

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Audit of the Parking Services Enterprise Fund

Report #07/08-3

April 1, 2008



CITY OF
FORT LAUDERDALE

City Auditor's Office

Memorandum

No: 07/08-07

Date: March 10, 2008

To: Mayor Jim Naugle
Vice-Mayor Carlton B. Moore
Commissioner Christine Teel
Commissioner Charlotte E. Rodstrom
Commissioner Cindi Hutchinson

From: John Herbst, CPA, CGFO, MBA
City Auditor

Re: Audit Report #07/08-3 – Audit of the Parking Services Enterprise Fund

The City Auditor's Office has completed its audit of the Parking Services Enterprise Fund.

The focus of our audit was to determine if Parking Services has:

- effective management controls to safeguard its assets
- a long-term comprehensive strategic plan and has performed a rate study to assure that rates are sufficient to sustain current operations and meet future capital needs
- properly evaluated operational and financial risks
- proactively managed their ADA compliance

Based on our audit, we are not aware of any material internal control deficiencies or errors in financial reporting. Overall, our review indicated that the Parking Services Enterprise Fund is in compliance with existing policies and procedures and the parking rates are comparable to other similarly sized municipalities and privately operated facilities.

We do believe that the lack of a long-term strategic assessment of the infrastructure needs of the Parking Services Enterprise Fund represents a risk to the City. Additionally, as discussed in the accompanying report, we did note some areas that we believe represent opportunities to enhance controls and improve administration of the Parking Services Enterprise Fund.

cc: George Gretsas, City Manager
Harry Stewart, City Attorney
Jonda Joseph, City Clerk
Stephen Scott, Assistant City Manager
John Hoelzle, Director, Parking and Fleet Services

**CITY OF FORT LAUDERDALE
CITY AUDITOR'S OFFICE
AUDIT OF THE PARKING SERVICES ENTERPRISE FUND**

PURPOSE

To review established practices, procedures and internal controls over the administration of the Parking Services Enterprise Fund.

EXECUTIVE SUMMARY.

Our review of the internal controls over the Parking Services Enterprise fund revealed that internal controls were generally adequate. We did note some areas that require attention to further strengthen the control environment as follows:

- Internal controls over safeguarding of assets could be improved to enhance the environment to prevent or deter theft/fraud.
- Parking Services should develop a long-term strategic plan to determine whether its unrestricted net asset balance is appropriate relative to future capital needs.
- Human Resources should develop a citywide policy that would allow initial and periodic follow-up criminal and credit background checks for employees in cash sensitive positions.
- Our review indicated that revenue from meter collections is being correctly posted to the appropriate revenue accounts in the General Ledger.
- We compared the City's current parking fee rate structure to other similar sized Florida municipalities and noted that CFL falls within the relevant rate range of the other jurisdictions we reviewed.
- Parking Services has identified funding in the Capital Improvement Plan (CIP) to address compliance issues with the Americans with Disabilities Act (ADA).

STATEMENT OF OBJECTIVES

- To determine if Parking Services has effective management controls to safeguard its assets.
- To determine if Parking Services has a long-term comprehensive strategic plan and has performed a rate study to assure that rates are sufficient to sustain current operations and meet future capital needs.
- To determine if Parking Services has properly evaluated operational and financial risks.
- To determine if Parking Services is proactively managing their ADA compliance.

BACKGROUND

The City of Fort Lauderdale operates a Parking Enterprise Fund through the Parking and Fleet Services Department. The goal of Parking Services is to provide and maintain parking facilities for the public in an efficient, safe, and effective manner. Parking Services provides on- and off-street parking and operates 2619 single- and 94 multi-space meters, which offer a variety of payment options (coin, currency, debit and credit cards). The City owns and operates two parking garages and manages two others (Bridgeside and PACA¹ a joint venture). In addition, the City has revenue sharing agreements with the County and several churches for other non-owned lots, which the City manages. The Police Department has a parking enforcement division, which writes citations on behalf of the Parking Fund. The revenue generated in Parking Services is primarily from the public use of parking meters. Each year, Parking Services contributes \$2-2.5 million to the General Fund through indirect cost allocation and payments in lieu of taxes (PILOT).

Parking Operations are cash intensive and therefore strong physical and management controls are required because of the high degree of inherent risk. Trend analysis of collection receipts is essential to assist in the early detection of abnormal collection patterns.

SCOPE & METHODOLOGY

We reviewed Parking Services operations for FY05/06 and FY06/07. We interviewed staff to obtain an understanding of parking operations and we performed a risk assessment from which we developed key audit objectives. We focused our testing on the processing of parking meter collections, revenue transaction recording, and ADA compliance.

OBJECTIVE 1

To determine if Parking Services has effective Management Controls to safeguard its assets.

FINDING 1.1

Effective internal controls over cash would suggest that counting the money and preparing the Collection Report are incompatible functions and should not be done by the same employee.

An improper segregation of duties exists because personnel responsible for counting the meter collections could also be responsible for preparing the Parking Collection Report that is submitted to the Treasury Division and used to book the revenue in the general ledger.

¹ Performing Arts Center Authority (PACA)

The Parking Services Financial Administrator (PSFA) explained that when the Senior Accounting Clerk is absent and they are short staffed, it is possible that the same employee who counts the money could also prepare the collection report.

The Parking Services Department has one (1) Senior Accounting Clerk and 3 Accounting Clerks. Normally, an Accounting Clerk counts the meter collections and the Senior Accounting Clerk prepares the Parking Collection Report. The PSFA felt her review and sign-off of the collection report represented an adequate compensating control to mitigate the risk created by the occasional improper segregation of duties.

While this issue occurs infrequently and no unusual activity was noted, a best practice approach would mandate that the same person not perform these functions. The potential exists for the counter to embezzle funds and conceal the theft by falsifying the Collection Report.

Recommendation 1

To further ensure the safeguarding of assets, the City Manager should require the Director of Parking Services to develop a back-up procedure to address the proper segregation of duties to ensure that personnel responsible for counting the meter collections will not be the same personnel preparing the Collection Report for those periods of time when they might be understaffed due to illness or vacations.

Management Response

Management concurs with this recommendation. In fact, it is Parking Services' policy that someone other than the person who counts the cash prepares the reports. However, there have been one or two occasions in the past where there has been a break in the segregation of duties caused by staffing issues. In those very rare cases, Parking Services' Financial Administrator verifies and confirms additional aspects of the reports in her review to compensate for the additional risk associated with the decreased segregation of duties. This includes verification of the initial amount collected against the amount deposited. An additional mitigating control is that all vault activity is recorded by overhead cameras. Notwithstanding these safeguards, every effort will be made to continue to keep these occasions to an absolute minimum/emergent necessity only.

FINDING 1.2

Effective internal controls over cash handling would require the meter collections from single- and multi-space meters to be counted, deposited intact, and recorded on the same day, weekend excepted.

The Parking Collection Report is not prepared and submitted daily. Parking Services aggregates multiple days on one Parking Collection Report prior to submitting to the Treasury Division, which would delay the posting of those revenues to FAMIS.

The collection report used to trace the multi-space collections included amounts collected for Coins, September 19-24, 2007 and Bills, September 21-23, 2007.

The Parking Services Senior Accounting Clerk usually prepares the Parking Collection Report on a weekly basis.

The ability to timely reconcile the cash collections to the bank and general ledger represents an important control tool and serves as a deterrent to potential theft.

Recommendation 2

The City Manager should require the Director of Parking Services to have the Parking Collection Report prepared and submitted to the Treasury Division on a daily basis.

Management Response

Management agrees that daily collection reporting is a “best practice”. Parking Services has (since the time of this audit) worked closely with the Information Technology Services Department to automate reporting for the collection reports. All daily revenue activities are now electronically imported directly into collection reports. Once verification is received of all bank deposits, weekly reports are prepared and forwarded to the Finance Department for data entry into FAMIS. This new process allows the department to verify monthly FAMIS activities. However, the data entry component must still be performed manually based on current system abilities.

It is important to note that the current process results in approximately 600-700 collection reports each year for both departments. Daily processing would increase that number to 1,975 collection reports and, therefore, would require increased automation to be practical. There are adequate internal controls from the point of revenue origination through the preparation of the collection reports, as well as verification in FAMIS, to continue with the current process (as improved) until such time as our FAMIS financial system is upgraded to perform this function. Management will continue to consider the costs and benefits associated with such an upgrade.

OBJECTIVE 2

To determine if Parking Services has a long-term comprehensive strategic plan and has performed a rate study to assure that rates are sufficient to sustain current operations and meet future capital needs.

FINDING 2.1

The sustainability of an Enterprise Fund depends on the development and maintenance of fees that endeavor to recover all operational costs and provide for the long term capital needs of the system.

The Parking Services Enterprise fund does not have a comprehensive long-term strategic plan. Walker Parking Consultants conducted a Parking Study focused on the beach area in the year 2000. The study assessed the parking conditions around the beach and

provided a supply/demand, site, and financial analysis. The study was updated in April 2003; however, the economic climate in the Fort Lauderdale area has since changed, making the report obsolete. The Director of Parking Services indicated that they are currently preparing to issue a Request for Proposal for a new demand/rate study for the City of Fort Lauderdale to be completed next year.

The City Auditor could not determine the appropriateness of the \$8,442,757 unrestricted net assets, of which \$7,891,628 is cash, of the Parking Services Enterprise Fund without a comprehensive long-term strategic plan that ties the balance to future uses.

Parking Services capital improvement projects have been determined on an ad hoc basis and incorporated into the CFL 5-year CIP. This approach does not systematically prioritize projects and provide for the long-term capital needs of the Parking System. Proper planning is integral to being able to anticipate and provide for the future development of the system

Recommendation 3

The City Manager should require the Director of Parking Services to develop a long-term strategic analysis to determine whether the unrestricted net assets are sufficient to fund future capital improvements and complete ADA remediation projects per the August 2003 Consent Decree. The long-term strategic analysis should also address future parking needs on a citywide basis based on the current economic outlook.

Management Response

Management does not agree with the statement that Parking Services lacks a “long-term strategic plan” to determine whether net assets are sufficient to fund future capital improvements as well as ADA remediation projects.

Parking Services participates in the annual CIP budgeting process, projecting its capital needs for the next five years on a rolling basis; prioritizes projects; and indicates funding sources required to complete the necessary ADA improvements. Imbedded in the capital budgeting process is the identification of funding resources for these projects. As previously indicated, a new consultant demand/rate study is now underway and is scheduled to be completed within sixty days. The net available balance for such projects and improvements is \$2,715,045 as of October 1, 2007.

City Auditor Response

It is our position that the CIP does not represent the type of comprehensive strategic planning we feel is needed. We noted that during FY07/08, Parking Services reallocated all of its funding for capital projects exclusively to one project, ADA remediation. As evidenced by the ability to reallocate funds away from projects previously identified to the Commission as priority projects, we conclude that the assertion that the CIP is a long-range planning tool is undermined.

Furthermore, the caption of “To be programmed” in the CIP gives no indication of how future projects will be funded or when they will be needed to be brought on line. Finally,

there is no linkage between the amount of funds needed for Parking Services capital projects in the CIP and the present Parking Fund unrestricted net assets and the rate at which the balance is growing. Therefore, if management intends for some or all of the unrestricted net assets be utilized to fund future CIP projects, we recommend the use “Restricted for Capital Improvements” in the Statement of Net Assets to communicate that intent.

OBJECTIVE 3

To determine if Parking Services has properly evaluated Operational and Financial Risks.

FINDING 3.1

Fraud occurs when an employee has the motivation and opportunity to commit the act. Motivation is not effectively measured at a single point in time, as it can change due to circumstances in the employee’s personal life. Effective internal controls over cash would require initial criminal and credit background checks with periodic follow-up checks for employees with cash handling responsibilities.

The Human Resources Department performs criminal background checks only for initial hires and promotions and does not currently conduct credit checks for employees with cash handling responsibilities. The Parking Services Financial Administrator explained that based in accordance with the personnel policy, criminal background checks are only performed at initial hire or upon promotion.

The initial criminal background check does not allow management to detect developing problems that could lead to theft/fraud. The ability to periodically monitor an employee with cash handling responsibilities would create an environment that would deter or prevent theft/fraud and strengthen internal controls.

Recommendation 4

The City Manager should require the City’s Human Resources Director to develop and implement a citywide policy for mandatory periodic credit and criminal background checks for all employees in cash handling positions. If necessary, language should be incorporated into all collective bargaining agreements giving this authority to the City.

Management Response

The implementation of this process may create legal issues, including but not limited to potential “adverse impact” claims. A legal opinion has been requested from the City Attorney. The results of this opinion will be reported to the City Auditor once it is received and this response will be updated.

Other Observations:

- The data downloaded from the handheld meter readers are used to produce collection reports that are an effective tool in identifying unusual trends in the collection of single space meters. The software is an effective analytical tool and can generate ad hoc reports on an as needed basis to assist in the early detection of potential collection problems requiring immediate attention.
- Our review of the liability insurance policies covering an employee that is injured during the commission of a robbery/theft and the funds that would be lost indicates that the City has adequate coverage to cover potential injury and the loss of funds.
- Thefts of Parking Services receipts were reported to the City of Fort Lauderdale Police Department in a timely manner. Furthermore, the control weaknesses, which created the opportunity to perpetrate the thefts, have been remedied/strengthened.

OBJECTIVE 4

To determine if Parking Services is proactively managing their ADA compliance.

Conclusion

A complaint was filed against the City alleging failure to comply with certain ADA requirements for local government. Consequently, the parties agreed to settle the action between them without further litigation pursuant to the terms of a Consent Decree. These terms required the City to perform certain work to increase accessibility and usability of its facilities, programs and services for persons with disabilities. Coordination and management of the City's efforts to satisfy all the requirements of the Consent Decree has been assigned to a workgroup headed by the Director of Professional Standards. This workgroup meets bi-weekly to discuss progress and prioritize work related to ADA compliance efforts. An annual Interim Status Report (ISR) is submitted to the Plaintiffs to update them on the status of ADA projects and expected completion dates.

We have identified funding in the CIP to address several ADA projects and conclude that the City is endeavoring to comply with the aforementioned decree.

Audit Engagement Team

Pamela Range, Staff Auditor

John McCall, Staff Auditor

James Hamill, Audit Manager.