

I. EXECUTIVE SUMMARY

In this review we examined records and internal control procedures at the Genesee Crossroads Parking Garage. The Office of Public Integrity (OPI) accounted for reported cash collections. However, we noted the following findings that require management attention to improve administrative and internal controls and to ensure contract compliance.

- ◆ OPI observed that the garage operator reports validation revenue when payment is received (cash basis) rather than when it is earned (accrual basis) as required by contract. As a result, the City does not receive its revenue in a timely manner and, the City will not receive any revenue for any uncollected accounts.
- ◆ Municipal Parking could not provide documentation indicating that they authorized six of the eight repair expenses that the operator had completed at the facility. Additionally, for three of these repairs, the City paid the portion that, per the contract, was the operator's responsibility. Also, OPI noted that there was a total of \$1,402.80 in sales tax paid for these repairs.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

OPI routinely examines parking garage operations and their related revenue in its annual work program. We examined Genesee Crossroads Parking Garage operations because we have not audited operations of this garage since January 4, 1996. OPI audits the operations of at least one parking garage annually, however, rotates among the various garages.

B. Background

Allright New York Parking, Inc. (DBA Central Parking System) has operated the Genesee Crossroads Parking Garage since September 2000. The current operating agreement runs from September 1, 2007 to August 31, 2010 and, upon mutual agreement, allows the City and Allright to extend the contract for two additional consecutive one-year periods.

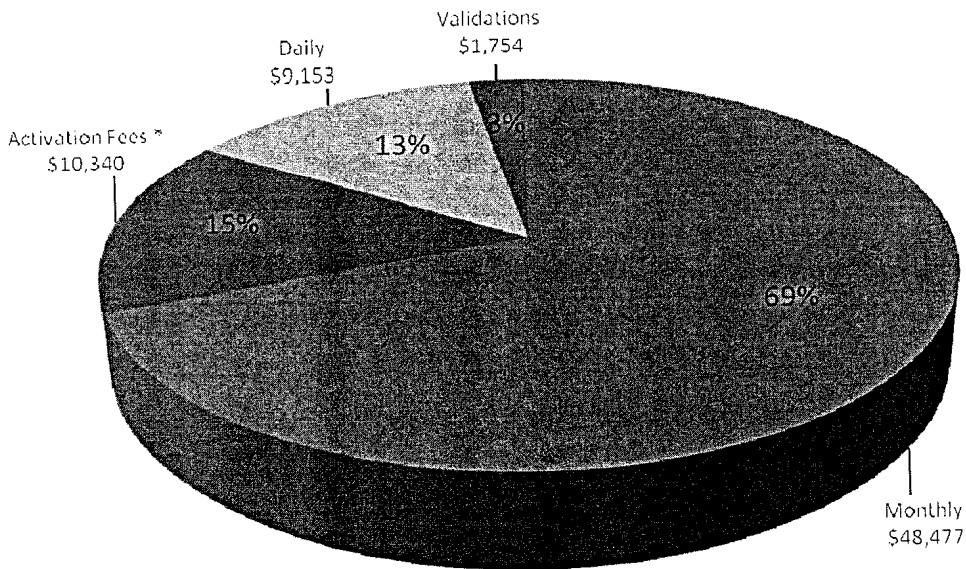
The agreement stipulates that the operator pay the City a base rent of 9% of monthly gross revenue after sales tax. Additionally, if the gross revenue after sales tax exceeds \$600,000 during a 12 month contract period, the agreement requires that the operator pay the City 50% of the excess revenue over \$600,000. The operator is responsible for collecting sales tax and submitting it to New York State. For the contract year ended August 31, 2008, the operator reported gross revenue, less sales tax, of \$677,705.

The Economic Development Department's Division of Municipal Parking oversees the management and operation of the parking garage by the lessee, including contractual compliance and financial reporting.

C. Objective And Scope

The objectives of the review were to determine whether the operator could account for reported cash collections, to determine the adequacy of internal control procedures, and to determine the extent of compliance with contract provisions. This review examined current operations in detail, parking fees collected and reported for the month of June 2008, and the accuracy of the amount paid to the City. For the month of June 2008, the operator reported gross revenue, including sales tax, of \$69,724. Based on this amount of gross revenue, the operator paid to the City \$5,879. The following chart details the sources of this revenue.

Crossroads Garage
Sources of Revenue
June 2008



This is a one time adjustment to transfer all refundable key card activation fees to non-refundable keycard activation fees as required in the new contract. As a result of this change, activation fees are now included as part of gross revenue.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

OPI was able to account for all reported cash collections for the test period. However, we noted deficiencies in administrative and internal control, and contract compliance that require management attention.

A. Accounts Receivable Are Not Reported And Paid To The City When Earned

The contractual agreement with Central Parking System requires them to account for all revenue on an accrual basis and report the revenue to the City when earned, not when received. Currently, Central Parking System does not report and pay the City's percentage of revenue resulting from their customer payments on accounts receivable until they collect the payments from their customers.

This cash basis accounting delays payment to the City since Central Parking System does not pay the City its share of this revenue until they actually collect it which could be several months later. Additionally, this practice increases the possibility that the City could lose revenue due to uncollectible accounts.

◆ Recommendation

The Division of Municipal Parking should require the operator to adhere to the terms of the contract by properly accounting for and reporting to the City all revenue when earned, using the accrual method of accounting.

B. Deficiencies In Rent Credits And Repair Reimbursement Process

The contractual agreement with Central Parking System outlines the terms and conditions related to repairs to equipment or systems at Crossroads Garage. The operator is responsible for any repairs less than \$2,500. Additionally, the City must approve any repairs in excess of \$2,500 prior to the commencement of the work and will then allow the operator to take rent credits and deduct, from their monthly rent payment, the amount in excess of \$2,500.

During the contract year ended August 31, 2008, we noted eight occurrences in which the operator deducted repair related expenses from their monthly rent payment to the City. The following table summarizes these repair expenses.

Genesee Crossroads Parking Garage
Rents Credits Taken by Central Parking System
Contract Year September 1, 2007 to August 31, 2008

Invoice Date	Vendor	Invoice Amount	Amount Deducted From Invoice by Operator	Amount of Operator Responsibility	Rent Credit Taken by Operator	Sales Tax Paid	Approval Letter
06/13/07	Rochester Auto Glass	\$ 2,446.20	\$ 0	\$ 1,500.00	\$ 2,446.20	\$ 181.20	No
09/06/07	Ber-National Automation, Inc.	864.00	0	0	864.00	64.00	Yes
12/17/07	Jade Electric, Inc.	4,451.76	0	2,500.00	4,451.76	329.76	No
12/26/07	Monroe Piping & Sheet Metal	3,082.43	2,500	2,500.00	582.43	228.33	No
03/12/08	Jade Electric, Inc.	1,467.72	0	1,467.72	1,467.72	108.72	No
04/14/08	Ber-National Automation, Inc.	3,310.85	2,500	2,500.00	810.85	245.25	No
06/06/08	Ber-National Automation, Inc.	3,314.74	2,500	2,500.00	814.74	245.54	No
07/07/08	Central Parking System	939.75	0	0	939.75	0.00	Yes
	Totals	<u>\$19,877.45</u>	<u>\$7,500</u>	<u>\$12,967.72</u>	<u>\$12,377.45</u>	<u>\$1,402.80</u>	

We noted several deficiencies relative to this repair reimbursement process including:

1. Neither Municipal Parking nor the operator could provide documentation authorizing six of the eight repair expenses. The prior contract specifically required that the operator obtain written authorization from Municipal Parking. However, the current contract only states that prior approval is required and does not specifically mention written authorization. Written authorization is necessary to demonstrate concurrence from the Division of Municipal Parking.
2. As previously stated, the operator deducted eight repair expenses as rent credits from rental payments during the contract year. However, it appears that the operator did not deduct the proper amounts that they were responsible for per the contract for five of the repair expenses. Neither Municipal Parking nor the operator could provide documentation authorizing the deduction amounts for three of these repair expenses. Written authorization is necessary to demonstrate concurrence from the Division of Municipal Parking.
3. OPI noted that the operator paid \$1,402.80 New York State sales tax for the repairs discussed above. It appears that this situation has resulted because the contract does not state that the City is tax exempt and that the City will not reimburse for sales tax. Additionally, City personnel have not notified the operator regarding procedures that they should use so that they do not pay sales tax on repairs to parking garages owned by the City.

◆ Recommendation

Municipal Parking should always require the operator to obtain written authorization prior to reimbursement for any repairs exceeding \$2,500. Municipal Parking should retain these authorizing documents to support the reimbursements. These documents should clearly indicate any conditions contrary to the contract and the reasons for the exceptions.

Additionally, future contracts and amendments should clearly require written authorization before the operator could initiate any repairs that exceed the \$2,500 threshold.

The Division of Municipal Parking should inform Central Parking System of the procedures necessary to eliminate the payment of sales tax on repairs to Crossroads Garage. Additionally, Municipal Parking should ascertain if this situation is occurring in other City owned garages and correct it if necessary.

Future municipal garage contracts should state that the City is tax exempt and will not reimburse for any sales tax.

IV. DEPARTMENTAL RESPONSE

The response of the Economic Development Department to this report begins on the next page.



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MAR 24 2009

CITY OF ROCHESTER
OFFICE OF PUBLIC INTEGRITY

To: Daniel Markese, Manager, Internal Audit

From: R. Carlos Carballada, Commissioner, Economic Development Department

Date: March 20, 2009

Subject: Review of Genesee Crossroads Garage

Thank you for the review of the Genesee Crossroads Parking Garage which we received earlier this month.

My understanding of the report is that three deficiencies were noted and recommendations were made by the auditing team. Our response is as follows:

1. Accounts receivable are not reported and paid to the city when earned.

The contract does specify accrual accounting rather than cash accounting. It is our plan to move the operator toward accrual accounting gradually by notifying customers who delay payment beyond a 30 period that programs such as validation or hotel guest parking programs will either be terminated or there will be penalties levied for late payments. We are trying to strike a balance between providing good customer service and timely revenue collection. Therefore current payment practices of some of our customers at the garage will need to be changed.

2. Documentation for rent credit authorizations were not always provided.

We have notified the operator that written approval will be required for all future rent credit authorizations. Also, we are working on a plan to minimize the need to authorize rent credits by completing more of these emergency items with city funds.

3. New York State sales taxes were paid for items purchased for city properties.

Staff met with the director of accounting and obtained the exemption form required to authorize sales tax exemption. The operator has been informed that this form will be required for all future purchases made on behalf of the city so that sales tax will be exempt. We will reference this form in future contracts and require all operators to follow procedures to make sure that the city does not pay sales tax.

The report states that the last internal audit of the garage was performed in 1996. Given the nature of the parking garage operation, we recommend that audits for the garages be prepared at least every three years.

We appreciate the observations made by the internal audit team to help the municipal parking division better manage the parking garage. We are applying recommendations to other garages that were not audited in cases where we recognize that similar deficiencies exist.

