

CITY OF SACRAMENTO INTERNAL AUDIT

OFF-STREET PARKING INTERNAL AUDIT REPORT





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April 30, 2004

Honorable Mayor, City Council Members, and City Manager:

The City of Sacramento's Internal Audit Manager has completed a limited scope audit of the City's Off-Street Parking Division. This examination was conducted in accordance with generally accepted government auditing standards and the responsibilities of the Internal Audit Manager.

This report provides the Mayor, City Council Members, and the City Manager with an independent and objective evaluation of the adequacy of existing policies, practices, and managerial controls within the Off-Street Parking Division. Internal audit reports are part of the larger process of continuous internal examination and improvement performed by the City of Sacramento.

In my opinion, the Off-Street Parking Division needs to:

- 1) Establish operational objectives;
- 2) Create a parking rate strategic plan;
- 3) Maintain current policies and procedures;
- 4) Fill key vacancies; and
- 5) Correct significant deficiencies in internal controls.

No instances of internal theft, fraud, or illegal activity were discovered during the course of this examination. Audit findings were discussed in detail with the Off-Street Parking Manager. Significant progress toward resolving internal control deficiencies is discussed in this report. The Parking Manager's response to this report is included in its entirety in the Appendix. I appreciate the high level of cooperation extended by the Off-Street Parking Manager and his representatives.

Martin J. Kolkin
Internal Audit Manager

**Off-Street Parking Internal Audit
Report Number 2004-3
Executive Summary**

The Internal Audit Manager has completed a limited scope review of the Off-Street Parking Division. Areas identified by the Internal Audit Manager for improvement are noted as report findings, while action taken and estimated completion date are responses provided by the Parking Manager of Off-Street Parking.

Internal Audit Manager's Report Findings	Action Taken by the Parking Manager	Estimated Completion Date
<p>1. Lack of specific operational objectives (refer to page 3).</p>	<p>The Parking Manager is preparing a Request for Proposal, to be submitted for approval, to secure the services of a consultant to assist in addressing this concern. The estimated final completion date for the project is March 2005.</p>	<p><u>June 2004</u> Develop a Request for Proposal. <u>March 2005</u> Final Report received from consultant.</p>
<p>2. No parking rate strategic plan (refer to page 4).</p>	<p>Refer to Action Taken in Audit Finding One.</p>	<p>See Estimated Completion Date for Finding One.</p>
<p>3. Outdated policies and procedures (refer to page 4).</p>	<p>Refer to Action Taken in Audit Finding One.</p>	<p>See Estimated Completion Date for Finding One.</p>
<p>4. Key positions in the Parking Division are vacant (refer to page 4).</p>	<p>Both Administrative Officer Positions have been filled.</p>	<p>Complete</p>
<p>5. Significant deficiencies exist in internal controls:</p>	<p>New practices to strengthen controls were implemented as outlined below:</p>	<p>Listed by Finding Below</p>
<p>5A-1. Cash collections were not reconciled to the daily cash receipts report at City-operated parking garages. Daily reconciliations serve as an integral safeguard on an asset highly susceptible to misappropriation (refer to page 6).</p>	<p>Formats for daily reconciliations have been developed and staff members have been trained to perform these reconciliations. Daily cash reconciliations are now performed.</p>	<p>Completed</p>
<p>5A-2. Inadequate oversight of Contractor prepared daily cash reconciliations (refer to page 6).</p>	<p>The Contractor's daily reconciliations are now reviewed for accuracy.</p>	<p>Completed</p>
<p>5B-1. The daily deposits were not reviewed by anyone other than the preparer. In order to reduce the likelihood of an individual perpetrating and concealing errors and irregularities, the daily deposits need to be reviewed by someone other than the preparer (refer to page 7).</p>	<p>The Senior Parking Lot Supervisor oversees the daily cash deposits.</p>	<p>Completed</p>

Internal Audit Manager's Report Findings	Action Taken by the Parking Manager	Estimated Completion Date
5B-2. The daily deposits were not traced to the appropriate supporting documentation, the Controller Report, to validate the amount of the deposit (refer to page 7).	Administrative staff now traces the daily deposit totals to the daily reconciliation and the daily Controller Report.	Completed
5B-3. Bank deposits made by the armored carrier were not verified daily as received by the bank (refer to page 8).	Administrative Staff now verify daily that the bank receives all deposits.	Completed
5B-4. Daily credit card receipts did not match the amount of the daily bank deposit (refer to page 8).	New procedures were developed to ensure that the total daily credit card receipts support the amount of the credit card deposit.	Completed
5B-5. The daily deposit for the Off-Street Parking Administration was stored in a locked desk drawer instead of in the administrative vault (refer to page 9).	Parking Administration staff members now store the daily receipts in the vault.	Completed
5C. Parking personnel were unable to access historic reports within the Division's computer system (refer to page 9).	A method to retrieve historic reports has been developed for data collected after June 2003.	Completed
5D-1. The six parking garages, that used a manual prepaid parking system, lacked fundamental controls over prepaid parking ticket usage and storage (refer to page 9).	Prepaid parking management system software modules will be installed in the remaining six municipal garages. The estimated total cost of approximately \$3,500 for all six garages.	April 2004
5D-2. Two parking garages are equipped with prepaid parking system modules that integrate into the Division's existing parking management system. These system modules are specifically designed to track numerous aspects relevant to prepaid parking, including ticket sales and ticket revenues. However, the two parking garages that were equipped with the prepaid parking system modules did not use the system modules as the basis for accounting for tickets and collections. A manual prepaid system was instead used (refer to page 10).	The prepaid parking system modules are now used as the basis for determining the number and value of prepaid parking tickets sold. Deviations from the Controller Report are fully documented.	Completed

Internal Audit Manager's Report Findings	Action Taken by the Parking Manager	Estimated Completion Date
5E. Lack of a systematic approach for ensuring that only customers that pay for monthly parking receive monthly parking (refer to page 11).	Manual comparisons of paid customers and active parking cardholders are now conducted on a monthly basis. However, the installation of a receivables parking system module will be needed to resolve this issue on an on-going basis. This module has already been purchased. However, the module will not be installed until staff members have observed a test site that has this system module installed and fully operational.	Completed June 2004
5F. Insufficient security measures to deter theft. (refer to page 13).	A consultant is assessing the cost of installing security cameras in all parking garages. The estimated completion date is December 2004. Security rounds are now performed continuously. Automated pay machines are also collected more frequently.	December 2004 Completed
5-G. No periodic review of ticket counts, validations, exception reporting, or cash counts. Periodic examinations test the accuracy of the reported results (refer to page 13).	An audit position was created to perform these functions.	May 2004
5H-1. During prepaid parking sessions, individuals using the Discount Employee Parking Program were incorrectly charged a flat \$2 fee, instead of the established discounted rate (refer to page 14).	Discount Employee Parking Program customers are now paying parking at the established rates.	Completed
5H-2. Inadequate documentation for prepaid parking fees that were not collected at Old Sacramento parking garage (refer to page 14). Parking Lot Attendants documented that no prepaid parking fee was collected by writing "No-Pay" or "N/P" on the back of a discount coupon (an "Old Sac Buck").	Alternative procedures have been developed that leave a clear and documented audit trail for individuals who elect to not park and exit during prepaid parking periods.	Completed

Audit Findings	Action Taken	Estimated Completion Date
<p>5H-3. Special event parking passes were incorrectly accepted as all day prepaid parking tickets at Memorial parking garage.</p> <p>The special event passes had been purchased for a specific block of time by event sponsors (refer to page 15).</p>	<p>Staff is examining the processes necessary for standardizing Special event parking</p> <p>However, program changes in the parking management system will be required to resolve this issue.</p> <p>The cost of a programming change of this nature is already included in cost of the existing contract.</p>	<p>June 2004</p>
<p>5I. An analysis needs to be performed of the alternatives to leaving parking gates arms raised after the attendant leaves for the evening.</p> <p>Although this practice allows vehicles to exit, the vehicles exit without paying for parking (refer to page 15).</p>	<p>Alternative strategies are being examined. A pilot project that leaves the gate arms down at night had been conducted at Old Sacramento and Tower Bridge Parking Garages. The pilot project now will be expanded to include Memorial, Capitol, and City Hall Parking Garages.</p>	<p>April 2004</p>

Due to the serious nature and number of internal control weaknesses noted in this report, the Internal Audit Manager recommends a follow-up examination to determine if newly implemented procedures and controls are in place and produce desired results.

**Off-Street Parking Internal Audit
Report Number 2004-03
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Off-Street Parking Internal Audit Report Number 2004-03 Preliminary Section

INTRODUCTION

In accordance with the approved Audit Workplan for fiscal year 2003/2004, the Internal Audit Manager completed a limited scope examination of the City of Sacramento's Off-Street Parking Division.

ORGANIZATIONAL RESTRUCTURE

On January 13, 2004, the City Manager presented to the City Council a proposed municipal reorganization. Among the significant changes proposed in the reorganization was the creation of a Transportation Department, which included both the Off-Street¹ and On-Street Parking² Divisions.

On March 9, 2004, the City Council approved Resolution 2004-170 directing the formation of the Transportation Department and the implementation of strategies to enhance operational efficiency. The City Manager identified combining the City's Off-Street and On-Street Divisions into a single Division as one such efficiency.

In a memorandum dated March 10, 2004, the Interim Director of Transportation³ stated his goal to complete all needed transitions for the creation of the Transportation Department by July 1, 2004.

OBJECTIVES

This report provides the Mayor, City Council, and City Manager with an objective evaluation regarding the extent that the Off-Street Parking Division is achieving its operational objectives, following its strategic plan for determining parking rates, and adhering to divisional policies and procedures. Additionally, this report provides recommendations for correcting deficiencies and strengthening managerial controls.

Internal audits of the Off-Street and On-Street Parking Divisions were included on the Internal Audit Manager's annual work plan. The *On-Street Parking Internal Audit, Report Number 2004-01* was presented to the City Council on January 13, 2004.

AUDIT SCOPE

This internal audit report is intended for the information and use of the Mayor, City Council, City Manager, and City Management.

The scope of this examination focused on the controls and systems designed to collect and report parking fees.

The audit included, but was not limited to the following:

- Physical observations of Off-Street Parking operations and practices;
- Analytical examination of budget information and financial data;
- Examination and verification of general ledger revenue data; and
- Interviews and discussions with personnel from the Off-Street Parking Administration, Off-Street Parking Operations, the Finance Department, the City Manager's Office, and the staff of Scheidt & Bachmann, the company that manufactures and maintains the Off-Parking Division's parking management system.

¹ - The On-Street Parking Division was previously part of the Public Works Department.

² - Off-Street Parking Division was previously part of the Convention, Culture, and Leisure Department.

³ - The Director of Transportation also serves as the Deputy City Manager and the Interim Director of General Services.

BACKGROUND

This audit was conducted in response to internal control concerns expressed by the Division Manager of Off-Street Parking (“Parking Manager”). During the audit, the Parking Manager and his staff pointed out several existing operational internal control issues.

Structure

Off-Street Parking consists of eight parking garages and four surface lots owned by the City. The Off-Street Parking Division operates five parking garages (Capitol, City Hall, Memorial, Old Sacramento, and Tower Bridge) and four surface lots (“D”, “W”, “X”, and “Y”). A contractor operates the remaining three parking garages (Downtown Plaza East, Downtown Plaza East West, and Downtown Plaza East Central).

The Parking Division’s operating budget is approximately \$17.7 million for fiscal year 2003/2004, with 52.75 authorized full time equivalent staff.

Revenue History

**Table One
Annual Revenues in Millions**

Fiscal Year	1999/2000	2000/2001	2001/2002	2002/2003	Budgeted 2003/2004	Revenue Totals
Parking Fees	\$12.044	\$13.039	\$15.093	\$15.041	\$15.863	\$71.080
Investments & Interest	.399	2.320	.760	.665	.761	4.905
Rental	.629	.661	.787	.841	1.041	3.959
Miscellaneous	.151	.003	.003	.015	.001	.173
Total	\$13.223	\$16.023	\$16.643	\$16.562	\$17.666	\$80.117

Source: Combining Statement of Revenues, Expenses and Changes in Fund Net Assets, The City’s Comprehensive Annual Financial Reports, Fiscal years 2000 – 2003 and the City’s Financial System for the current budget.

Scheidt & Bachmann Parking Management System

All eight municipal parking garages use the fully installed Scheidt & Bachmann parking management system to track parking tickets issued and and the associated parking revenues.

Site Acceptance for the Scheidt & Bachmann Parking Management System

**Table Two
Schedule of Site Acceptance, by Parking Garage,
for the Scheidt & Bachmann Parking System**

Parking Garage	Site Acceptance Date
Downtown Plaza East	September 2001
Old Sacramento	September 2001
Tower Bridge	September 2001
Memorial	October 2002
Capitol	December 2003
City Hall	December 2003
Downtown Plaza Central	January 2004
Downtown Plaza West	January 2004

Source: Parking Manager’s files

**Off-Street Parking Internal Audit
Report Number 2004-03
Conclusions**

The Internal Audit Manager recommends that the Off-Street Parking Manager or his representatives: 1) Establish specific operating objectives; 2.) Create a strategic plan for establishing parking rates; 3.) Update policies and procedures; 4.) Fill key vacancies; and 5.) Correct significant deficiencies in operational controls.

1. LACK OF SPECIFIC OPERATIONAL OBJECTIVES

Annual operational objectives ensure that a conceptual and functional framework exists for implementing programs, delivering services, managing resources, responding to and prioritizing community needs, and evaluating the accomplishment of desired results.

Examples of operational objectives include: a) Identifying areas that require additional parking due to new buildings or facilities; b) Prioritizing areas that require additional resources due to increased seasonal business activity, such as week-ends in the Old Sacramento area; c) Modifying operating schedules in response to community needs, such as opening parking garages for special events on evenings and week-ends; d) Establishing a useful life and subsequent replacement plan for all equipment, including the existing parking management system; and e) Determining which areas have accomplished objectives and can allow for a reallocation of divisional resources.

The Off-Street Parking Division (“Parking Division”) lacked specific annual operational objectives.

The Convention, Culture, and Leisure Department mission statement served as an operational guide for evaluating the accomplishment of desired program results. However, this mission statement failed to provide the necessary framework for implementing specific programs, delivering services, managing resources, planning service delivery, and prioritizing community needs.

Convention, Culture and Leisure Mission Statement

“Promote and preserve our unique culture and heritage by delivering accessible arts, leisure, and educational experiences to enrich people’s lives and enhance the metropolitan area.”

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives establish annual operational objectives that outline strategies for implementing programs, delivering services, managing resources, responding to and prioritizing community needs, and evaluating the accomplishment of desired results.

Status of Corrective Action

The Parking Manager concurred with this recommendation. The Parking Manager stated that he is preparing to issue a Request for Proposal, to secure the services of a consultant to assist in addressing this concern, with an estimated completion date of December 2004.

2. NO PARKING RATE STRATEGIC PLAN

A parking rate strategic plan establishes the appropriate rates for parking based upon quantifiable variables and measurable objectives. The parking rate strategic plan considers the impact of a wide variety of factors upon the rates charged for off-street parking, including: on-street parking rates, non-municipal parking sites and fees, changes in demand for parking⁴, and plans for growth within the City.

The Off-Street Parking Division lacked a strategic plan for establishing parking rates at municipal facilities. On-Street Parking staff members conducted quarterly rate surveys in a three block area around most parking facilities. However, no comprehensive rate structure or plan existed to establish the appropriate rates for off-street parking throughout the City of Sacramento.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives perform a comprehensive examination to establish appropriate parking fees throughout the City.

Status of Corrective Action

The Parking Manager concurred with this recommendation. As previously noted, the Parking Manager stated that he is preparing a Request for Proposal to secure the services of a consultant to assist in addressing this concern, with an estimated completion date of December 2004.

3. OUTDATED POLICIES AND PROCEDURES

Policies and procedures provide a direct managerial control over operations. Policies and procedures establish specific actions to be taken to ensure that objectives are identified and that desired results are achieved. This managerial control also provides assurances that unintended actions do not occur.

This review noted that the Parking Division's policies and procedures need comprehensive updating. Many of the division's policies and procedures were never recorded in written form. Rather, employees relied on existing practices. However, employee turnover and new processes have since invalidated the purpose for many of the current operating practices. Additionally, a workflow analysis or a flowchart of the parking business cycle would assist in clarifying the role and significance of each position within the Division.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives perform a comprehensive written update of all divisional policies and procedures, including a flowchart of the parking business cycle.

Status of Corrective Action

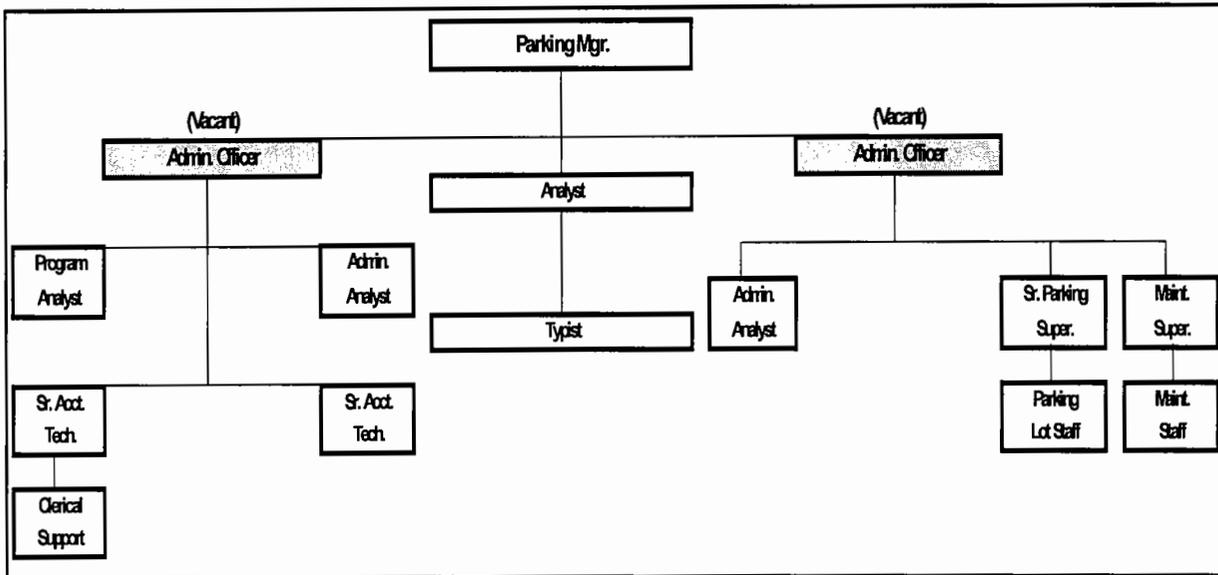
The Parking Manager agreed with this recommendation. The Parking Manager stated that he is preparing to issue a Request for Proposal to secure the services of a consultant to assist in addressing this concern, with an estimated completion date of December 2004.

4. VACANCIES IN KEY POSITIONS

Two key Administrative Officer Positions were vacant as of March 24, 2004. These two positions are the direct managers of the Administrative and Parking Operations sections of the Parking Division and vital to the day-to-day operation of the Division.

⁴ For example, when the Department of Education relocated its facilities from the Downtown Plaza parking area to the new East End project by the State Capitol.

**Table Three
Off-Street Parking
Organizational Chart**



Source: Parking facilities Division organization chart.

Background

Administrative Officer – Administrative Section

The Off-Street Parking Administrative Officer was “loaned” to the City of Sacramento’s Marina Division during July 2003. According to the Parking Manager, the “loan” of the Administrative Officer was envisioned as temporary assistance to the Marina Division. However, the Parking Administrative Officer applied for and received a promotion to the Marina Division. The Administrative Officer position for Off-Street Parking remained vacant since July 2003.

Administrative Officer – Parking Operations Section

The Parking Manager stated that the Parking Superintendent position is being actively recruited.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives take immediate action to expedite the process of filling the Administrative Officer positions.

Status of Corrective Action

The Parking Manager stated that both Administrative Officer positions had been filled. The Parking Manager added that both Administrative Officer positions would begin work in May 2004.

5. DEFICIENCIES IN INTERNAL CONTROLS

The Internal Audit Manager noted the following significant deficiencies in the design and operation of the Off-Street Parking Division’s internal controls⁵:

5A. Daily Cash Reconciliations

The reconciliation of daily cash receipts from parking garages with the daily cash receipts report⁶ serves as an integral safeguard on an asset that is highly susceptible to misappropriation. Daily reconciliations of cash also serve to immediately disclose errors, and irregularities, and to identify unusual occurrences that require immediate attention.

⁵ Codification of Statements on Auditing Standards, AU Section 325.21, Example of Possible Reportable Conditions.

⁶ This report calculates the daily cash receipts based upon the number of cars exiting the parking facility multiplied by the applicable parking rate less any validations or discounts.

5A-1. Cash Collections were not Reconciled to the Daily Cash Receipts Report at Parking Garages Operated by the Off-Street Parking Division.

This review determined that the daily cash receipts for the five municipally operated garages were not reconciled to the parking management system's daily cash receipts report, named the Controller Report.

Failure to provide this fundamental safeguard over cash is a material weakness⁷ in the Parking Division's internal controls.

The Internal Audit Manager noted that, in lieu of daily reconciliations, handwritten notes on the daily Controller Report sometimes pointed out variances. However, these notes were sporadic in nature, served only to identify variances, did not explain the cause of the variances, or establish the nature of corrective actions required. The handwritten comments were not uniformly used or consistently applied or used on a regular basis. Additionally, the handwritten comments did not immediately disclose shortages or identify unusual occurrences that required attention.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to ensure that daily reconciliation of cash receipts and the daily Controller Reports are performed.

Status of Corrective Action

The Parking Manager stated that a template for daily reconciliations had been developed and distributed to parking lot staff members. The Parking Manager also added that parking lot staff members had been trained on how to perform these reconciliations.

5A-2. Inadequate Oversight of Contractor-Prepared Daily Cash Reconciliations.

The reconciliation of daily cash receipts from the three Downtown Plaza Garages to the daily Controller Reports serves as an integral safeguard on cash controlled by the Contractor. Examination of these daily reconciliations provides necessary oversight of the Contractor's cash handling at municipal parking facilities.

The Contractor performed the daily reconciliations of cash receipts to the daily Controller Report. However, **Parking staff members did not request, receive, or review the daily cash reconciliation prepared by the contractor. By not examining the Contractor's daily cash reconciliations, the Off-Street Parking Division failed to provide adequate oversight of the Contractor's daily cash collections.**

The Internal Auditor Manager's review of the daily cash reconciliations determined that the Contractor had not been reimbursing the City of Sacramento for shortages, as contractually required. The Parking Manager notified the contractor of the situation. The contractor then agreed to pay approximately \$23,000 for cash shortages dating back to July 2001.

⁷ Codification of Statements on Auditing Standards, AU Section 325.15, material weakness defined.

Recommendations

The Internal Audit Manager recommends that the Parking Manager or his representatives require the Contractor to submit, along with the daily deposit slips and the daily Controller Reports, the daily reconciliations. The Internal Audit Manager further recommends that the Contractor's daily cash reconciliations be reviewed to ensure compliance with the payment provisions of the Contractor's agreement.

Additionally, the Internal Audit Manager recommends that the Contractor be required to use the same reconciliation template now used by all municipally operated garages.

Status of Corrective Action

The Parking Manager stated that, as of February 2004, daily reconciliations were requested and received from the Contractor. The Parking Manager added that, effective April 1, 2004, the contractor would use the Parking Division's daily reconciliation template. The Parking Manager further noted that the Senior Parking Lot Supervisor would review the reconciliations and supporting documents, on a periodic basis.

5B. Daily Deposits

5B-1. Inadequate Oversight of the Daily Deposits.

Prudent business practices dictate that the daily deposits are reviewed by someone other than the preparer, in order to reduce the likelihood of an individual perpetrating and concealing errors and irregularities. However, **no one, other than the preparer, reviewed the daily cash deposits.**

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives review and oversee all daily cash deposits for both City and Contractor operated parking garages.

Status of Corrective Action

The Parking Manager stated that the Senior Parking Lot Supervisor would periodically review the daily deposits.

5B-2. Daily Deposits were not Traced to Supporting Documentation.

Supporting documentation provides the basis to validate the amount of the daily deposit. However, **daily deposits were not traced to the appropriate supporting documentation.** Instead, daily deposits were incorrectly traced to the daily bank deposit slip.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that daily deposits are traced to supporting documentation.

Status of Corrective Action

The Parking Manager stated that, as of March 2004, administrative staff traced the daily deposits to the daily reconciliations and to the daily Controller Reports.

5B-3. Bank Deposits were not Verified Daily as Received by the Bank.

Prudent business practices require that deposits made by a third party be verified on a daily basis. Timely verification of the daily deposits serves as safeguard that cash is deposited as intended.

The Off-Street Parking Division used an armored service to pick-up cash deposits daily in all eight parking garages. **Daily deposits were verified as deposited in the bank monthly, not a daily basis⁸. Accordingly, late or missing deposits could go undetected for as long as a month. The Internal Audit Manager believes that the longer a missing deposit goes undetected, the less likely the City is to recover that deposit.**

The Internal Audit Manager noted that the verification of the November daily deposits was performed on December 10, 2003. **This verification process determined that the bank never received the November 14, 2003, daily deposits for both Downtown Plaza Central and Downtown Plaza West. Twenty-seven days lapsed before a Parking Division staff member identified the missing deposits.**

The Contractor repaid the Parking Division for the missing deposits, totaling \$3,280, on January 12, 2004. The Internal Audit Manager notes that 60 days passed before the situation was resolved. Daily verification of deposits would have discovered this missing deposit on the following day.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that daily deposits are verified as deposited on a daily basis.

Status of Corrective Action

The Parking Manager stated that as of March 2004, daily deposits were verified as received by the bank.

5B-4. Daily Credit Card Receipts did not Match the Amount of the Daily Credit Card Deposit in the Bank.

The number of credit card computerized servers for the Parking Division was reduced from eight servers to one server during July 2003. This reduction decreased operating costs while maintaining the same level of efficiency for credit card use.

However, following the reduction in credit card servers, Parking Division staff members were unable to match the daily credit card receipts to the amount of the daily credit card deposit to the bank, for the period July 2003 through January 2004. The Internal Audit Manager determined that the report used to extract the daily credit card receipts no longer functioned correctly. During the audit, Off-Street Parking staff members developed alternative procedures to obtain the daily credit card receipts totals.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to ensure that the daily credit card receipts support the daily bank deposit.

⁸ The Bank issues daily bank confirmations of each deposit received.

Status of Corrective Action

The Parking Manager stated that, beginning in February 2004, Parking Division staff members developed alternative procedures to verify that the daily credit card receipts matched the daily deposit.

5B-5. Inadequate Physical Controls over Parking Administration's Daily Deposits.

The purpose of physical controls is to prevent misappropriation of assets. The Internal Audit Manager noted that the physical controls for the daily deposit at the Parking Administration building were inadequate.

The Internal Audit Manager observed that the daily deposit was maintained in a locked desk drawer, instead of the vault, until armored pick-up. The Parking Administration daily deposit generally contained several hundred dollars of cash and several thousand dollars of checks.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that daily receipts are maintained in a secure area, such as a vault, until armored pick-up.

Status of Corrective Action

The Parking Manager stated that as of February 2004, the daily deposit at Parking Administration was maintained in the vault until armored pick-up.

5C. Inability to Access Reports within the Division's Computer System.

The Internal Audit Manager noted that 22 of the 310 Controller Reports⁹ sampled, approximately 7%, were missing. Parking Division staff members explained that 7 of the reports were missing because of a printer malfunction. However, **none of the missing reports could be retrieved because Parking Division staff members were unable to access historic reports from the Division's computer system.**

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that system generated reports are accessible or in hardcopy form.

Status of Corrective Action

The Parking Manager stated that a method to retrieve to historic reports has been developed for data collected after June 30, 2003. The Parking Manager was unable to vouch for the integrity of the data collected and maintained on his electronic system before that period.

5D. Insufficient Controls Over Prepaid Parking.

5D-1. Manual Prepaid Parking Methodology Lacked Appropriate Controls.

Six of the eight parking garages do not have a system-prepaid module, which calculates the number of prepaid tickets sold and the value of the sold tickets. Instead, parking lot personnel manually track the number of prepaid tickets sold by subtracting the beginning prepaid ticket number from the final prepaid ticket number. Tickets are dispensed through a device located at the entrances of the parking garages.

⁹ The Controller Report aggregates all cashiering devices in a parking garage and reports the calculated results. The Controller Report provides a comprehensive internal control that verifies that all cashier devices are reported and the totals of all cashier devices are correctly reported

However, the following control weaknesses were noted in the manual prepaid system:

1. Ticket stock was not secured in a locked area.
2. Ticket stock was not issued to attendants in sequential order.
3. Ticket stock issued was not logged.
4. Ticket inventory was not tracked.
5. Ticket stock was controlled by the individual selling the tickets.
6. The parking management system had no method to differentiate prepaid tickets from regular tickets because both types are issued on the same ticket stock.
7. Tickets were not validated or stamped during prepaid parking, except at Tower Bridge, to clearly mark the ticket as prepaid parking.

Additionally, the Internal Audit Manager identified two days, in October 2003, when the parking management system was not used to dispense tickets. Instead, Parking Lot staff members handed out tickets manually. The Internal Audit Manager notes that all internal system controls, such as ticket counts, are bypassed when the parking management system is not used.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that appropriate controls are in place when using prepaid parking without a link (module) to the parking management system. The Internal Audit Manager further recommends that all sales of parking garage tickets, including prepaid parking tickets, be recorded within the Off-Street Parking Division's parking management system.

Status of Corrective Action

The Parking Manager stated that the parking management system's prepaid parking module provides greater control of prepaid parking. The Parking Manager declared his intent to have the prepaid parking system modules installed in all parking garages. The Parking Manager estimated this cost at approximately \$3,500 for all six garages, with an April 2004 completion date.

5D-2. Parking Garages with Prepaid Parking Modules.

Sacramento and Memorial parking garages have a prepaid parking module installed within the parking management system. These system modules are designed to integrate into the existing parking management system. **The prepaid parking module provides relevant information, including a count of tickets sold and dollars collected.**

However, Off-Street Parking staff members did not use the prepaid parking system module as the basis for calculating the number of tickets sold and the dollar amount collected for prepaid parking. Instead Parking Garage personnel manually tracked the number of prepaid tickets sold by subtracting the beginning prepay ticket number from the final prepay ticket number.

The Internal Audit Manager compared the methodologies of using the prepaid parking system module results to the manual prepaid parking process for both parking garages, on a sample basis. The Internal Audit Manager randomly selected October 2003 for testing. After adjusting for reconciling items¹⁰, the results of the manual counting process for Memorial Parking Garage materially agreed to the prepaid parking system module results.

However, the results of the Internal Audit Manager's review of Old Sacramento parking garage revealed several large and unexplained variances. The manual counting process resulted in 369 or 4% more prepaid parking tickets sold than reported by prepaid parking system module. The manual counting process also resulted in \$6,799 or 13% greater cash receipts than calculated by the prepaid parking system module. The Internal Audit Manager notes that if all 369 tickets were multiplied by the highest prepaid parking rate of \$10, it would still not fully explain the \$6,799 variance.

Parking staff members attributed the unexplained variances to prepaid parking system errors and recording errors by staff.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives work with the parking system manufacturer to ensure the accuracy of the system results.

The Internal Audit Manager additionally recommends that, following the resolution of any parking system errors, the Parking Manager or his representatives take appropriate action to ensure that the prepaid parking system results, reported by the Control Report, are the basis for calculating the number of tickets and dollar amounts collected for prepaid parking. Additionally, the Internal Audit Manager recommends that any deviations from the prepaid parking results need to be fully documented and fully explained.

Status of Corrective Action

The Parking Manager stated that the parking system manufacturer had identified and resolved system errors. The Parking Manager added that the Controller Report is now the basis for calculating the number of prepaid parking tickets and dollar amount collected. Additionally the Parking Manager further stated that all deviations or exceptions are now required to be fully documented.

5E. No Systematic Approach for Ensuring Only Customers that Paid for Monthly Parking Received Monthly Parking.

The Off-Street Parking Division sells monthly parking cards that permit the cardholder unlimited monthly parking in a specific municipal parking garage.

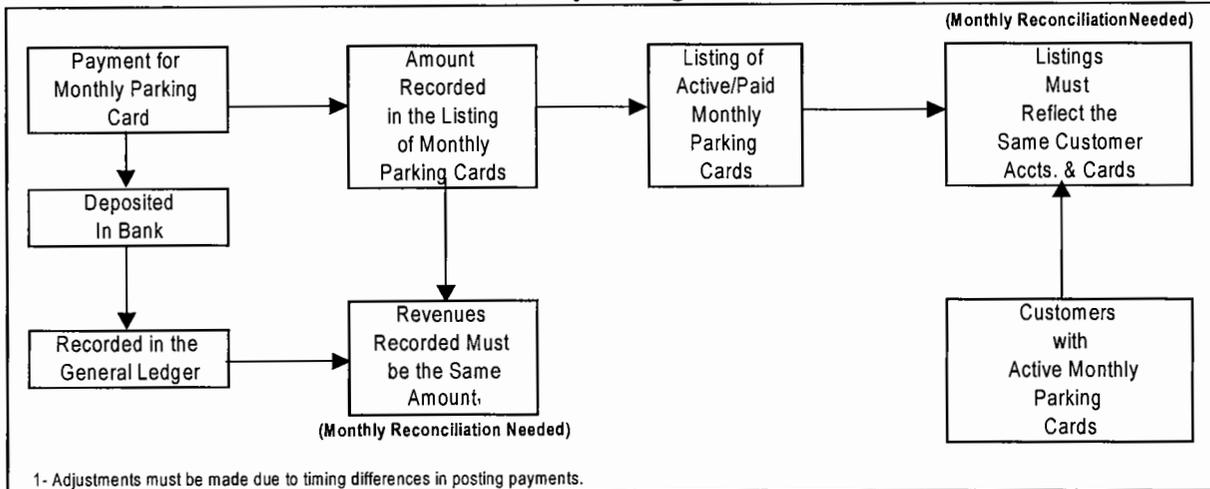
The Internal Audit Manager noted that the Off-Street Parking Division lacked a systematic approach for ensuring that only customers that had paid for their monthly parking received monthly parking. The Off-Street Parking Division's practice is to deactivate monthly parking cards of customers that are known to have not paid and to manually compare the Listing of Monthly Parking Cardholders to active monthly parking cards, as time permits.

¹⁰ Including the incorrect parking rate input into the prepay system module, \$5 instead of \$6 was calculated as the prepaid parking rate.

The Internal Audit Manager determined that revenues for monthly parking cards were not fully reflected in the customer payment history ledger or the Listing of Monthly Parking Cardholders¹¹. Additionally, monthly parking revenues were not accurately classified in the City's financial system¹² as monthly parking revenue or reconciled to the Listing of Monthly Parking Cardholders.

The Parking Manager acknowledged that critical processes that provide checks and balances over the monthly parking revenues and the cancellation of monthly parking cards were not performed.

Table Four
Flow of Operations for
Monthly Parking Cards



Source: Discussions with Parking Manager and the Internal Audit Manager's Assessment of Flow of Operations for Monthly Parking Cards

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to ensure that all monthly revenue received is accurately recorded on the Listing of Monthly Parking Cards and that revenue is then accurately reflected within the City's financial system.

The Internal Audit Manager also recommends that the Parking Manager or his representatives take appropriate action to develop and implement a systematic approach for ensuring that only customers that have paid for their monthly parking receive monthly parking.

Status of Corrective Action

The Parking Manager stated that the Listing of Monthly Parking Cardholders had been fully reconciled with the monthly revenue recorded in the City' financial system, as of March 2004.

The Parking Manager noted that the process of ensuring that only customers that have paid, have active monthly parking cards is now done on a manual basis. The Parking Manager stated that the process would only be truly completed with the installation of an already purchased receivables management system module. However, the Parking Manager explained that the new module would not be installed until he had observed a test site with a fully operational receivables management system module.

¹¹ Maintained on QuickBooks.

¹² Approximately \$20,000 of revenue was reclassified to accurately reflect monthly parking revenue in the City's financial system.

The Parking Manager explained that the planned system module would activate, each month, only the parking cards of customers that paid for monthly parking. He noted this is a marked difference from the current system that requires the deactivation of parking cards that had not paid for monthly parking.

5F. Insufficient Security Measures to Deter Theft

The Internal Audit Manager noted, within the last year, break-ins of two automated parking machines, commonly called “Pay-on-Foot” machines. The thefts amounted to cash losses of several thousand dollars. However, the total cost of the two thefts, including damages to the two Pay-on-Foot machines, amounted to approximately \$63 thousand.

Table Five
Estimated Losses Due to Thefts
During Fiscal 2003/2004

Parking Garage	Date	Total Estimated Loss
Memorial	July 23, 2003	\$31,586
Old Sacramento	January 14, 2004	30,945
Total		\$62,531

Source: Loss files obtained from the Parking Manager.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to deter theft. The Internal Audit Manager further recommends that the Parking Manager explore the possibilities of collecting from Pay-on-Foot machines more frequently, increase the number and frequency of security rounds, and investigate the use of video surveillance.

Status of Corrective Action:

The Parking Manager concurs with this recommendation. He stated that a consultant is investigating the cost of installing security cameras. Additionally, the Parking Manager noted a lower threshold for collecting from the Pay-on-Foot machines and the increased frequency of security guards rounds.

5G. No Periodic Review of Daily Ticket Counts, Validations, Exception Reporting, or Cash Counts.

Periodic examination tests the accuracy of the reported results.

The Internal Audit Manager noted that the Off-Street Parking Division did not perform periodic reviews of individual ticket counts, validation tickets, exception reporting, or cash counts. The Parking Manager further stated that an audit function had previously existed to perform just such periodic validation and is planned to be filled by May 2004.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to test the accuracy of reported results for daily ticket counts, validations, exception reporting, and cash counts.

Status of Corrective Action:

The Parking Manager noted that his division is in the process of creating an audit position to perform these functions. The Parking Manager anticipated having this position filled by May 2004.

5H. Prepaid Parking Operational Errors

5H-1. Incorrect Parking Rate Changed for the Discount Employee Parking Program.

The Internal Audit Manager noted that, during periods of prepaid parking, Discount Employee Parking Program (“DEPP”) participants were incorrectly charged a flat \$2 fee, instead of the established DEPP discount rate. The Internal Audit Manager selected October 2003 for testing, at Old Sacramento and Memorial Parking Garages, and noted 465 and 12 DEPP parking tickets, respectively.

The Internal Audit Manager was unable to determine the origin of this practice.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that DEPP participants are charged in accordance with the rates established by the DEPP program.

Status of Corrective Action

The Parking Manager stated that, effective March 2004, DEPP participants are charged parking rates in accordance with the DEPP program, including during periods of prepaid parking.

5H-2. Inadequate Documentation for Tickets not Charged for Prepaid Parking in Old Sacramento Garage

It is the Off-Street Parking Division’s practice to not collect parking fees for vehicles that enter Old Sacramento Parking Garage and immediately exit. This practice was implemented largely due to the parking garage’s unusual traffic pattern, particularly on weekends, that channels some traffic into the parking garage instead of flowing back to the street.

Due to the configuration of the parking garage and traffic, an individual choosing not to park must first enter the parking garage and then immediately leave through the parking garage’s exit.

In order for the entrance gate arm to lift and allow admittance, a prepaid ticket is withdrawn from the ticket dispenser. The individual exiting must then insert that prepaid ticket into the exit reader for the exit gate arm to lift and allow egress.

Parking Lot Attendants documented that no prepaid parking fee was collected by writing “No-Pay” or “N/P” on the back of a discount coupon (an “Old Sac Buck”).

The Internal Audit Manager observed discount coupons readily accessible on the parking garage floor and in trash receptacles. The Internal Audit Manager determined that this method of documentation did not achieve the objective of demonstrating that a prepaid parking fee had not been collected. **Although no misappropriation of cash was uncovered in this audit, the Internal Audit Manager concluded that the design and operation of this control failed to prevent the opportunity for misappropriation of cash.**

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives develop procedures that leave a clear audit trail for any parking ticket that revenue is not collected.

Status of Corrective Action

The Parking Manager stated that, effective March 2004, alternative procedures have been developed that leave a clear and documented audit trail for individuals that elect to not park and exit the during prepaid parking periods.

5H-3. Incorrect Use of Special Event Parking Passes at Memorial Parking Garage

Special event parking passes allow event sponsors to prepay a specific block of time for event participants at Memorial Garage.

The Internal Audit Manager noted that special event parking passes were incorrectly accepted as all day prepaid parking, instead of the specific block of time that had been purchased by event sponsor.

The Parking Manager acknowledged widespread misunderstanding over the use of special event parking passes. He attributed this misunderstanding to the wide variety of blocks of time that can be purchased for special events parking passes. The Parking Manager stated that special event parking passes would be standardized to avoid future confusion.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that special event parking passes are used in accordance with the terms of the specific special event parking pass.

Status of Corrective Action

The Parking Manager stated that special event parking passes would be standardized to avoid misunderstandings of its usage. However, the Parking Manager noted that this standardization would require programming changes within the parking management system. He estimated that these programming changes would require several months to complete and install in the parking management system.

5I. Analysis of Alternatives to Raising Parking Gate Arms After Hours.

The Off-Street Parking Division's practice is to raise parking gate arms after the parking attendant leaves in the evening. This practice allows vehicles parked in the garages to exit. The practice also allows these vehicles to exit without paying for parking.

Recommendation

The Internal Audit Manager recommends that the Parking Manager or his representatives perform an analysis to determine if this practice is more advantageous than other alternatives.

Status of Corrective Action

The Parking Manager stated an analysis of alternatives to leaving the parking gate arms up in the evenings was being researched. He explained that a pilot project that leaves the gate arms down at night had been conducted at Old Sacramento and Tower Bridge Parking Garages. Parking Manager added that the pilot project would now be expanded to include Memorial, Capitol, and City Hall Parking Garages.

Appendix



DEPARTMENT OF TRANSPORTATION
PARKING SERVICES DIVISION

CITY OF SACRAMENTO
CALIFORNIA

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April 20, 2004

TO: Martin Kolkin, Internal Audit Manager
FROM: Howard Chan, Parking Services Manager
SUBJECT: Off-Street Parking Audit Responses
CC: Tom Lee, Deputy City Manager
Marty Hanneman, Director, Department of Transportation

Recommendations #1, #2, #3:

1. The Internal Audit Manager recommends that the Parking Manager or his representatives establish annual operational objectives that outline strategies for implementing programs, delivering services, managing resources, responding to and prioritizing community needs, and evaluating the accomplishment of desired results.
2. The Internal Audit Manager recommends that the Parking Manager or his representatives perform a comprehensive examination to establish appropriate parking fees throughout the City.
3. The Internal Audit Manager recommends that the Parking Manager or his representatives perform a comprehensive written update of all divisional policies and procedures, including a flowchart of the parking business cycle.

Response:

In response to the Internal Audit Department's first three audit recommendations, Parking Services (formerly On-Street & Off-Street Parking) will distribute a request for proposal to secure the services of a qualified parking consultant to assist in developing a comprehensive parking master plan for the City of Sacramento. The plan will address the needs of both the On-Street & Off-Street components of the newly created Parking Services Division. Staff has developed a scope of work to use as the basis for the solicitation.

Recommendation #4:

- The Internal Audit Manager recommends that the Parking Manager or his representatives take immediate action to expedite the process of filling the Administrative Officer positions.

Response:

Parking Services has successfully recruited an individual to fill one of the two vacant Administrative Officer positions. This individual will be responsible for managing the off-street parking operations. Staff anticipates filling the remaining Administrative Officer position by May 2004.

Recommendation #5A-1:

- **The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to ensure that daily reconciliation of cash receipts and the daily Controller Reports are performed.**

Response:

In conjunction with ordering PCs for the parking garage staff, Parking Services has implemented the use of an electronic template to facilitate the process of reconciling daily revenues.

Recommendation #5A-2:

- The Internal Audit Manager recommends that the Parking Manager or his representatives require the Contractor to submit, along with the daily deposit slips and the daily Controller Reports, the daily reconciliations. The Internal Audit Manager further recommends that the Contractor's daily cash reconciliations be reviewed to ensure compliance with the payment provisions of the Contractor's agreement. Additionally, the Internal Audit Manager recommends that the Contractor be required to use the same reconciliation template now used by all municipally operated garages.

Response:

Effective February 2004, Parking Services has been receiving daily revenue reconciliations from the parking operator at Downtown Plaza. Also, the parking operator is now required to submit their daily revenue reconciliations using the new electronic template developed for Parking Services. In addition, operations staff is reviewing the reconciliations and supporting documents, on a regular basis.

Recommendation #5B-1:

- The Internal Audit Manager recommends that the Parking Manager or his representatives review and oversee all daily cash deposits for both City and Contractor operated parking garages.

Response:

Operations/Administrative staff is now required to regularly review daily deposits for all off-street parking operations.

Recommendation #5B-2:

- The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that daily deposits are traced to supporting documentation.

Response:

Effective March 2004, administrative staff has been actively tracing daily deposits to the daily reconciliations and to the daily Controller Reports.

Recommendation #5B-3:

- The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that daily deposits are verified as deposited on a daily basis.

Response:

Effective March 2004, administrative staff has been verifying, on a daily basis, that daily deposits are received by the bank.

Recommendation #5B-4:

- **The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to ensure that the daily credit card receipts support the daily credit card bank deposit.**

Response:

Effective February 2004, administrative staff has implemented procedures to verify that the daily credit card receipts match daily deposits received by the bank.

Recommendation #5B-5:

- **The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that daily receipts are maintained in a secure area, such as a vault, until armored pick-up.**

Response:

Effective February 2004, daily deposits in the Parking Administration office are stored in the onsite vault until armored pick-up arrives.

Recommendation #5C:

- **The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that system generated reports are accessible or in hardcopy form.**

Response:

Through the revenue control system (RCS) vendor, Parking Services is now able to retrieve historic reports for all data collected after June 30, 2003. By July 2004, additional equipment/software will be in place so that staff will have the ability to retrieve historic data onsite.

Recommendation #5D-1:

- **The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that appropriate controls are in place when using prepaid parking without a link (module) to the parking management system. The Internal Audit Manager further recommends that all sales of parking garage tickets, including prepaid parking tickets, be recorded within the Off-Street Parking Division's parking management system.**

Response:

The newly installed revenue control system (RCS) has a prepaid parking module that will address the concerns in this audit finding. When the RCS was originally purchased, the prepaid parking module was only specified in certain parking facilities. Staff has given the approval to the RCS vendor to install this module in the remaining six parking facilities that currently do not have this module. Installation is anticipated to be completed in May 2004.

Recommendation #5D-2:

- The Internal Audit Manager recommends that the Parking Manager or his representatives work with the parking system manufacturer to ensure the accuracy of the system results.
- The Internal Audit Manager additionally recommends that, following the resolution of any parking system errors, the Parking Manager or his representatives take appropriate action to ensure that the prepaid parking system results, reported by the Control Report, are the basis for calculating the number of tickets and dollar amounts collected for prepaid parking. Additionally, the Internal Audit Manager recommends that any deviations from the prepaid parking results need to be fully documented and fully explained.

Response:

The revenue control system (RCS) vendor has identified and resolved system errors. The Controller Report is now the basis for calculating the number of prepaid parking tickets and dollar amount collected. In addition, all deviations or exceptions are now fully documented and reviewed by operations staff.

Recommendation #5E:

- The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to ensure that all monthly revenue received is accurately recorded on the Listing of Monthly Parking Cards and that revenue is then accurately reflected within the City's financial system.
- The Internal Audit Manager also recommends that the Parking Manager or his representatives take appropriate action to develop and implement a systematic approach for ensuring that only customers that have paid for their monthly parking receive monthly parking.

Response:

As of March 2004, the active Monthly Parking Cardholders list has been fully reconciled with the monthly revenue recorded in the City's financial system. The process of ensuring that only paying customers have active monthly parking cards is now done on a manual basis. The process will be less labor intensive once the revenue control system's (RCS) receivables management module is installed. Staff has delayed the installation of this module due to known problems with the software. Once installed, the module will keep monthly parking cards activate only if a payment is applied to the customer's account. This is a marked difference from the current process where staff is required to deactivate monthly parking cards for non-payment.

Recommendation #5F:

- The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to deter theft. The Internal Audit Manager further recommends that the Parking Manager explore the possibilities of collecting from Pay-on-Foot machines more frequently, increase the number and frequency of security rounds, and investigate the use of video surveillance.

Response:

Parking Services has been working very closely with the City's security vendor to increase security rounds in all of our parking facilities. This increase in the frequency of security rounds will deter future theft attempts on the Pay-on-Foot machines. In addition, staff is in the beginning stages of issuing a request for proposal to solicit responses from video surveillance firms to install security cameras throughout the parking facilities. Funds for this project have already been set aside in the Video Surveillance System CIP (VE06).

Recommendation #5G:

- The Internal Audit Manager recommends that the Parking Manager or his representatives take appropriate action to test the accuracy of reported results for daily ticket counts, validations, exception reporting, and cash counts.

Response:

Parking Services is in the process of creating an audit position to perform these functions. Staff anticipates having this position filled by May 2004.

Recommendation #5H-1:

- The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that DEPP participants are charged in accordance with the rates established by the DEPP program.

Response:

Effective March 2004, DEPP participants are charged parking rates in accordance with the DEPP program, including during periods of prepaid parking.

Recommendation #5H-2:

- The Internal Audit Manager recommends that the Parking Manager or his representatives develop procedures that leave a clear audit trail for any parking ticket that revenue is not collected.

Response:

Effective March 2004, alternative procedures have been developed that leave a clear and documented audit trail for customers who have entered a parking facility during prepaid parking periods, and elect not to park.

Recommendation #5H-3:

- The Internal Audit Manager recommends that the Parking Manager or his representatives ensure that special event parking passes are used in accordance with the terms of the specific special event parking pass.

Response:

Parking Services is working with the revenue control system (RCS) vendor to standardize special event parking passes to avoid confusion with staff at the garage level. The programming changes to the RCS associated with this standardization is anticipated to take several months to complete and install.

Recommendation #5I:

- The Off-Street Parking Division's practice is to raise parking gate arms after the parking attendant leaves in the evening. This practice allows vehicles parked in the garages to exit. The practice also allows these vehicles to exit without paying for parking. The Internal Audit Manager recommends that the Parking Manager or his representatives perform an analysis to determine if this practice is more advantageous than other alternatives.

Response:

Parking Services has initiated pilot program to keep the gate arms down at night at the Old Sacramento and Tower Bridge parking facilities. The additional costs associated with this program are offset by the additional revenues generated. This program consists of staffing security officers at the two parking facilities after city staff leaves for the evening. Staff will be expanding this program to include the Memorial, Capitol, and City Hall parking facilities.