



Office of the City Auditor Audit of Oceanfront Parking

Report Date: February 24, 2010

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"Promoting Accountability and Integrity in City Operations"



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Date: February 24, 2010
To: James K. Spore, City Manager
Subject: Oceanfront Parking Audit Report

I am pleased to present our audit report of the City's Oceanfront Parking. The results of this audit will be provided to City Council through the Audit Committee.

The objectives of our audit were to review the City's Oceanfront parking operations to:

- Document, in detail, the revenue processes and associated internal controls governing the main revenue streams derived from parking lots, garages and meter collections oceanfront.
- Identify the key controls in those revenue processes; assess the effectiveness of the design of the controls; and whether those controls are operating effectively to prevent, detect, or correct misstatements or irregularities on a timely basis.
- Investigate City Council's concern as to whether certain parking revenues transferred to the Sandbridge Special Services District (SSSD) were transferred in compliance with the SSSD ordinance.

The results of our review are provided in this report. Findings considered to be of insignificant risk have been discussed with management. We completed the fieldwork on January 15, 2010.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all City departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management including Parking Management Office. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Office of the City Auditor
Transmittal Letter

We would like to commend Parking Management Office for the courtesy and cooperation extended to us during the audit.

If you have any questions about this report or any audit-related issue, I can be reached at 385-5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias

Lyndon S. Remias, CPA, CIA
City Auditor

- c: City Council Members
 Audit Committee Members
 Steve Herbert, Deputy City Manager
 Barry Frankenfield, Strategic Growth Area Manager
 Mike Eason, Resort Administrator
 Richard Petty, City Parking Manager



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Purpose

To review the main revenues derived from the operation of Oceanfront parking lots, garages and meters and assess the design and effectiveness of internal controls to ensure proper handling, adequate safeguarding and timely reporting of parking revenues due the City.

Scope and Objectives

The scope of our review covered the most current fiscal year ended June 30, 2009. We also performed some analysis associated with the current contract year with Central Parking Systems (CPS) which ran from April 1, 2009 through October 31, 2009.

The objectives of our review were:

- Document in detail the revenue processes and associated internal controls governing the main parking revenue streams derived from parking lots, garages and meter collections at the oceanfront.
- Identify the key controls in those revenue processes; assess the effectiveness of the design of the controls; and whether those controls are operating effectively to prevent, detect, or correct misstatements or irregularities on a timely basis.
- Offer recommendations to improve the existing controls.
- Investigate City Council's concern as to whether certain parking revenues transferred to the Sandbridge Special Services District (SSSD) were transferred in compliance with the SSSD ordinance.

Note: This review did not include the \$30,381 revenue from the residential parking permit program which is handled through the City Treasurer's Office. We focused on the \$2,373,889.86 revenue the City receives from the oceanfront parking lots, garages and meters - revenue collected from parking operations.



Methodology

To accomplish our objectives, we performed the following procedures:

- Reviewed internal controls through inquiry and examination of documents and data.
- Reviewed the RFP and contracts with Central Parking Systems.
- Met with appropriate City staff and with the parking contractor, Central Parking Systems, to document existing procedures and controls.
- Documented, in detail, the revenue processes and internal controls (for both the contractor and the City) for the main oceanfront revenue streams consisting of parking lots, garages and meters.
- Identified the key controls within each process.
- Performed walkthroughs of those key controls.
- Assessed whether the design of the key controls were adequate in reducing risk to an acceptable level.
- For the controls that were not designed adequately to reduce risk, we offered recommendations to improve the design.
- If the controls were designed effectively, we tested them to determine if they were working as designed.
- Researched City Council's concern that certain parking revenues were not being transferred to the Sandbridge Special Services District in compliance with the establishing ordinance.

Standards

Our audit was conducted in accordance with generally accepted government auditing standards. The Office of the City Auditor reports directly to City Council and is organizationally independent of the audited entity. This report will be distributed to the Audit Committee, City Council, City Manager, and appropriate management. This report will also be made available to the public.



Background

The Parking Management Office is responsible for the administration, operation, maintenance, and revenue collection for the City-owned parking spaces located both on-street and in off-street facilities including 25th Street, 19th Street, 4th Street, Croatan, and Sandbridge municipal parking lots, as well as the 9th Street and 31st Street garages.

Services such as the Residential Parking Program, Employee Parking Program and merchant validation are offered to enhance customer satisfaction and quality of life.

The oceanfront parking facilities consist of the following:

<u>Parking Lots</u>		<u>Garages</u>	
2 nd Street	101 spaces	9 th Street	610 spaces
Rudee Loop	152 spaces	31 st Street	525 Spaces
4 th Street	65 spaces		
19 th Street(N & S)	538 spaces		
25 th Street	244 Spaces		
Croatan	505 Spaces		
Sandbridge	2 lots- 178 Spaces		

The City contracts with Central Parking Systems (CPS) for oceanfront parking operations/services from April 1, 2003 through October of 2009. During the course of this review, the contract was solicited for an invitation to bid and CPS was again awarded the City’s parking vendor contract for 2010.

Through 2009, the City had two contracts with CPS, one covering the surface lots and later, added by addendum, the two garages. The other contract covered the parking meter revenue, enforcement issues, and administration of the City’s parking program.

Each of the three main revenue cycles (parking lots, garages, and meters) has many detailed steps and associated controls which we documented during the audit. In general, CPS is responsible for operations and the City for oversight.

A very brief overview of the three main revenue cycles follows:

- **Garages** – The revenue is collected daily by cashiers of the two garages from transient parkers, monthly parkers and businesses that validate parking from patrons. The revenue is counted and reconciled by the cashier and supervisor with tickets and the activity report of all actions by the garage electronic access gate. The monies are bagged and deposited in a *CPS bank account*. On the 20th day of the following month, CPS produces a monthly income statement with backup documentation of all revenue and expenses. If revenue



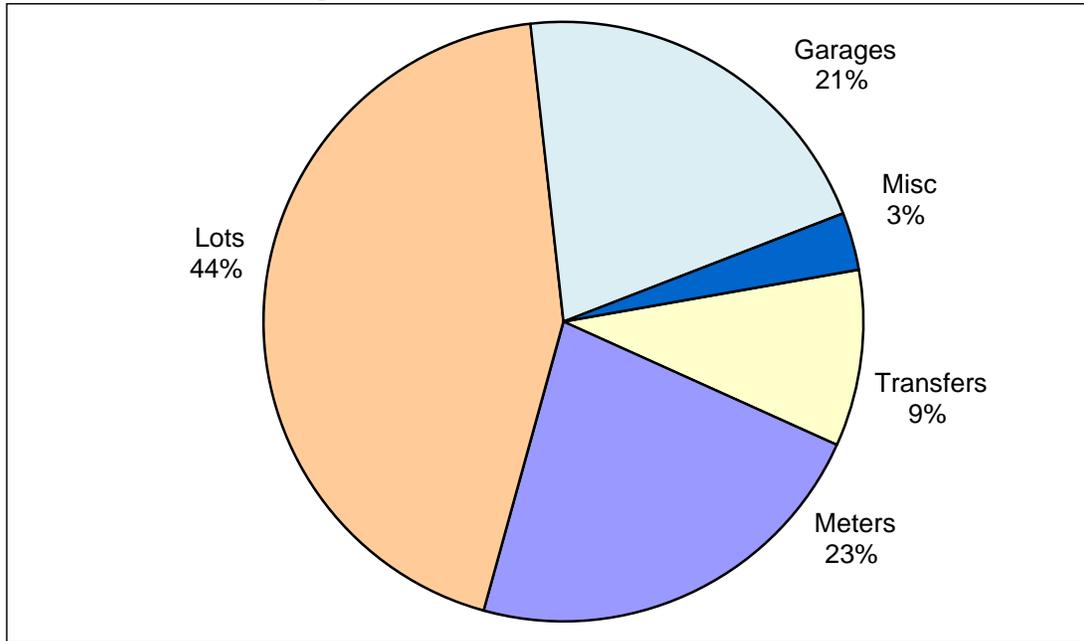
exceeds expenses, then CPS presents a check to the City for the surplus. If a deficit results, the City will reimburse CPS for the deficit.

- **Lots** – The revenue is collected by cashiers of the nine lots from transient and monthly parkers. The revenue is reconciled with the tickets by the cashier and supervisor, bagged and deposited in a *City* bank account on a daily basis. The CPS area manager produces a detailed daily revenue report for the City's Parking Manager which lists all tickets sold and cash collected with validated deposit slips for each parking lot attached. The City Parking Manager matches the deposit receipts to the daily revenue report and completes the Daily Transmittal to the City Treasurer's Office which contains the revenue account code and deposit information. The City Parking Manager retains one copy, sends one to the City Treasurer's Office and one to the Convention and Visitor's Bureau (CVB) Administrative Office.
- **Meters** – Coins from the meters are periodically collected jointly by CPS and City employees and placed directly in large locked canisters. The canisters are delivered to Brinks by a CPS Supervisor. Brinks counts the coins with an automatic coin counter and City Parking personnel prepare a *Transfer Delivery Sheet* with serial number tracking of all canisters before depositing the money in a City bank account by electronic transfer. The bank sends the City Parking Manager a cash services deposit receipt. The City Parking Manager matches the *deposit slip with the Transfer Delivery Sheet* and prepares the transmittal to the City Treasurer's Office with the revenue account code information. The City Parking Manager keeps one copy, sends one to City Treasurer's Office, and one to the CVB Administration Office.

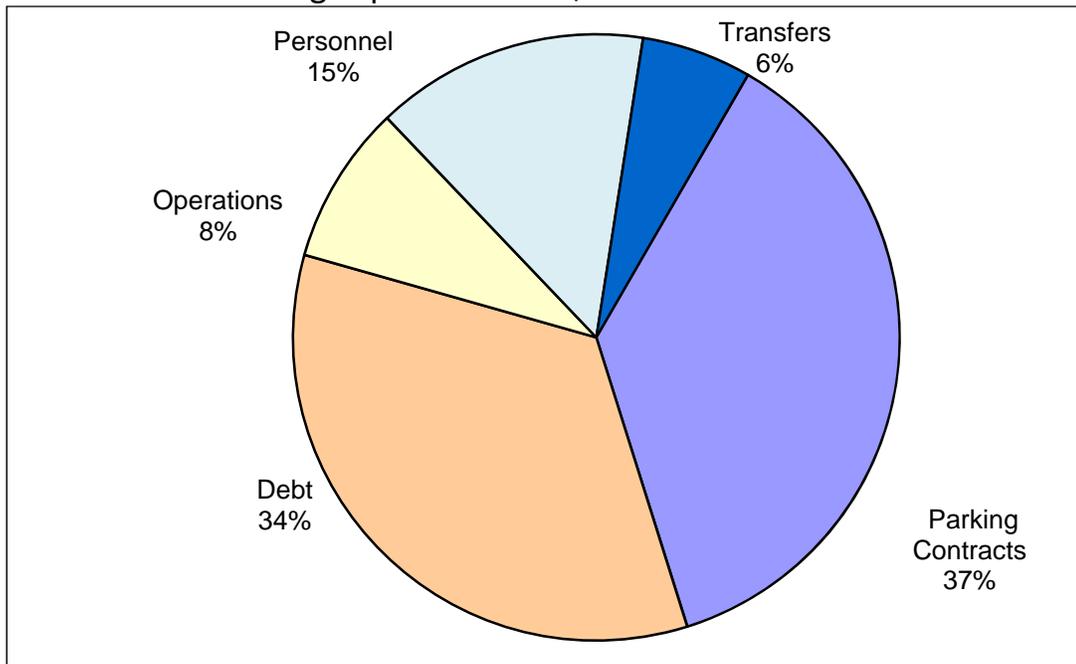
The charts on the next page depict the FY 09 revenue and expenditures derived from the City's oceanfront parking operations.



2008-09 Oceanfront Parking Revenue Sources – \$2.7 million



2008-09 Oceanfront Parking Expenditures – \$2.1 million





Results

The main revenue cycles for oceanfront parking (parking lot revenue, parking garage revenue and meter collection) involve internal controls associated with the processes of both the parking contractor, Central Parking Systems (CPS), and the City's Parking Management Office. Overall, the control environment is very strong with most processes designed with accountability over cash handling in mind; segregation of duties, where possible; two or more people are involved in processes related to counting, transporting, and depositing the cash, and emptying the meters. Signoffs for accountability are present in many of the controls. It is evident this is an environment where internal control is valued by both the contractor and the City's parking personnel. The contractor has been open to modifying procedures when City parking personnel request changes and are very receptive to our recommendations as well.

In order to assess whether key controls were working as designed, we selected a representative sample of 89 transmittals from all the daily parking revenue transmittals for the year ended June 30, 2009. We did not note a single exception in our sample; this indicates the key controls are operating as designed.

We did, however, have some recommendations to improve the control structure from a design perspective to lower risk in the revenue cycles.

Procedures for the Collection and Processing of Revenue

The parking revenue process and related procedures consist of controls performed by both the parking contractor and City parking personnel. The procedures and controls are very detailed and have resulted from years of experience and interaction between the contractor and the City Parking Manager.

Finding:

The procedures for collecting and safeguarding parking revenue are not formally documented. As a result, should the parking contractor and/or the City Parking Manager change, it would be very difficult to document the extensive procedures and controls required for business continuity purposes.

Recommendation:

- 1.1 We recommend that Parking Management work with the Parking Contractor to document the formal procedures related to parking operations, including the collection and safeguarding of parking revenue. Once developed, the policies and procedures should be reviewed annually and updated to reflect current operations.



Inherent Risks Associated with Cash Handling

The existing parking revenue controls in place once the cashier has initially recorded cash are very strong. However, there is a risk that cash could be diverted by the cashier before it is ever recorded. For example, a ticket is never issued and the cashier simply keeps the cash. The City currently employs a number of controls to mitigate this risk, such as (1) posting signs with a phone number alerting the parker to call if a ticket is not issued, (2) requiring background checks for cashiers, and (3) reviewing historical revenue trends for major variances. However, another very effective control is the use of the surprise audit – either a phantom parker, interviewing real parkers as they enter/exit, spot checking the cashier's cash and reconciling the tickets on an unannounced basis.

Finding:

While surprise audits of cashiers and phantom parker audits are currently performed, no documentation is maintained to verify the frequency and results of such audits. Knowing both the frequency and results of these surprise audits increases the City's assurance in the effectiveness of the internal controls

Recommendation:

- 2.1 We recommend that Parking Management and/or the contractor document the results of these surprise audits (i.e. phantom parker audits, interviews of real parkers, surprise cashier counts) so the City is assured this important control is being performed.

Assuring Meter Collections are Deposited Intact

Similar to the above finding, one of the more effective controls to ensure the full amount that was collected from the City meters was the amount finally deposited in the bank is to randomly count canisters by coin counting machine prior to the money being transferred to and counted by the City's armored car service.

Finding:

While the City Parking Manager indicated surprise meter canister counts have been performed, no documentation is kept of these counts. These counts serve as a deterrent and detection control to the armored car service and the bank. Knowing both the frequency and the results of these surprise counts increases the City's assurance in the effectiveness of the internal controls

Recommendation:

- 3.1 We recommend that Parking Management document the results of the random meter canister counts performed prior to the armored car service counting and transporting the monies to the bank.



Verifying Expenditures Associated with Garage Operations

The process whereby the two Oceanfront garages (9th Street and 31st Street) determine monthly revenue/deficit to the City differs from the process used for the parking lots. The daily revenue from the garages is deposited into the *contractor's* account. Monthly, a statement/packet/general ledger is compiled of all revenue and expenses with the backup including copies of all invoices for the expenses claimed. The City Parking Manager receives this packet and reviews the documentation. If there is a surplus, the City receives a check. If a monthly deficit results, then the City pays the contractor.

Finding:

Garage expenses are currently verified by tracing expenses to copies of invoices supplied by the contractor and not directly to a bank statement. The bank statement shows actual amounts paid/clearing the bank and thus is stronger evidence than invoices. The bank statement also verifies the actual payroll amount paid.

Recommendation:

- 4.1 We recommend that Parking Management trace contractor expenses paid to the actual bank statement.

Strengthening Language for Contract Audit Clause

The City has two formal contracts with Central Parking Systems for Oceanfront parking. One contract is for on-street parking and the other is for off-street parking. The same contract template was used to develop each contract. These contracts contain two audit provisions which need to be corrected in the new contract:

1. **Section 16** is the section granting the City the right to audit and states *"The City may audit the financial and operational records of this project at any time during the life of the contract."*
2. **Section 2.3.15** requires the City to annually select an external auditor to audit *"all financial activities undertaken by the Contractor pursuant to the terms of this Agreement."*

Finding:

The recently expired parking contract with CPS did not contain the City's standard audit clause for all contracts and it required an annual audit of all financial activities performed under the contract by an external auditor. It would be quite costly for the City to hire an external auditor to annually conduct an audit of all the financial aspects of these contracts. With the current monitoring and internal control structure, we do not feel an annual external audit is necessary. The City's standard audit clause protects the City's right to audit contracts and has been endorsed by both the City Auditor and City Attorney.



Recommendation:

- 5.1 We recommend that Parking Management use the City's standard audit clause, available on our website, for the new contract with CPS. We also recommend eliminating the requirement that the City hire an external auditor annually to audit all financial aspects of the contract.

Payments to Sandbridge Special Services District

Subsection 6 of the Sandbridge Special Services District (SSSD) Ordinance, requires the Parking Enterprise Fund to contribute *"a direct contribution generated from profits at Sandbridge parking lots operated by the Parking Enterprise Fund of \$10,000 effective January 1, 1995 and \$20,000 annually inflated at 3% per year for every year thereafter"* to the SSSD. The \$10,000 in 1995 and \$20,000 inflated by 3% per year thereafter were meant to be ceiling amounts – *if profits allowed*. The annual contributions are utilized for sand replenishment, along with revenue generated from the Sandbridge Tax Increment Financing district.

From 1995 through 2008, Subsection 6 of the SSSD Ordinance was misinterpreted and consequently the ceiling amount was paid every year, without taking into consideration expenses. In June 2009, the annual contribution methodology was corrected and expenses were properly netted against revenues from the two Sandbridge parking lots in determining the amount of the annual contribution. The City Attorney's Office reviewed Subsection 6 and gave a written opinion in April 2009 emphasizing that the use of the word "profits" meant that expenses should have been netted against revenue prior to making the contribution. The City Auditor agrees with the City Attorney's interpretation.

Finding:

From 1995 through 2008, the maximum ceiling amount was transferred from the Parking Enterprise Fund to the SSSD without netting the required expenses. As a result, the Parking Enterprise Fund has overfunded the SSSD by approximately \$300,000.

Recommendation:

- 6.1 We recommend that Parking Management ensure that the Parking Enterprise Fund annual contribution to the Sandbridge Special Services District is based on profits (defined as revenues less expenses) and not strictly the ceiling amount.
- 6.2 We recommend that Parking Management work with Department of Finance to ensure the Parking Enterprise Fund is reimbursed for the amount overpaid to the Sandbridge Special Services District. The overpayment amount is approximately \$300,000.



Conclusions

Based on our review of revenue from the oceanfront parking operations, internal controls were found to be effective. We did provide a few recommendations to improve the control structure and to lower risk in the revenue cycles.

Management's Response

See Attachment I for Management's Response.

Note: We concur with Parking Management to not implement recommendations 3.1 and 4.1 at this time for the reasons given in Attachment I.

Acknowledgements

We would like to thank the City Parking Manager and his staff for their responsiveness to our requests during the review and their receptiveness to questions and comments. Similarly, we would like to thank the management of Central Parking Systems for their cooperation as well. We thank those involved in the process for their help and offer our assistance should future concerns regarding this or other audit issues arise.



INTER-OFFICE MEMORANDUM

DATE: March 4, 2010
TO: Lyndon Remias, CPA, CIA, and City Auditor
FROM: Richard Petty, Resort Management Office, and Parking
SUBJECT: Oceanfront Parking Audit Report

The following is Parking Management Office's responses to the recommendations of the Oceanfront Parking Audit Report, dated February 24, 2010:

Recommendation:

1.1 We recommend that Parking Management work with the Parking Contractor to document the formal procedures related to parking operations, including the collection and safeguarding of parking revenue. Once developed, the policies and procedures should be reviewed annually and updated to reflect current operations.

Response:

Concur. The Parking Management Office will develop an Operational Manual with annual reviews.

Recommendation:

2.1 We recommend that Parking Management and/or the contractor document the results of these surprise audits (i.e. phantom parker audits, interviews of real parkers, surprise cashier counts) so the City is assured this important control is being performed.

Response:

Concur. The Parking Management Office will develop a form to document phantom parker audits, interviews of real parkers, surprise cashier counts which will be operational April 1, 2010.

Recommendation:

3.1 We recommend that Parking Management documents the results of the random meter canister counts performed prior to the armored car service counting and transporting the monies to the bank.

Response:

Disagree. Although the Parking Management Office concurs with the concept at this time we do not have access to coin counters

Attachment I

capable of counting 500 to 2,000 pounds of coins. If coin counting facilities become available parking staff will resume coin audits.

Recommendation:

4.1 We recommend that Parking Management trace contractor expenses paid to the actual bank statement.

Response:

Disagree. Central Parking is the largest parking management company in the country which deposits funds into a single account and cannot provide a statement for each location. However Central Parking will provide to the Parking Management Office a copy of the deposit slip each day and copies of the checks that were issued by CPS that matches back to the Summary of Postings (SOP).

Recommendation:

5.1 We recommend that Parking Management use the City's standard audit clause, available on our website, for the new contract with CPS. We also recommend eliminating the requirement that the City hire an external auditor annually to audit all financial aspects of the contract.

Response:

Concur. This language was corrected in the new parking contract.

Recommendation:

6.1 We recommend that Parking Management ensure that the Parking Enterprise Fund annual contribution to the Sandbridge Special Services District is based on profits (defined as revenues less expenses) and not strictly the ceiling amount.

6.2 We recommend that Parking Management work with Department of Finance to ensure the Parking Enterprise Fund is reimbursed for the amount overpaid to the Sandbridge Special Services District. The overpayment amount is approximately \$300,000.

Response:

Concur.

The Parking Management Office and Central Parking would like to thank the Auditor, although the audit was extremely comprehensive, his cordial and professional attitude set the character of the audit as a learning opportunity rather than the adversarial nature typical of some audits.