public Corporations Accountability and Transparency Act as well as to evaluate concession and parking program performance.

Background Information

The Rhode Island Airport Corporation (RIAC) was created in 1992 as a subsidiary public corporation, government agency, and public instrumentality, having a distinct legal existence from the State and Commerce RI. RIAC is empowered to undertake the planning, development, management, acquisition, ownership, operation, repair, construction, renovation, sale, lease or other disposition of any airport facility.

RIAC's objective is to operate as a self-sustaining public agency that provides quality facilities for safe, secure, efficient and convenient air transportation for the New England region; develop, promote, and manage the airport system to stimulate the region's economic growth; and foster a corporate culture that balances fiscal, civic, and environmental stewardship.

What we Found

- Rhode Island Airport Corporation is complying with the Quasi-Public Corporations Accountability and Transparency Act in all areas examined.
- Rhode Island Airport Corporation is performing at or above average for: enplanement numbers, concession and parking revenue and operating statistics, and general revenue statistics in comparison to other selected airports.
- Best practices were identified that could improve monitoring compliance with operational standards stipulated in the concessionaire contracts.

Contents

Introduction	4
Recommendations	4
Objective and Scope	4
Methodology.....	5
Appendix A- Benchmarking Results	6

Introduction

The Rhode Island Airport Corporation's (RIAC's) mission is to operate a self-sustaining public agency that provides quality facilities:

- For safe, secure, efficient, and convenient air transportation for the New England region; and
- By developing and promoting and managing the airport system to stimulate the region's economic growth; and
- By fostering a corporate culture that balances fiscal, civic, and environmental stewardship.

RIAC has established corporate goals in the areas of: infrastructure, economic development, finance, customer service, communication, organization, and operations. Key to meeting these goals is holding its vendors to the highest standards. RIAC management oversees both concession and parking vendors; managing both business and policy decisions. The two master concessionaire agreements and the parking agreement were reviewed as part of this audit.

As detailed in the *Objective and Scope* section herein, this audit focused on the concession and parking program performance in addition to compliance with the Quasi-Public Accountability and Transparency Act.

Recommendations

The Rhode Island Airport Corporation complied with the Quasi-Public Corporations Accountability and Transparency Act in all areas examined. This limited scope audit did not reveal material control deficiencies associated with the concession and parking program performance. Please refer to *Appendix A* for benchmarking results that were prepared utilizing publicly available data.

RIAC is performing at or above average metrics for: enplanement numbers, concession and parking revenue and operating statistics, and general revenue statistics in comparison to other selected airports. The concession and parking vendor contracts were benchmarked for: rental and revenue payment structure, service level agreements and reporting, contract duration, and contract extension and modification. Refer to appendix A for details. Note that research was performed for industry studies and standards regarding airport concession, parking, and general operational/revenue statistics. However, publicly available industry standards for certain metrics do not exist.

Additionally, we communicated best practices to management that could improve monitoring compliance with operational standards stipulated in the concessionaire contracts.

Objective and Scope

The Office of Internal Audit (OIA) conducted a limited scope audit of the Rhode Island Airport Corporation (RIAC) for the period of calendar year 2019 (January through November). The objective of the audit was

to determine if RIAC complied with the requirements of the Quasi-Public Corporations Accountability and Transparency Act and to evaluate concession and parking program performance.

Methodology

As part of our audit work, the OIA gained an understanding of RIAC's operations. To address our audit objective, we performed the following:

- Requested information required under the Quasi-Public Corporations Accountability and Transparency Act.
- Searched website for adequate transparency disclosures.
- Reviewed rules, policies and procedures of the concession and parking management programs.
- Reviewed and tested for compliance with the terms of concessionaire and parking agreements.
- Verified concessionaire and parking agreement terms were consistent with industry-recommended practices.
- Reviewed how concessionaire and parking vendors are selected.
- Assessed RIAC's management of the concessionaire and parking vendors.
- Benchmarked RIAC concession and parking for revenue and operating statistics.
- Benchmarked RIAC in terms of rental and revenue payment structure, service level agreements and reporting, contract duration, and contract extension and modification

The results of this limited scope audit are communicated within this report. The OIA used an external audit firm, CliftonLarsonAllen, LLP (CLA), to supplement its staff during the performance of this audit. CLA performed the detailed audit work and was selected using a competitive bidding process.

Appendix A- Benchmarking Results

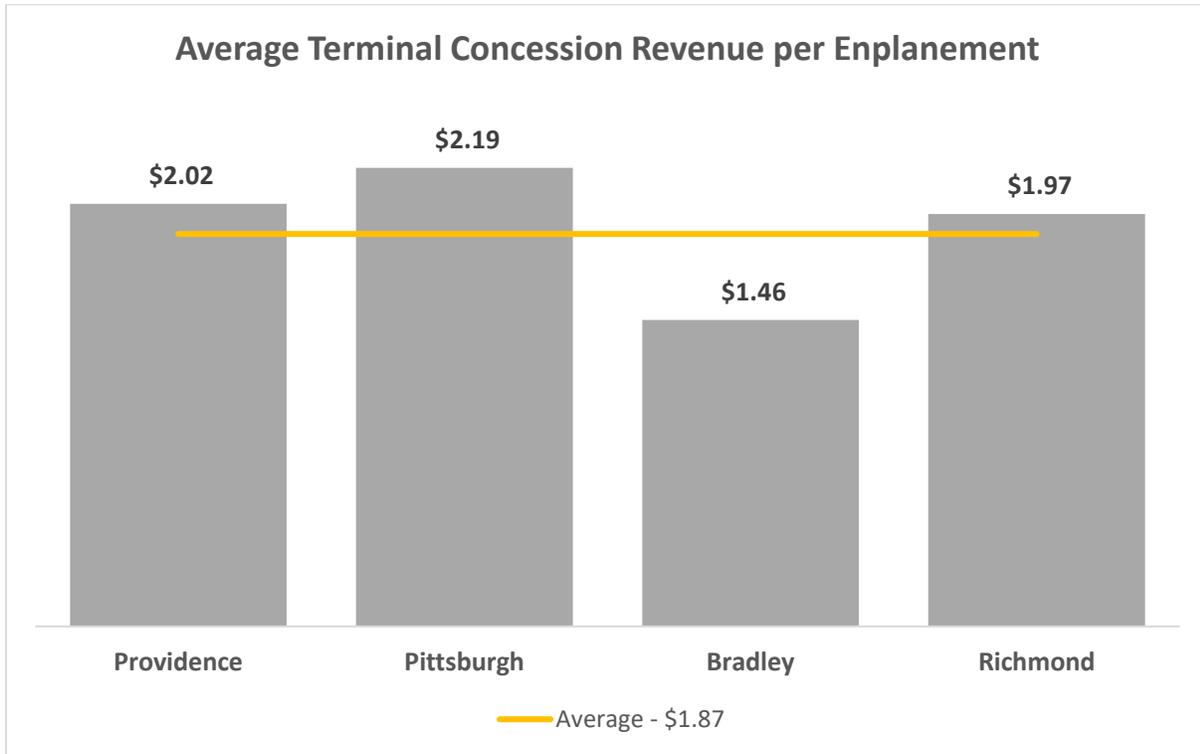
Note: Information for the below charts and graphs was obtained by CliftonLarsonAllen, LLP (CLA) from publicly available data.

Concession Contract Benchmarking				
	Rhode Island Airport Corp		Austin Bergstrom International Airport	Jacksonville International Airport
	Vendor 1	Vendor 2	Vendor	Vendor
Rental and revenue payment structure	85% of prior year net revenue	85% of prior year net revenue	Greater of MAG equal to 85% prior year fee or 10% Annual Gross Receipts	Greater of MAG 85% equal to prior year fee or percentage fee (not defined)
Rental and revenue payment frequency	Monthly	Monthly	Monthly	Monthly
Service level agreements and reporting	- Annual Financial Audit - Operating standards defined in detail	- Annual Financial Audit - Operating standards defined in detail	- Annual Financial Audit - Standards of Operations defined similar to RIAC	- Annual Financial Audit - Standards of Operations defined similar to RIAC
Contract duration	11 years	13 years	11 years	10 years

Parking Contract Benchmarking			
	Rhode Island Airport Corp	Phoenix-Mesa Gateway Airport Authority	San Jose International Airport
Rental and revenue payment structure	80% Gross revenue	Fixed pricing schedule	Fixed pricing schedule
Rental and revenue payment frequency	Monthly	Annual	Monthly
Service level agreements and reporting	- Annual Financial Audit - Daily Revenue Reports - Monthly Operational and Financial Report - Annual Operational and Financial Report	- Annual Financial Audit - Monthly Operational and Financial Report - Annual Operational and Financial Report	- Defines 10 specific performance standards and damages for breach of standards - Daily, weekly, and monthly operational reports - PCI Compliance Reports
Contract duration	3 years	3 years	3 years
Contract extension	one 2 year extension	two 1 year extensions	five 1 year extensions

Auto Parking and Terminal Concession Benchmarking

	RIAC/ TF Green (PVD)	Allegheny County Airports Authority (Pittsburgh)	Connecticut Airport Authority (Bradley)	Greenville Spartanburg International Airport	Columbus Regional Airport Authority (Columbus)	Richmond International Airport	Average of 5 Airport Comparisons	RIAC Compared to Average
General Information								
Fiscal Year End	6/30/2018	12/31/2018	6/30/2018	6/30/2018	12/31/2018	6/30/2018		
Enplanements- FY18 (thousands)	2,140	4,834	3,257	1,108	4,076	1,922	3,039	↓ (899)
Total Operating Revenues (\$ thousands)	\$ 71,853	\$ 143,084	\$ 71,001	\$ 40,454	\$ 116,738	\$ 47,804	\$ 83,816	↓ \$ (11,963)
Total Operating Revenues per Enplanement	\$ 33.58	\$ 29.60	\$ 21.80	\$ 36.51	\$ 28.64	\$ 24.87	\$ 28.28	↑ \$ 5.29
Terminal Concessions								
Terminal Concession Revenue (\$ thousands)	\$ 4,317	\$ 10,578	\$ 4,762	(not available)	(not available)	\$ 3,784	\$ 6,375	↓ \$ (2,058)
Percentage of Operating Revenues	6.0%	7.4%	6.7%	(not available)	(not available)	7.9%	7.3%	↓ -1.3%
Number of Restaurants	12	28	15	(not available)	(not available)	9	17.3	↓ -5.3
Number of Restaurants per Enplanement (millions)	5.6	5.8	4.6	(not available)	(not available)	4.7	5.0	↑ 0.5
Average Terminal Concession Revenue per Enplanement	\$ 2.02	\$ 2.19	\$ 1.46	(not available)	(not available)	\$ 1.97	\$ 1.87	↑ \$ 0.14
Note: For Greenville and Columbus concession revenues were not broken out and did not identify terminal concessions separately.								
Auto Parking								
Auto Parking Revenue (\$ thousands)	\$ 25,860	\$ 36,926	\$ 11,631	\$ 12,263	\$ 38,694	\$ 20,821	\$ 24,067	↑ \$ 1,793
Percentage of Operating Revenues	36.0%	25.8%	16.4%	30.3%	33.1%	43.6%	29.8%	↑ 6.1%
Number of Spaces	7,050	13,000	(not available)	4,729	11,721	10,468	9,980	↓ (2,930)
Number of Spaces per Enplanement (thousands)	3.29	2.69	(not available)	4.27	2.88	5.45	3.82	↓ (0.53)
Number of Garages/Lots	4	3	5	5	6	3	4.4	↓ -0.4
Average Auto Parking Revenue per Enplanement	\$ 12.08	\$ 7.64	\$ 3.57	\$ 11.07	\$ 9.49	\$ 10.83	\$ 8.52	↑ \$ 3.56
Note: Auto parking represented the largest or second largest revenue source for each airport. Information does not include off-airport parking facilities.								



Average Auto Parking Revenue per Enplanement

