



**Audit of
Department of Public Works
Parking Structures
Cash Controls and Leases**

MARTIN MATSON
City Comptroller
City of Milwaukee, Wisconsin

November 2012

Table of Contents

Transmittal Letter	1
I. Audit Scope and Objectives.....	2
II. Organization and Fiscal Impact	3
III. Audit Conclusions and Recommendations	4
A. Contract Compliance	4
Recommendation 1: Finalize the Facility Operating Standards	6
Recommendation 2: Document policies, procedures, and controls for key processes in a procedure reference manual.....	6
B. Cash Controls	7
Recommendation 3: Strengthen the monthly change fund reconciliation process to reduce the risk of theft and misappropriation	8
C. Accuracy of Deposits and Revenue Recording.....	9
D. Parking Lot and Parking Structure Leases.....	9
Recommendation 4: Manage revenue contracts in accordance with city ordinances and terms of the agreements	10
Department of Public Works' Response.....	11

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Office of the Comptroller

November 30, 2012

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our audit of the Department of Public Works (DPW) Parking Enterprise Fund's parking structures cash controls and leases. The objectives of the audit were to assess compliance with the Parking Facility Management Agreement between the City of Milwaukee and Standard Parking; evaluate the internal controls surrounding collection of cash and cash equivalents by the parking facility operator (Contractor); assess the accuracy of deposits with the City Treasurer and recording of revenue on the City's accounting system; and determine the accuracy of billing and receipts for the parking lot and parking structure leases.

The control design and the effectiveness of control performance for the processes performed by the Contractor included in the audit scope are generally adequate in mitigating key operational and financial risks with some opportunities for improvement. However, audit procedures performed to evaluate the billing and receiving processes for leases managed by DPW revealed deficiencies in the control structure. The audit of DPW parking structures cash controls and leases resulted in four recommendations to establish or improve controls.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by DPW's response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Department of Public Works.

Sincerely,

A handwritten signature in cursive script that reads "Martin Matson".

Martin Matson
Comptroller

MM:ssm

I Audit Scope and Objectives

The audit examined the cash collection, deposit preparation, and revenue reporting procedures for the four city-owned public parking structures operated by the Contractor. The audit also assessed Contractor compliance with key aspects of the management agreement. Lastly, the audit examined the billings and receipts for parking lot and structure leases administered by the parking section of the Department of Public Works Administrative Services Division (DPW Parking).

Audit procedures developed to accomplish the audit objectives, including process walk-throughs, inspection of relevant control documentation, tests of controls, and substantive (detail) testing, were executed during the months of August and September 2012. The scope of the audit was limited to assess internal controls around cash collection activities performed by the Contractor for January 1 through June 30, 2012. The scope also included tests to determine the accuracy of billings and receipts for a sample of parking leases in place as of June 30, 2012. The audit did not include procedures to evaluate the timeliness of deposits with the City Treasurer or the timeliness of recording revenue to the City's accounting system. The audit conclusions are based on interviews with DPW Parking and vendor personnel, review of policies and procedures, review and analysis of available documentation and electronic data, and testing. The Office of the Comptroller believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The objectives of the audit were to:

- Assess compliance with the Parking Facility Management Agreement between the City of Milwaukee and Standard Parking;
- Evaluate the internal controls surrounding the collection of cash and cash equivalents by Standard Parking;
- Assess the accuracy of deposits with the City Treasurer and recording of revenue on the City's accounting system; and
- Determine the accuracy of billing and receipts for the parking lot and parking structure leases.

II Organization and Fiscal Impact

On May 19, 1953, Charter Ordinance 183 created Section 23.14 of the 1934 Milwaukee Charter, establishing the Special Parking Fund. The mission of the Parking Fund is to provide clean and safe on- and off-street parking in a manner which integrates parking policies and economic development goals and maintains the financial solvency of the Parking Fund and independence from city tax levy funding.

The Parking Fund is a non-major enterprise fund administered by the Department of Public Works (DPW), and finances the City's parking expenses through revenues received from these services. Parking Fund operations are located in the Administrative Services Division of DPW. In addition to operating parking lots, parking meters, issuing parking citations, and operating the tow lot, DPW Parking manages five city-owned parking structures. Four of the parking structures which are available for public use are operated by Standard Parking Corporation and provide daily, monthly, and special events parking. The fifth parking structure is leased entirely to a local company for an annual rent of \$472,000. There are about 10 parking lot leases with rents ranging from \$360 to \$50,400 annually. Revenue from parking structures and leases was \$7.1 million in 2011, 16 percent of the Parking Fund's revenue.

The four multi-level, off-street public parking facilities operated by the vendor are:

1. MacArthur Square Garage, 841 N. James Lovell Street – an underground, three-level, 1,437-space parking structure offering monthly, unreserved daily and event parking (this facility adjoins several public institutions and houses the central support center);
2. 2nd Street and Plankinton Avenue Garage, 724 North 2nd Street – an above-ground, eight-level, 473-space parking structure offering monthly, unreserved daily and event parking;
3. 4th Street and Highland Avenue Garage, 324 West Highland Avenue – an above-ground, eight-level, 980-space parking structure offering monthly, unreserved daily and event parking (its location near the Bradley Center makes it the City's biggest event parking facility); and
4. 1000 North Water Street Garage – an above-ground, eight-level, 1,493-space parking structure offering monthly, unreserved daily and event parking.

III Audit Conclusions and Recommendations

The audit determined that the overall system of internal control is adequate to effectively mitigate risk to an acceptable level, however, four issues were identified that warrant management's attention. Two issues were identified during the assessment of contract compliance; one issue was identified within the cash collection, deposit preparation, revenue reporting, and validation billing and receiving processes; and one issue was identified within the process for billing and receiving parking lot and parking structure leases.

1. Finalize the Facility Operating Standards.
2. Document policies, procedures, and controls for key facility operating processes in a procedure reference manual.
3. Strengthen the monthly change fund reconciliation process to reduce the risk of theft and misappropriation.
4. Manage revenue contracts in accordance with city ordinances and terms of the agreements.

Additional details regarding these recommendations for improvement are provided in the following sections of this report.

A. Contract Compliance

In most areas, the City of Milwaukee Department of Public Works and Standard Parking are in compliance with the provisions of the Parking Facility Management Agreement (Agreement). Standard Parking assumed operations of the four city-owned public parking facilities on December 1, 2011 and has been consistently meeting the expectations of the contract managers. However, a review conducted during the audit of certain key provisions of the contract identified two issues that merit corrective action.

Facility Operating Standards

For management of performance expectations, the Parking Facility Management Agreement refers to the Facility Operating Standards. Section 3.3 of the Agreement states,

The Contractor [Standard Parking] shall manage and operate the Parking Facilities in accord with the Facility Operating Standards (the Standards). The Standards, which shall contain detailed operating policies and procedures for the Parking Facilities, shall incorporate best industry practices for exemplary (Class A) parking facilities and environments. They will establish detailed guidelines for all operating issues, including customer service, advertising, operating hours, permitted vehicles, parking rates, revenue controls, technology, security and maintenance.

The City shall furnish the Contractor with preliminary Standards within two weeks of the Commencement Date to illustrate the City-approved format, structure and content. The City and Contractor shall review the preliminary Standards and discuss any concerns or suggestions. The Contractor shall then issue draft Standards in accord with the City-approved format, structure and content to the City for review and the City shall provide written input on the draft Standards. The City, in its sole discretion (but with Contractor input), shall adopt, issue and update the formal Standards for guiding the Contractor consistent with, but not necessarily limited to, the requirements set forth in Exhibit A [the Parking Facility Contract Service Requirements].

Additionally, a monthly performance incentive paid to the Contractor is awarded by the City “for the Contractor’s management and operations of the Parking Facilities in a superior manner as evidenced by the Contractor’s substantive compliance with the Standards.” Section 4.3 of the Agreement continues,

The City shall ascertain the Contractor’s substantive compliance with the Standards by conducting random inspections of the Contractor’s performance using a structured methodology set forth in the Standards (i.e., the Inspection Checklist). The Inspection Checklist shall enable the City to document the superior quality of the Contractor’s performance, and provide the basis for

determining the Contractor's eligibility for the Superior Performance Incentive. The City may conduct such inspections in a manner and time it sees fit, but its failure to conduct an inspection in any month shall be construed as acceptance of the Contractor's compliance with the Standards for that month.

The City of Milwaukee is paying a performance incentive of \$2,500 per month, up to \$30,000 for the year, though DPW Parking is not conducting random inspections of the Contractor's performance to ascertain the Contractor's compliance with the Standards. Furthermore, the Facility Operating Standards are still in "draft" form and have not been finalized.

Recommendation 1: Finalize the Facility Operating Standards.

DPW Parking should finalize, approve, adopt, and issue the Facility Operating Standards. Once the Standards have been finalized, Parking Fund management should perform periodic inspections per the Agreement to ascertain the Contractor's compliance with the Standards to substantiate the payment of the monthly performance incentive.

Internal Policies, Procedures and Controls

Section 3.0 – Accountability Requirements in Exhibit A – Parking Facility Contract Service Requirements of the Parking Facility Management Agreement requires "rigorous internal policies, procedures and controls to be established, documented and employed for all transactions." While Standard Parking has established and employed internal policies, procedures and controls for key processes, they are not formally documented in a comprehensive procedure reference manual. A policy and procedures reference manual serves as a tool for achieving goals consistently, effectively, and efficiently.

Recommendation 2: Document policies, procedures, and controls for key processes in a procedure reference manual.

The Contractor should develop a procedure manual including policies and step-by-step instructions for processes performed by the Contractor. The manual should include, but not be limited to, procedures for cash collection and deposit preparation; refilling pay station change dispenser bins; performing the monthly change fund reconciliation; entering revenue into the

Contractor's billing system including daily cash, monthly parking, and validation charges; validation billing and receiving; coupon distribution and encoding; invoicing; payment processing; monthly key card reconciliation; new monthly parker set-up; and preparation of the Daily Departmental Report – Cash Receipts – Parking Structures form.

B. Cash Controls

The audit evaluated procedures and controls for cash collections at the four city-owned public parking facilities operated by Standard Parking. This included the daily collection of coin and currency from the automated pay stations; preparation of daily deposits; monthly parking processes, including the initial set-up of new monthly parkers, receipt and posting of payments, and deposit preparation; and validation parking program billing and receiving.

Physical Cash Controls

Physical controls over cash and cash equivalents are generally adequate but could be enhanced to further reduce the risk of theft and misappropriation. Automated pay stations at the garages are properly secured. Two keys and an access card are required to open the pay stations. If a pay station is opened without the access card, an intruder alarm will sound. The coin and currency safes within the machines require additional keys for emptying. Each pay station starts with the same amount of currency in the change dispensers. This cash, along with the cash in the safe, makes up the "change fund." It is Standard Parking's goal to reconcile the amount of cash in the change fund each month, however, the audit determined that this does not always happen. The audit also noted that the change in the pay stations is not physically counted as part of the reconciliation, and documentation evidencing the cash counts are occurring is not retained.

Occasionally if a pay station malfunctions and does not dispense change or a patron does not retrieve the change dispensed, the surplus cash is collected and held in the safe in the event the customer returns to claim the funds. This cash is intermingled with the change fund cash in the safe. Additions and subtractions are not tracked, therefore, it is unknown how much cash over and above the change fund is on-hand at any given time.

Recommendation 3: Strengthen the monthly change fund reconciliation process to reduce the risk of theft and misappropriation.

To strengthen cash controls to reduce the risk of theft and misappropriation, management should:

1. Periodically count the currency within the change dispenser bins of the pay stations as part of the monthly change fund reconciliation.
2. Design, implement, and retain documentation evidencing completion of and results of the monthly change fund reconciliation.
3. Create and implement a log to track and aid in the periodic reconciliation of excess cash collected for refunding to parking patrons that did not receive change resulting from an overpayment. Additionally, DPW Parking and the parking facility operator should agree on parameters to determine when excess cash collected should be deposited as miscellaneous revenue.

Monthly Parking

Reserved and unreserved monthly parking is available at all four parking facilities. The audit determined the controls surrounding monthly parking revenue collection and reporting are adequately designed and operating effectively. New monthly parkers are required to complete an application and the first month's payment must be made by check or money order. Cash is generally not accepted for monthly payments. Credit cards can be used to make subsequent payments online. New account set-up in the system of record and garage access administration duties are effectively segregated. Garage access is further controlled through the performance of a monthly key card reconciliation, which verifies that applicable access-card holders are appropriately billed. The audit did not identify any exceptions during testing of monthly parking account set-up and revenue entry.

Validation Program

The validation program is a cooperative effort between the City of Milwaukee and area businesses to give their customers free or discounted parking for their patronage. Usage is then billed back to the participant on a monthly basis. Validation tickets are properly secured and adequate segregation of duties exists between the safekeeping and issuance of tickets, and

invoicing. The audit did not identify any exceptions during testing of validation agreements, invoicing, and revenue entry.

C. Accuracy of Deposits and Revenue Recording

The audit determined deposits with the City Treasurer and revenue recorded on the City's accounting system are accurate. Cash receipts are deposited by the parking facility operator directly to the city designated bank account. To record the transaction with the Office of the Treasurer, a cash receipts report, prepared by the operator, is submitted daily to DPW Parking in a City-approved format. This report is used by the Treasurer's Office to record the transaction in the iNovah cashiering system, and ultimately in the Financial Management Information System (FMIS), the City's accounting system. The audit included procedures to assess the accuracy of deposits with the City Treasurer and recording of revenue on the City's accounting system. Specifically, the audit tested the integrity of the cash receipts reports prepared and submitted by the operator by vouching the information to the source documents. The audit also included tests to verify the deposits were made with the bank and were accurately recorded in FMIS. No exceptions or deficiencies were identified.

D. Parking Lot and Parking Structure Leases

DPW Parking earns rent revenues from leasing out space in City-owned parking lots, the parking structure at 535 North Milwaukee Street, and the restaurant facility in the Fourth and Highland Garage. Invoices for customers that do not prepay are prepared using FMIS and manually tracked by the department using a spreadsheet. When an invoice is prepared in FMIS, the relevant entries to revenue and accounts receivable are automatically created. For the majority of transactions, DPW Parking has executed contracts that define the terms of the agreements with the lessees, including events of default which could result in termination of the lease and eviction. Per City of Milwaukee ordinances, contracts and amendments – such as the lease with Centercourt 1118, LLC – should be approved by the City Attorney and countersigned by the Comptroller. Approval from Common Council is required for all write-offs over \$5,000.

The audit included procedures to determine the accuracy of billing and receiving for a sample of leases. Testing results showed that Centercourt has not remitted a full rent payment, which

averaged \$6,860 a month, to the City since August 2010. Audit procedures also determined the lessee has not provided annual financial statements required by the lease. Per the lease agreement between the City of Milwaukee and Centercourt 1118, LLC, failure to pay rent and failure to perform any other term or condition of the lease are events of default that should result in termination of the lease and/or eviction. As of September 30, 2012, the lessee continues to occupy the facility indicating revenue contracts are not consistently managed and enforced in accordance with city ordinances and terms of the agreements.

Recommendation 4: Manage revenue contracts in accordance with city ordinances and terms of the agreements.

DPW Parking should manage revenue contracts in accordance with the City of Milwaukee Charter and Code Ordinances and terms of the agreements. Specifically, management should:

1. Enforce or amend the lease agreement with Centercourt 1118, LLC. Proposed lease amendments should be documented and formally presented to the City Attorney for approval, and to the Comptroller to countersign. This approval process is mandatory by City Charter and is best practice for all parties to be aware of and agree to major contract amendments. The City Attorney would then be able to advise on contract amendments and any amendment would be legally binding and enforceable.
2. Proactively monitor all leaseholders to ensure payments are timely and that contract terms are being fulfilled. Active management will ensure improved contract compliance and signal strong management involvement to the lessee. Monitoring also strengthens and quickens procedures when contracts are not in compliance and prompt action is necessary.



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Department of Public Works

Ghassan Korban
Commissioner of Public Works

Preston D. Cole
Director of Operations

November 26, 2012

Mr. Martin Matson, Comptroller
City of Milwaukee
City Hall, Room 404

RE: Response to Department of Public Works Parking Structures Cash Controls and Leases

Dear Mr. Matson:

The Department of Public Works wishes to thank your staff for the time spent discussing information about DPW's policies and practices regarding cash controls at the City-owned parking garages and other leases with DPW –Parking staff.

In reply to the audit, we offer the following responses:

Recommendation 1: Finalize the Facility Operating Standards

DPW has been utilizing the requirements as set forth in Exhibit A as the Operating Standards. Due to a US Department of Justice order, Standard Parking will no longer be managing the City's facilities effective January 1, 2013. Standard Parking is assigning the contract to ImPark.

However, in response to the audit, DPW is currently developing a physical condition checklist for the parking operations coordinator who checks the facilities regularly in the field. In addition, DPW is developing a check-list of non-physical condition requirements. As DPW would like to discuss this with the new management firm before finalization, DPW anticipates a completion date by January 31, 2013.

Recommendation 2: Document policies, procedures, and controls for key processes in a procedure reference manual

The new parking management contractor who takes over on January 1, 2013, will develop a procedure reference manual to document policies, procedures and controls by February 28, 2013.

Recommendation 3: Strengthen the monthly change fund reconciliation process to reduce the risk of theft and misappropriation

1. Since July 2012, the currency within the change dispenser bins of each pay station is counted monthly by Standard Parking.
2. Since July 2012, documentation is being kept of the cash within the change dispenser bins of each pay station based upon the monthly change fund reconciliation
3. Excess cash collected results from three activities: overcharges, change inadvertently left in machines by patrons, or from jammed bills.
 - a. Any money that is erroneously overcharged to a patron is entered in the daily cash report and is deposited daily in the City's checking account.
 - b. Any excess change left in a machine or resulting from a jam is placed in the safe. Typically, this amount does not accumulate to more than ten dollars. No spreadsheet is currently maintained to document each bit of change. However, to comply with the Comptroller's audit recommendations, the management firm will deposit the change into the City checking account when it accumulates to a total of \$25 effective immediately.

Recommendation 4: Manage revenue contracts in accordance with city ordinances, and terms of the agreements

1. DPW consulted with the Comptroller's former Director of Financial Services and the City Attorney's office during this contract. In an effort to avoid having an empty retail space, DPW has been meeting with the current tenants to develop an acceptable solution to the current rental agreement. A recommended renegotiated rental agreement is anticipated to be submitted to Council for approval by February 6, 2013 after approval from the Comptroller's Office and the City Attorney's office.
2. We agree and will comply.

If you require clarification on any of the responses above, please contact Ms. Cindy Angelos, Parking Financial Manager. Thank you.

Very truly yours,



Ghassan Korban
Commissioner of Public Works

GK:SK:ejg

Cc: Shirley Krug
Cindy Angelos
File