



CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

August 18, 2010

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Councilman, District 10

Mayor and Council Members:

SUBJECT: Downtown Operations Department Audit Report

We are pleased to send you the audit report of the Downtown Operations Department. This audit began in February 2009 and concluded with an exit meeting with department management in March 2010. Management's verbatim response is included in Appendix D of the report. The Downtown Operations Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

Park E. Pearson, CPA
City Auditor
City of San Antonio

Distribution:

Sheryl L. Sculley, City Manager

Ben Gorzell, Chief Financial Officer

Paula X. Stallcup, Director, Downtown Operations Department

Michael D. Bernard, City Attorney

Leticia M. Vacek, City Clerk

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Downtown Operations Department

Parking Division

Project No. AU09-006

August 18, 2010

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the Downtown Operations Department, Parking Division (Parking). The audit objectives, conclusions, and recommendations follow:

Are internal controls and other management processes adequate to oversee Parking functions?

Internal controls and other processes are adequate to oversee Parking's field functions. However, there is still a need to improve financial reporting, technology and other fiscal processes previously discussed in our audit report of the San Antonio Parking Division in August 2006. **Table 1** below shows that Parking implemented or is working towards implementing three of the seven recommendations we reviewed from the prior audit report. (See **Appendix A** on page 8 for details):

Table 1: Status of Prior Recommendations

Recommendation Status	Number of Recommendations
Implemented	1
In Process	2
Partially Implemented	1
Not Implemented	3
Total Recommendations Reviewed	7

To enforce parking regulations, Parking incurs annual expenses of more than \$600,000. Although the Enterprise Fund appropriately reflects these expenses, City management incorrectly recorded related revenue in the General Fund.

The Governmental Accounting Standards Board and Generally Accepted Accounting Principles both envision the matching of revenues and related expenses in the same fund.

We recommend the Director of Finance develop and issue guidance that requires the recording in the Enterprise Fund of all accounting transactions for revenue generated from Enterprise Fund operations.

Other Matters

The City of Seattle, Washington entered into a contract with Parkeon, Inc., for on-street parking pay stations in March 2004. In February 2009, Seattle and Parkeon expanded the contract to allow other municipalities to utilize Parkeon's current rates, terms and conditions. During this audit, Downtown Operations was in the process of determining whether entering into an agreement with Seattle Washington for on-street parking pay stations was lawful without competitive bid. We reviewed the subject contract and identified a number of issues we believed management should address before entering into this agreement with Seattle. We provided these issues to the Director of Downtown Operations in a memo on November 23, 2009 (see **Appendix B** on page 8 for a copy of the memo).

Management's verbatim responses are in **Appendix D** on page 11.

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Background

The Department of Downtown Operations Parking Division (Parking) is responsible for managing and operating the City’s downtown municipal parking system. The parking system includes over 8,000 parking spaces, 4 parking garages, 15 surface lots, and over 2,000 parking meters within the downtown area. The Division is also responsible for enforcing parking regulations and issuing commercial and residential parking decals. Enforcement includes issuing citations to suspected violators, which may result in payment of fines.

Parking was established as a self-supporting Enterprise Fund to account for revenues and expenditures associated with the operation and maintenance of the City’s parking structures, parking areas, and debt service for outstanding bonds. During fiscal year 2009, Parking generated revenue of approximately \$9.1 million through its operations. **Table 1** (below) lists the sources and corresponding amounts of revenue; however, fines associated with parking citations are not included in these figures.

Table 1: Gross Operating Revenue for Fiscal Year 2009

<i>Revenue Source</i>	<i>Gross Revenue</i>	<i>Percentage of Total</i>
Garage	\$ 2,775,577	30%
Lot	2,118,323	23%
Monthly Parking*	1,278,112	14%
Validations	673,197	7%
Meters	1,280,254	14%
Lease and Contracts	971,029	11%
Miscellaneous	56,088	1%
Total Gross Revenue	\$ 9,152,580	100%

** Total includes Monthly Parking Revenue combined with Residential Parking Revenue*

To enhance operations, Parking planned to purchase updated parking control equipment and establish new parking fees (*new rates were adopted October 1, 2009*). In addition, the Division planned to upgrade on-street single space meters to pay & display stations that will accommodate multiple spaces and provide citizens with the ability to utilize credit/debit cards as well as coins throughout the downtown area.

Audit Scope and Methodology

The audit scope included a review of Parking operations, revenue sources and the recording of financial transactions in the City's accounting system from parking operations and enforcement activities for the period October 1, 2007 to September 30, 2009.

We interviewed City staff to gain an understanding of the Division's operations. We reviewed local regulations, policies and procedures, financial records, and other pertinent documentation. In addition, we researched and reviewed internal control best practices from the Committee of Sponsoring Organization of the Treadway Commission's Internal Control Framework. We also researched and reviewed the Governmental Accounting Standards Board Financial Reporting Standards and Generally Accepted Accounting Principles.

Our testing included observations of the Parking's physical operations and its processes for collecting, reconciling, and recording operating revenue. We relied on computer-processed data in the City's accounting system (SAP.) We performed direct tests of this data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

In compliance with government auditing standards, we also included follow-up audit procedures for recommendations made in the San Antonio Parking Division Audit report dated August 11, 2006 to determine whether Parking sufficiently implemented actions to address prior audit recommendations.

We conducted this audit from February 2009 to March 2010 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Enforcement Revenue not Recorded with Associated Expenses

To enforce parking regulations the City incurs annual expenses of more than \$600,000. Although the Enterprise Fund appropriately reflects these expenses, management incorrectly recorded related revenue in the General Fund.

The Governmental Accounting Standards Board and Generally Accepted Accounting Principles envision the matching of revenues and related expenses in the same fund.

Consequently, accounts of the Enterprise Fund do not appropriately portray the accounting results for enforcement of parking regulations.

Recommendation

We recommend the Director of Finance develop and issue guidance that requires the recording in the Enterprise Fund of all accounting transactions for revenue generated from Enterprise Fund operations.

Prior Recommendations and Audit Results

B.1 Disparate Parking Systems

Parking should implement a modern system that effectively employs technology to improve parking management, accountability, and customer service.

Status: In process

Parking is in the process of implementing a modern parking system. In July 2009, the Division issued a Request for Proposal to replace its parking revenue system. The Division believes the new system should increase accountability and improve customer service.

B.2 Surveillance Technology

Parking should procure and install a modern surveillance system with remote monitoring capabilities.

Status: In process

According to management, Parking intends to procure and install a modern surveillance system upon implementation of the new parking system

B.3 Surprise Cash Audits

Parking should implement a field audit plan that ensures that all parking attendants are audited at least several times a year on a random basis.

Status: Implemented

Parking implemented a field audit plan that provides sufficient and appropriate coverage of all parking attendants' cash handling operations, including high risk parking facilities.

B.4 Monthly Parking

Parking should develop formal written procedures and systems for billing and safeguarding magnetic cards. A new monthly-parking account receivable/billing system should be implemented with appropriate security, performance, and reliability features.

Status: Not implemented

Parking did not develop formal procedures for billing, collecting, recording, and reconciling monthly parking revenue. In addition, internal controls for the monthly billing processes lack adequate security, performance, and reliability features.

Fiscal employees are using an Access Database as the Division's accounts receivable system. Parking relies on this system to track and age customer accounts. The database resides on a shared network drive, there are no internal controls to restrict access, and track changes to information and identify the source of the change.

In addition to weak controls over billing and collecting processes, Parking incorrectly recorded revenue when received, rather than when earned. This practice is not in conformity with generally accepted accrual accounting and reporting practices.

B.5 Parking Validation Process

Parking should automate the validation process and develop formal written procedures to address the proper, timely, and consistent handling, disposition, billing, accounting, and receiving of payments for all validation transactions.

Status: Not implemented

Parking has not automated or developed formal procedures for the validation process. In addition, the Division was offering unauthorized discounted rates for validation privileges to a local business. The City Code specifically defines the parking rates and does not authorize discounts for parking without City Council approval.

B.6 Fiscal Policies and Procedures

Parking should develop and implement a quality control function. This function should be responsible for identifying and developing policies and procedures for all major Fiscal and Parking Operations functions.

Status: Partially implemented

Parking developed policies and procedures for field operations; however, procedures for billing, collecting, recording, and reconciling operating revenue were not included.

B.7 TPDS Access

Parking should review Traffic Parking Division System (TPDS) access security and make modifications as necessary on a periodic and timely basis.

Status: Not implemented

At least five employees had inappropriate access to TPDS. Three City employees not assigned to the Parking had full access to the system. In addition, two Parking fiscal employees had conflicting security access, which allowed them to create, change, and approve transactions.

Appendix A – Recommendation Status Summary

NO.	<i>Prior Audit Recommendations</i>	<i>Status</i>
B.1	Implement a modern parking system that effectively employs technology to improve parking management, accountability, and customer service.	In process
B.2	Procure and install a modern surveillance system with remote monitoring capabilities.	In process
B.3	Implement a field audit plan that ensures that all parking attendants are audited at least several times a year on a random basis.	Implemented
B.4	Develop formal written procedures and systems for billing and safeguarding magnetic cards. A new monthly-parking account receivable/billing system should be implemented with appropriate security, performance, and reliability features.	Not implemented
B.5	Automate the validation process and develop formal written procedures to address the proper, timely, and consistent handling, disposition, billing, accounting, and receiving of payments for all validation transactions.	Not implemented
B.6	Develop and implement a quality control function. This function should be responsible for identifying and developing policies and procedures for all major Fiscal and Parking Operations functions.	Partially implemented
B.7	Review TPDS access security and make modifications as necessary on a periodic and timely basis.	Not implemented

Appendix B – Memorandum of Preliminary Observation



CITY OF SAN ANTONIO

P. O. BOX 933956
SAN ANTONIO, TEXAS 78263-3956

November 23, 2009

Paula Stallcup, Director of Downtown Operations Department

This is our draft observation on the initiative to enter into an Interlocal Agreement with the City of Seattle, Washington resulting from the audit of Downtown Operations Parking Division. We are providing this observation prior to issuance of the Downtown Operations – Parking audit report for use in your deliberations concerning entering into an agreement with the City of Seattle for on-street parking pay stations. We will likely include this observation as part of the final audit report on the Parking Division Audit. We discussed the issues noted in this observation with you on October 2, 2009.

If you have any questions, please contact me at (210) 207-2853 or Brian K. Williams at (210) 207-0080.

A handwritten signature in cursive script, appearing to read "Park E. Pearson".

Park E. Pearson, CPA
City Auditor
City of San Antonio

cc: Pat DiGiovanni, Deputy City Manager
Penny Postoak Ferguson, Assistant City Manager
Michael Bernard, City Attorney
Janie Cantu, Director, Purchasing and General Services

Appendix B – Memorandum of Preliminary Observation - continued

The City of Seattle's Contract with Parkeon, Inc. does not Appear Adequate to Protect the Interest of the City of San Antonio

The City of Seattle, Washington (Seattle) entered into a contract with Parkeon, Inc., for on-street parking pay stations in March 2004. This contract expires in March 2010. In February 2009, Seattle and Parkeon expanded the contract to allow other municipalities to utilize Parkeon's current rates, terms, and conditions. Downtown Operations included the City Attorney's Office in the process to determine if entering into this agreement was lawful without competitive bid.

We reviewed the existing contract and met with various City staff, including the City Attorney's Office. As a result, we identified several issues that management should address before entering into this agreement with Seattle.

Seattle's contract with Parkeon does not contain clauses that would protect the City of San Antonio such as:

- A "right to audit" clause.
- The cost to retain the rights to the software needed to maintain functionality of the parking pay stations if Parkeon was to change legal status or become insolvent (i.e. reorganization, bankruptcy, liquidation, etc.)
- Parkeon's responsibilities to participating cities, such as San Antonio, subsequent to the contract expiration date in March 2010
- How specific delivery and technical support information will transfer to San Antonio from Seattle
- Parkeon's responsibility to comply with Texas laws and City of San Antonio ordinances
- Whether the software is compatible with other essential systems, such as the City's accounting system

Seattle's contract also does not appear to provide any contractual authority to other cities. Thus, it is unclear if the City would have typical contractual rights to act without Seattle's consent. These actions may include making needed contract amendments or taking action against the vendor for contractual violations.

Recommendations:

We recommend that Downtown Operations:

- Consult with and request a formal opinion from the City Attorney's Office on these and other relevant contractual issues to ensure adequate protection of the City's interest
- Consider establishing a separate agreement with a vendor to purchase on-street parking pay stations.

Appendix C – Staff Acknowledgement

Barry Lipton, CPA, DABFA, Deputy City Auditor
Brian K. Williams, MBA, CIA, CFE, CGAP, Audit Manager
Kimberly A. Weber, CIA, CFE, CGAP, Auditor-in-Charge
Claudia Peña, Staff Auditor
Cynthia Brown, MBA, CIA, CFE, Staff Auditor

Appendix D – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

August 5, 2010

Park E. Pearson, CPA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of the Downtown Parking Division.

Finance Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A.	<p>Enforcement Revenue not Recorded with Associated Expenses</p> <p>Recommendation: The Director of Finance should develop and issue guidance that requires the recording in the Enterprise Fund of all accounting transactions for revenue generated from Enterprise Fund operations.</p>	3	Accept	<p>Troy Elliott / Asst. Director of Finance</p> <p>Maria Villagomez / Office of Budget and Management Director</p>	July 1, 2010
<p>Action plan:</p> <p>The Finance Department has drafted Administrative Directive 8.12 General Accounting Requirements and Timelines that require adherence to Generally Accepted Accounting Principle (GAAP). Training was completed on this Administrative Directive during the month of June and was issued with an effective date of July 1, 2010. Prior to the issuance of this Administrative Directive, GAAP has always been utilized as the authoritative guidance for the accounting and reporting of the City's financial transactions.</p> <p>Additionally, as a result of continued operational changes impacting the Parking Fund, the Finance Department will be conducting an evaluation through FY2011 to determine whether the Parking Fund continues to meet the definition of an Enterprise Fund, or whether a new reporting classification will be needed, thereby potentially affecting the recording, tracking and reporting of the above referenced revenues and expenditures/expenses.</p>					

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Ben Gorzell Jr.
Chief Financial Officer

8/5/2010
Date

Appendix D – Management Response - continued



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

June 1, 2010

Park E. Pearson, CPA
City Auditor
San Antonio, Texas

RE: Management's Acknowledgement of the Downtown Operations Parking
Division Follow-Up Audit

Here are our comments to the subject report:

Fully Agree (provide detailed comments)

Update to items termed not implemented or partially implemented.

B. 1 Parking should implement a modern system that effectively employs technology to improve parking management, accountability and customer service.

Status: In process

Parking is in the process of implementing a modern parking system. In July 2009, the Department issued a Request for Proposal to replace its parking revenue system. Contract negotiations are currently underway. The new system should increase accountability and improve customer service.

B. 2 Parking should procure and install a modern surveillance system with remote monitoring capabilities.

Status: In process

According to management, Parking intends to procure and install a modern surveillance system upon implementation of the new parking system.

Appendix D – Management Response - continued

B. 3 Parking should implement a field audit plan that ensures that all parking attendants are audited at least several times a year on a random basis.

Status: Implemented

Parking implemented a field audit plan that provides sufficient and appropriate coverage of all parking attendants' cash handling operations, including high risk parking facilities.

B. 4 Parking should develop formal written procedures and systems for billing and safeguarding magnetic cards. A new monthly-parking account receivable/billing system should be implemented with appropriate security, performance, and reliability features.

Response:

Formal written procedures for billing and safeguarding of magnetic cards have been developed and completed with an immediate effective date. These formal procedures address the issuance, billing, collection, and safeguarding of magnetic cards. These procedures will be updated in the future should there be any changes to the current process.

The Department's Parking Division is also in the preliminary stages to migrate the current account receivable/billing system into SAP for all monthly accounts. Utilizing SAP will ensure the appropriate security, performance, and reliability features needed for this process. With over 500 monthly accounts, staff is expected to be completed with this integration process by August 31, 2010.

B. 5 Parking should automate the validation process and develop formal written procedures to address the proper, timely, and consistent handling, disposition, billing, accounting, and receiving of payments for all validation transactions.

Response:

Formal written procedures have been developed and completed for the Parking Division with an immediate effective date. These formal procedures address the issuing, billing, and collecting of revenue related to Parking Validation Agreements. These procedures will be updated in the future should there be any changes to the current process. Staff will be formalizing the discounted rate provided to a local business through an amendment to the contract for services. This item will be placed on the Council agenda for consideration in June.

B. 6 Parking should develop and implement a quality control function. This function should be responsible for identifying and developing policies and procedures for all major Fiscal and Parking Operations functions.

Appendix D – Management Response - continued

Response:

Formal written policies and procedures for the fiscal section are in the preliminary stages. Staff will be completing comprehensive policies for Fiscal Operations no later than August 31, 2010.

B. 7 Review TPDS access security and make modifications as necessary on a periodic and timely basis.

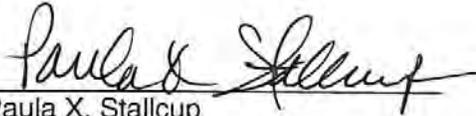
Response:

This item has now been addressed and was implemented during this audit review.

Other Matters:

The City Council approved an agreement with Parkeon to provide parking pay stations in March 2010. Staff worked directly with the City Attorney's Office and the Purchasing and General Services Department to ensure all items identified in the memorandum dated November 23, 2009 were addressed.

Sincerely,


Paula X. Stallcup
Director
Downtown Operations Department


Pat DiGiovanni
Deputy City Manager
City Manager's Office