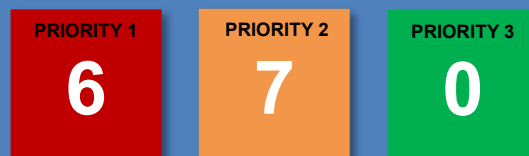


Report #2020-06

MODERN PARKING INC CONTRACT AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

03.31.2020



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Acknowledgment

We would like to thank Public Works and vendor personnel for the support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Ani Antanesyan, Internal Auditor, or Jessie Zhang, Internal Audit Manager at ipa@glendaleca.gov.

This report is also available online at <http://www.glendaleca.gov>.

A. Overview

Key Outcomes

The parking garage revenues for FY 2018-19 were \$3.3 Million with a majority of this revenue (95%) being generated by daily transient tickets and monthly parking pass (keycard) sales. However, control weaknesses were noted in revenue collection from both sources, due to the absence of a system generated detailed transaction report to support the stated revenues and inconsistent monthly keycard status between what was billed and actively used. The parking garage operational controls can be improved by ensuring the following:

- Stricter oversight of monthly keycards including complete and accurate billing;
- Stronger cash collection procedures;
- Enhanced system reports for accurate and supported garage revenues;
- Improved parking system controls;
- Adequate staffing levels and clear methodologies for all payroll costs; and
- Closer monitoring of garage expenses and adherence to their budgets.

Internal Audit identified 13 improvement opportunities related to compliance, cost saving, efficiency and risk reduction. Contract term improvements have been recommended throughout this report and are also summarized at Appendix 2.

Impact Dashboard

This table summarizes the applicable value-added categories (total 34) for the thirteen recommendations based on their priority rankings.

	Value-Added Categories				Innovation Opportunities
	Compliance	Cost Saving	Efficiency	Risk Reduction	
Priority 1 6	6	0	4	6	0
Priority 2 7	7	2	2	7	0
Priority 3 0	0	0	0	0	0

(Definitions of Priority Rankings and Value-added impacts are located at Appendix 1)

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref	Management Action Plan	Completion Date ¹
Priority 1		
1.	Establish controls to ensure complete monthly keycard billing. <i>Value added: Compliance, Efficiency, Risk Reduction</i>	06/30/2020
2.	Establish policies and procedures on the monthly keycard management. <i>Value added: Compliance, Efficiency, Risk Reduction</i>	06/30/2020
3.	Establish cash handling procedures and obtain WPS transaction reports and training to improve the cash collection process. <i>Value added: Compliance, Efficiency, Risk Reduction</i>	06/30/2020
4.	Use WPS based reports to ensure valet and validation revenues are being accurately collected and timely remitted to the City. <i>Value added: Compliance, Efficiency, Risk Reduction</i>	06/30/2020
5.	Conduct reconciliation between Munis and WPS reports to ensure the completeness of transient revenue collection and recording. <i>Value added: Compliance, Risk Reduction</i>	06/30/2020
6.	Ensure adequate staffing as required by the contract, and clarify the workers' compensation rate calculation methodology. <i>Value added: Compliance, Risk Reduction</i>	06/30/2020
Priority 2		
7.	Conduct periodic review of valet, validation, and monthly keycard revenues to ensure accuracy. <i>Value added: Compliance, Efficiency, Risk Reduction</i>	09/30/2020
8.	Assess controls over revenue collection and reporting in WPS. <i>Value added: Compliance, Efficiency, Risk Reduction</i>	09/30/2020
9.	Establish policies and procedures to ensure expense reimbursement is adequately supported. <i>Value added: Compliance, Cost Saving, Risk Reduction</i>	09/30/2020
10.	Perform and document inspections as required by the contract. <i>Value added: Compliance, Risk Reduction</i>	09/30/2020
11.	Clarify parking garage maintenance responsibilities and procedures. <i>Value added: Compliance, Risk Reduction</i>	09/30/2020
12.	Improve budget monitoring by making periodic adjustments and provide adequate compensation to improve staff retention. <i>Value added: Compliance, Cost Saving, Risk Reduction</i>	09/30/2020
13.	Provide Vendor Employee Dishonesty policy as required by contract. <i>Value added: Compliance, Risk Reduction</i>	09/30/2020

¹ May be extended due to unforeseen circumstances presented by the global COVID-19 pandemic.

C. Background

In accordance with the FY 2019-20 annual work plan, Internal Audit performed an audit of the Modern Parking Inc. (Vendor) contract. In FY 2009-10, the City entered into a contract with Modern Parking Inc. to operate and maintain the City’s parking facilities for a total not-to-exceed contract cost of \$15,664,152 for five years with two optional one year extensions. The contract is currently in its sixth year of service.

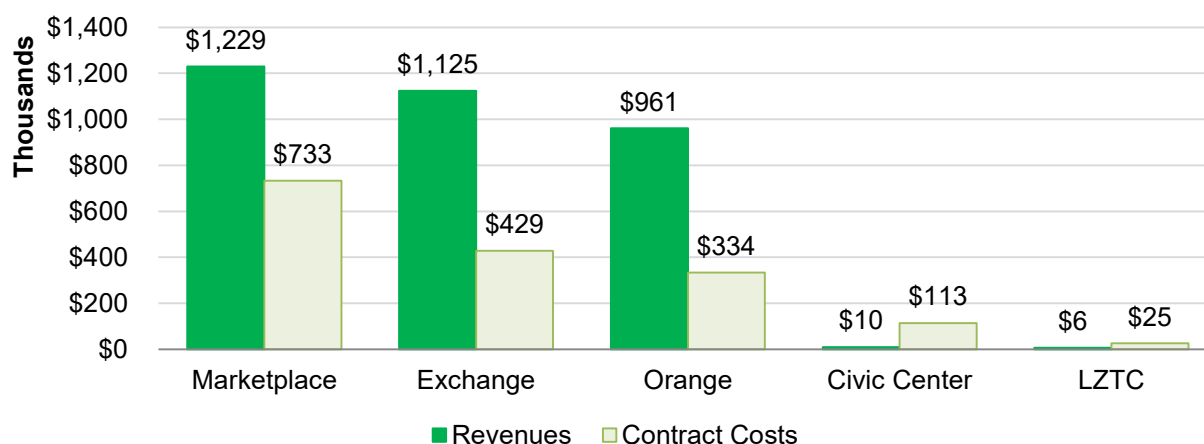
The Vendor is responsible for operating and maintaining the three main City-owned downtown parking garages at the Exchange, Marketplace and Orange Street locations. The Vendor is also maintaining the Civic Center garage at City Hall as well as providing some services at the Larry Zarian Transportation Center (LZTC).² The Vendor is responsible for staffing, maintaining, and securing the garages either through its direct, or subcontracted staff, as well as managing the collection of all parking fees.

1. Overview

The three downtown City parking structures, the Exchange (694 spaces), Marketplace (1,124 spaces) and Orange Street (625 spaces) offer a total of 2,443 parking spaces with free parking for the first 90 minutes, a \$2/hour rate thereafter, and a maximum daily charge of \$9. The garages are open to the public 24/7, and offer monthly keycards for employees of surrounding businesses at a monthly rate of \$70 with a \$15 one-time activation fee. The main purpose of the Civic Center parking structure is to support the parking needs of City employees and City Hall visitors; the City validates its visitor parking, if not, it costs \$2/hour to park at the Civic Center.

As shown in Exhibit 1, revenues received for FY 2018-19 cover the contract costs for the three main downtown garages; however, the Civic Center and LZTC do not currently generate revenues to cover their respective contract costs.

Exhibit 1: Parking Garage Operating Revenues and Contract Costs for FY 2018-19³



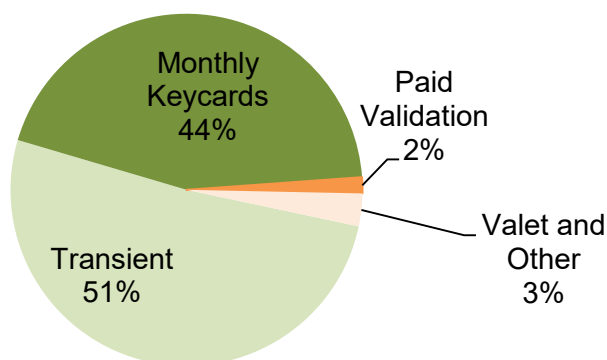
² According to the City’s Parking Manager, the LZTC garage management is being transitioned from the Vendor to the City. Currently, the Vendor is only issuing parking passes for LZTC monthly parkers.

³ The information presented in this exhibit is based on the Revenue and Expense Summary report provided by the Vendor.

2. Revenue Sources

The parking garages receive revenues from various sources, including sales from (a) daily transient tickets, (b) monthly keycards, (c) valet, and (d) validation sales. As Exhibit 2 shows below, the total revenues for FY 2018-19 from all revenue sources were \$3.3 million, including 51% from daily ticket sales and 44% from monthly parking passes. Although payment at the parking Pay-On-Foot (POF) machines is primarily collected through credit cards (38% of total payments), cash and check account for a significant amount of total revenues (62% of total payments). Of the total cash and check payments, over 80% were for monthly keycards, paid validations, valet and the rest for transient revenues collected at the POFs.

Exhibit 2: Total Revenues by Source for All Garages for FY 2018-19



(a) Transient Revenue

Customers can pay for parking at various POFs in each garage either by credit card or cash. Credit card payments automatically register with the bank, but the cash from the POFs is collected by Vendor staff and deposited at the bank on the City's behalf.

Each POF is opened in double custody to collect the contents from the cash vault and to refill a separate vault with the "change fund" that belongs to the Vendor. The POF can only be opened with a key; however, a card is also used to identify the user and provide clear chain of custody for any cash content withdrawal. At the end of each cash collection, Vendor staff count the total cash and only remit to the City its system owed total.

(b) Monthly Keycards

The Vendor is responsible for managing the monthly keycards, including issuance, billing, payment collection, and general customer service. Currently, the Vendor manages the monthly keycards through its own proprietary billing system, called ParkPro; this system is used to inventory all keycards, activate or deactivate cards, set

keycard validity periods, categorize by garage and to send invoices to active keycard holders monthly. Per Vendor staff, the ParkPro system should automatically update keycard status in the WPS automated parking system; however, problems, including a keycard that is deactivated in ParkPro but still active in WPS, have been noted. In addition to paid monthly keycards, Vendor and certain City employees are also provided with free monthly keycards.

(c) Valet

There are currently three companies that use the three downtown garages to operate valet services. Valet companies purchase several monthly keycards and use them to bring cars in and out of the garage without purchasing transient tickets. Per standard valet agreements, the City receives \$1 from each exit registered through WPS from the monthly keycards.

(d) Validations

The City currently provides packages of validations that can be purchased through the Vendor. The validations are printed through WPS and billed through ParkPro. All day validations are sold at \$180 for a pack of 20, 60 minute validations are sold at \$200 for a pack of 100, and 30 minute validations are sold at \$100 for a pack of 100.

3. Parking Access and Revenue Control System (WPS)

The three main downtown parking garages (Exchange, Marketplace, and Orange) use WPS, a parking access and revenue control system, to manage revenue collection including cash and credit card payments through POFs. The system allows for real-time access and control of garage entries and exits through intercom. It also provides end-user reporting options including data on total revenues collected by garage, total instances of machine cash collection and cash levels, and monthly keycard revenues. Currently, the Civic Center and LZTC do not have WPS installed; Civic Center operates through a cashier.

4. Vendor Billing System

According to the City's Parking Manager, as the current contract was awarded, the Vendor used a non-proprietary billing system called Paris to invoice for various parking garage revenues, such as monthly keycards, validations and valet. Paris was not integrated with WPS at the time, for instance, once a monthly parking keycard was activated in Paris, it also had to be activated in WPS. Due to this reason, the Vendor switched to ParkPro, a proprietary billing system built by the Vendor, with the assurance that it would have complete integration with WPS; however, Internal Audit has noted inconsistencies in keycard status between WPS and ParkPro.

D. Objective, Scope and Methodology

The objectives of the this audit are to determine whether the City has established adequate controls to ensure that the revenues are being collected and reported accurately, that the maintenance expenditures are substantiated by appropriate supporting documentation, and that other contract administrative provisions are being appropriately followed by the Vendor.

The scope of this audit covers mainly the Vendor contract for the period of FY 2018-19.

In order to accomplish the audit objectives, Internal Audit performed the following:

- Interviewed Public Works and Vendor personnel to gain knowledge of the operation and maintenance of the parking garages.
- Performed a walk-through of the Exchange, Orange, and Marketplace garages to observe cash collection from POFs and reviewed cash handling procedures at the garages.
- Inspected the Marketplace garage to assess the condition of items that need to be maintained per the contract and reviewed Vendor controls for maintaining the garages.
- Reviewed June 2019 invoice for the Marketplace garage to determine whether expenses are being reimbursed per contract provisions.
- Reviewed daily POF collections, valet, and validation revenues for June 2019 for accuracy of collection.
- Reviewed monthly keycard revenue by comparing the active users in WPS to the December 2019 billing list.
- Obtained Vendor staffing reports and performed a comparative analysis of current staffing to contract provisions.
- Reviewed the budget provisions per the contract and compared to actual practices and amounts.

As a result of these audit procedures performed, 13 observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	Monthly Keycard Billing		
Priority 1	<p>Internal Audit attempted to reconcile the 2,499 active WPS keycard listing as of January 2, 2020 to the December 2019 billing list, and noted the following:</p> <ul style="list-style-type: none"> • 546 (22%) could not be matched to the latest billing list or the free keycard holder list. • 198 (8%) were identified by Vendor as free monthly keycards; however, these are not currently reported to the City or comprehensively reviewed. <p>Internal Audit randomly sampled 25 keycards from the same WPS active keycard list, and noted the following:</p> <ul style="list-style-type: none"> • Two (8%) keycards were being used but not billed; one was last billed in January 2019, but had been actively used from February through July in 2019. • One (4%) keycard was found to be deactivated in the billing system, but was still active in WPS; this shows that the integration between the two systems is currently not fully functional. 	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> a. Enhance controls over monthly keycard billing (see Ref #2 and #7 for additional details). b. Work with Vendor and WPS personnel to ensure that the keycard status between the parking revenue control system and the billing system can be auto-updated. c. Establish policies and procedures over the authorization and review of the free monthly keycards. d. Perform a follow-up audit on the Vendor's billing system; ensure that the Vendor reconciles between active keycards in WPS and keycards being billed, and remits to the City any unbilled amounts that resulted from billing lapses. e. Ensure that Vendor reports to the City on a monthly basis on billing and revenue control system reconciliation results. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by June 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
2.	Monthly Keycard Process		
Priority 1	<p>Internal Audit reviewed the monthly keycard billing and collection processes and noted the following:</p> <ul style="list-style-type: none"> • There is no comprehensive guide on managing monthly keycards. • The activation and deactivation of keycards is performed by the same person who also prepares the invoices. • There is no documented policy on the grace period for keycard billing and it is not being consistently enforced. • The payment due date is not on the monthly keycard application form provided to customer. • The reason for voiding invoices is not documented. • Keycards are not being sold sequentially, resulting in increased staff time for verifying that all sales are being remitted accurately to the City. <p>Upon reviewing the billed to collected keycard list for June 2019, Internal Audit noted that there were accounts receivables for the month, due to the grace period not having been clarified or enforced, or for courtesy reasons, such as customer requested waivers that resulted in the payment not having been collected on time.</p>	<p>Public Works ensure the Vendor perform the following:</p> <p>a. Establish policies and procedures for managing the monthly keycards including, but not limited to, the following:</p> <ul style="list-style-type: none"> • Segregate the keycard activation and deactivation duties. • Establish keycard deactivation policies and procedures including clarifying the grace period; specify and enforce the payment due date and grace period on the monthly keycard application. • Remit to the City all accounts receivables resulting from Vendor failure to enforce policies and procedures. • Establish a collection policy for receivables exceeding a certain time period (e.g., 90 days). • Document customer initiated account changes, including voided invoices. Report any account changes to the City on a monthly basis including the total number of deactivated cards. <p>b. Until all keycards in WPS are fully reconciled to the billing system, issue new keycards in sequential order and report to the City. If deactivated cards will continue to be reused, report the total reused keycards and their corresponding numbers.</p>	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by June 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
3. Cash Handling Procedures			
Priority 1	<p>Internal Audit conducted a review of the cash collection reporting for June 2019 for all POFs, observed cash collection, and reviewed the POF clearing report for FY 2018-19 for the Exchange Garage and noted the following:</p> <ul style="list-style-type: none"> • Actual cash collected from POFs is currently not documented, including any deviations between total cash count to the POF receipts, or to the system reported cash revenue total. The change fund total for the day, including fund balance, is not documented. • The Vendor does not have formally documented procedures for auditing the POFs and does not provide the results from any audits performed the City. • Two instances of unidentified users opening the POF without the use of the identifier card that provides chain of custody for the cash. • Cash is not collected per the contractually designated frequency, and this change is not documented. • One of 20 POF receipts for a sampled day was missing., and per Vendor staff, receipts do not always match the actual cash contents in the POF. • Coinage collection is not kept separate by POF, but is comingled in one bag. 	<p>Public Works ensure Vendor perform the following to improve cash collection and reporting:</p> <ol style="list-style-type: none"> a. Establish and document detailed cash handling policies and procedures. These procedures should include, but not be limited to, the following: <ul style="list-style-type: none"> • Document actual cash collected from POFs, including any deviations to machine receipt and reported total. • Establish written reconciliation procedures for the machine refills, designate a frequency for auditing the machines, and report the results to the City. • Require the consistent use of identifier card for opening the POFs. • Document cash collection frequency. b. Request WPS training on reporting options to accurately document POF cash contents. c. Use WPS report as support, if possible, for total machine clearings in addition to physical machine receipts. d. Keep coinage collected from each POF separated, similar to what is currently performed for bills. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by June 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
4. Valet and Validation Revenue Review			
Priority 1	<p>Internal Audit reviewed revenues sourced from valet companies and validation sales and noted the following:</p> <ul style="list-style-type: none"> Although we were able to verify the revenue collection for one valet company for March 2019, we could not determine the completeness of valet revenue because keycards are not being reconciled to WPS. Valet revenues were not remitted to the City timely. The valet companies are not being invoiced by Vendor on a monthly basis per contract terms. For example, the valet revenues reported by Vendor in June 2019 included collections from the previous three months and not for the month of June. Paper validation tickets are created in WPS; however, the Vendor does not document WPS reported total validations. 	<p>Public Works ensure Vendor perform the following:</p> <ol style="list-style-type: none"> Determine whether all valet keycards are being billed in a complete and timely manner. Ensure that all valet keycards revenues are billed and remitted to the City monthly. Document the validation revenue collection through WPS-based reports, create a log for all validations created including details such as the total number of validations created, validity period, customer name and other pertinent information, and remit the report to the City. Document valet and validation revenue collection controls in policies and procedures. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by June 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
5. Transient Revenue Reconciliation			
Priority 1	<p>Internal Audit reviewed the total ticket count and revenues from transient sales for June 17, 2019 for the Orange garage and noted the following:</p> <ul style="list-style-type: none"> The ticket count report was manually prepared by Vendor staff and not system generated. A detailed transaction report for all revenues is not currently available through WPS that links tickets to revenue sources. Total ticket count, total transient revenues including credit card and cash totals are reported with different cut-off times, which creates difficulties during reconciliation. Vendor uses City provided bank cleared credit card total instead of system reported total to record credit card revenue. Additionally, the system reported number of tickets for the sampled date did not agree to the actual counted paper tickets.⁴ The City currently does not reconcile the revenues received to Vendor reported totals. 	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> Request that WPS personnel provide training and a user manual to City and Vendor staff to allow system-based reports to be used as support for all revenue categories. Request that WPS provide a detailed transaction report for all revenues, and use this report to reconcile all revenues through credit card and cash payments. If not feasible, the WPS system should be re-evaluated. Add the date of revenue collection on each batch entered into the financial system and reconcile the monthly revenues entered into the City's financial system to Vendor reported totals. 	<p>Public Works agrees with the observations and will implement the recommendations by June 30, 2020.</p>

⁴ The reason was unknown, but it could be due to the timing of the reports and actual ticket collection and/or looping.

Ref	Observation	Recommendation	Management Response
6. Staffing Requirements			
Priority 1	<p>Per the contract, the Vendor is required to staff five management positions and pay the City \$10,000, per occurrence, in liquidated damages if any key personnel is reassigned or promoted to another position without the City’s consent. Upon inquiries and reviewing Vendor payroll reports, the following was noted:</p> <ul style="list-style-type: none"> • The Assistant Manager position has not been filled for over a year. • The Parking Analyst/Auditor position has never been filled. • The Night Manager position has been staffed since March 1, 2019 but without formal City consent. • The Office Manager position is staffed by an hourly Revenue Clerk. <p>In addition, the Intercom position has been staffed; however, it did not provide the required coverage for the sampled period.</p> <p>Furthermore, based upon a review of another local jurisdiction’s similar parking contract with the Vendor and discussion with the City’s Parking Manager, Internal Audit noted that the Worker’s Compensation rate as a percentage of payroll costs was significantly higher, with the City being charged 21.05% compared to 14% charged at a comparable city.</p>	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> a. Add vacant positions to the list of conditions outlined under the Liquidated Damages section in existing and future parking garage contracts. b. Require that the Vendor obtain prior City authorization for filling key positions. c. Enforce any required staffing coverage as outlined in the agreement, and ensure that the Vendor provide the City with a certification that the designated positions are filled, and if not, report on staffing vacancies, or deviations from the required staffing plan. d. Require that the Vendor remit to the City any overcharges resulting from the application of a significantly higher worker’s compensation rate, if so determined. e. In existing and future parking garage contracts, require that the Vendor provide a methodology for all payroll costs including workers’ compensation rates on a periodic basis, subject to the City’s approval. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by June 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
7.	Valet, Validation and Monthly Keycard Revenue Review and Reconciliation		
Priority 2	<p>Upon reviewing the sales revenue generated from valet, validation and monthly keycards, the following were noted:</p> <ul style="list-style-type: none"> • Revenue generated from valet, validation and monthly keycards is currently not reconciled to system generated reports from the billing or WPS systems. • Monthly supporting documentation sent by the Vendor to the City for valet and validation revenue is not based on parking system report, and the monthly keycard recurring sales report is manually prepared by vendor staff. • The report submitted to the City listing all monthly keycard sales is not transparent, since it does not provide a sequential listing of all keycards sold for the month. <p>Internal Audit staff was not granted access to the billing system preventing from a full review of revenue collection. According to the City's Parking Manager, the Vendor changed to a new billing system mid-way through the contract with the assurance that it would better integrate with WPS.</p>	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> a. Request Vendor to provide WPS sourced support for the valet and validation revenues. For the monthly keycard inventory, ensure that an original billing and collected system report is provided showing: <ul style="list-style-type: none"> • Full account number and its keycard numbers. • Voided invoices and reasons. • Account categories including new, recurring, paid, free and valet. • Keycard activation, deactivation, and/or expiration dates. • Sequential listing of new keycard sales. b. Periodically review validation, valet, and monthly keycard revenue collection accuracy and ensure access is provided to the billing system for review and audit. <p>Ensure future parking contracts require the following:</p> <ol style="list-style-type: none"> a. Vendors use non-proprietary billing systems. b. Vendor billing systems fully integrate with the parking access and revenue control system. c. City must have full access to both proprietary and non-proprietary billing systems that may be owned by vendors for review and/or audit. d. Address what may necessitate a formal amendment to contacts (e.g., billing system or major service changes, etc.). 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by September 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
8. Parking Access and Revenue Control System (WPS) Review			
Priority 2	<p>Internal Audit noted the following upon reviewing the WPS system:</p> <ul style="list-style-type: none"> • We were not able to test the accuracy of the WPS system reporting since a detailed report was not available that links all garage transactions for a given period. • Payment totals paid through credit cards as reported by WPS are not currently reconciled to the bank totals (also noted at Ref. #5). • Printed validation data is available but a report cannot be generated in WPS. • The reported cash contents on POFs do not always match the actual cash contents of the machines. According to Vendor staff, there are also system glitches in WPS exit machines, such as looping.⁵ • There are many reports available in WPS that are not currently reviewed by City or Vendor staff that could inform the parking operation. For instance, Internal Audit noted that the manual gate barrier liftings are not reviewed. For FY 2018-19, there were over 20,000 instances of the gate manually lifted for all three garages; one of the top reasons provided was looping, followed by no reason given. 	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> a. An audit of the WPS system to evaluate its system controls over revenue collection and reporting, and determine whether a new system is needed, for example: <ul style="list-style-type: none"> • Obtain a transaction detail report. • Clarify credit card reconciliation between WPS and the bank. • Obtain WPS reports for printed validations. • Identify the reasons behind WPS system glitches and explore possible solutions. b. Periodically monitor the system report for the manual opening of the gate arm to better inform the City of potential system or operational issues. c. Optimize available data in WPS to ensure that all areas of the parking operation are being reviewed, and consider creating a short code list for common reasons for manual gate arm lifting, and automate data entry through a drop-down menu, if possible. d. Require the Vendor to compensate for any malfunctions caused by WPS that result in operational interruption and/or revenue losses for the City. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by September 30, 2020.</p>

⁵ Per Vendor staff, the garage exit pay stations sometimes perform a “loop”, such as when the ticket is inserted by the customer and the machine rejects it.

Ref	Observation	Recommendation	Management Response
9. Vendor Expense Reimbursement			
Priority 2	<p>The contract requires that all invoices must include an itemization of cost, that the Vendor must obtain three written estimates and City authorization for non-budgeted items, and any new subcontractor must have written approval from City. However, upon reviewing June 2019 invoices for the Marketplace garage, Internal Audit noted the following:</p> <ul style="list-style-type: none"> • City approval for current ongoing subcontractors is not consistently documented. For example, a fence was purchased from the non-budgeted category; although this qualifies as an exception since it was for an “emergency purpose” according to the Parking Manager, three written estimates were not obtained and the reason for not obtaining three bids was not documented. • Any goods purchased for use by the Vendor are the property of the City, but are not currently being asset tagged, or inventoried. For example, an itemized receipt was provided for goods purchased; however, the detail was not sufficient to identify the goods and its uses. 	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> a. Enforce the requirement of the formal authorization and the submittal of three written estimates for any non-budgeted items that are purchased and that meet a given dollar threshold, any exceptions should be documented with the reasons and City’s approval. b. Clarify the procedure that must be followed for receiving City authorization for subcontractors and enforce the procedure going forward. For example, require Vendor to provide information related to the experience of the subcontractor and any licenses held by the subcontractor, and disclose whether or not the subcontractor is a subsidiary or is affiliated with the Vendor in any other manner. c. Establish procedures to ensure adequate documentation and written description are consistently provided for the purchase of goods by Vendor. d. Asset tag purchased durable equipment/tools that meet a given threshold, and create an inventory system that can be periodically reviewed by the City. These equipment/tools should be properly safeguarded. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by September 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
10. Maintenance Inspections			
Priority 2	<p>The contract requires each parking facility be inspected on a weekly basis by a supervisor and the corresponding inspection form completed. However, based on a review of inspection reports for the months of April to June 2019 for the four parking garages, out of the 12 required inspections, the following were noted:</p> <ul style="list-style-type: none"> • Exchange Garage was inspected 3 times. • Marketplace Garage was inspected 9 times. • Orange Garage was inspected 4 times. • Civic Center Garage was inspected once. <p>Sporadic inspections can leave maintenance issues not identified or attended to timely, with potentially increased liability, maintenance costs, and decreased servicing levels.</p>	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> a. Require that the Vendor submit inspection forms to the City on a periodic basis. b. Establish a timeline for remedying any "unacceptable" items resulting from inspections. c. Examine Vendor inspection reports when conducting independent inspections. d. Ensure that the Vendor perform and document inspections as required by the contract. e. Follow the established timeline to address "unacceptable" inspection results by City or Vendor staff. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by September 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
11. Maintenance Responsibilities and Procedures			
Priority 2	<p>Internal Audit conducted an inspection of the Marketplace garage in December 2019 with the Public Works staff and found that the elevator signs need to be replaced; the stairwell windows need to be washed and the staircase walls need to be repainted. Upon further review and inquiry, we noted the following:</p> <ul style="list-style-type: none"> • These maintenance issues are under the “General Deterioration Maintenance” budget category and since its designated maintenance frequency is on an as-needed basis, it has not been followed up timely. • The elevator sign replacement and stairwell window washing servicing are not noted on inspection forms. According to Public Works staff, these items are to be serviced by the City not by the Vendor; however, the current contract does not provide clear boundaries as to which maintenance items are to be serviced by the City. <p>Internal Audit also noted that there is no maintenance log of all services performed at the garages, that show the time in/out, the date the service was performed and by whom. Staff have to rely on the monthly invoice to determine whether a particular service has been performed per the designated frequency.</p>	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> Establish detailed servicing items for the General Deterioration Maintenance category that are to be performed by Vendor; attach a frequency schedule to each item to maintain it in an acceptable condition, and add elevator sign replacement and stairwell window washing as services that need to be inspected on inspection forms. Delineate in existing and future parking garage contracts the maintenance items that are to be serviced by the City. Ensure that the Vendor establish a maintenance log of all services performed for all garages, date/time the service was performed and vendor or subcontractor employee signatures. The log should be retained as support for maintenance reimbursement billing. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by September 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
12. Budget Monitoring and Adjustments			
Priority 2	<p>Internal Audit reviewed the year-to-date Vendor reported budget and actuals for all parking garages for FY 2018-19 and noted the following:</p> <ul style="list-style-type: none"> For the Parking Operations Line Item, although the total line item was under budget, Auditing Services and Utility Vehicle have not been used to date. The unused amounts from these items may be inaccurately inflating the budget, and make any line items exceeding budget less noticeable. For example, the General Office Supplies was more than double of the budgeted amount. The current management staff labor costs have not been budgeted at the top step of each position per contract terms, which may prevent the Vendor from hiring and retaining quality staff. The Parking Staff budget line item only listed staffed positions, but not those that have not been filled, for instance, Assistant Parking Manager. In general, it is difficult for the City to monitor the Vendor staffing and budget because position vacancies are not transparently reported to the City. 	<p>Public Works perform the following:</p> <ol style="list-style-type: none"> Ensure that existing and future parking garage contracts require periodic budget monitoring, hold the vendor accountable at the individual budget line item level, and adjust the budget in the beginning of the year for any items that will not be used during the year. Provide a detailed budget to actuals report to show all filled and vacant positions. Compensate employees adequately in order to fill the budgeted management positions, and to improve staff retention. 	<p>Public Works agrees with the observations and will work with the Vendor to implement the recommendations by September 30, 2020.</p>

Ref	Observation	Recommendation	Management Response
13. Insurance Requirements			
Priority 2	The Vendor is current on insurance requirements with the exception of a Vendor Employee Dishonesty Policy that is required per the contract with the City; this insurance is not on file because it has not been purchased by Vendor.	Public Works ensure the Vendor perform the following: Purchase a Vendor Employee Dishonesty Policy as part of the City's contracting requirements.	Public Works agrees with the observations and will work with Vendor to implement the recommendation by September 30, 2020.

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

In addition, the **INNOVATION OPPORTUNITY** tag indicates the assistance and consulting services that may be provided by the Innovation and Performance Team.

Appendix 2: A Checklist of Items to Consider in Parking Contracts

This list is a summary of recommendations related to contract improvement, but it is not an exhaustive list.

1. Add vacant positions to the list of conditions outlined under the Liquidated Damages section. (See Ref #6)
2. Require that the vendor provide a methodology for all payroll costs including worker's compensation rates on a periodic basis, subject to the City's approval. (See Ref #6)
3. Require that vendor use non-proprietary billing systems. (See Ref #7)
4. Require that billing systems fully integrate with the parking access and revenue control system. (See Ref #7)
5. City must have full access to both proprietary and non-proprietary billing systems that may be owned by vendors for review and/or auditing purposes. (See Ref #7)
6. Address what may necessitate a formal amendment to contracts (e.g., billing system or major service changes, etc.). (See Ref #7)
7. Delineate the maintenance items that are to be serviced by the City. (See Ref #11)
8. Periodically monitor garage budgets at the individual budget line item level, and adjust the budget in the beginning of the year for any items that will not be used during the year. (See Ref #12)