

Internal Audit Department

O R A N G E C O U N T Y

FIRST FOLLOW-UP AUDIT:

REVIEW OF OPERATING AGREEMENTS WITH PARKING CONCEPTS, INC. ORIGINAL AUDIT No. 2590

As of April 30, 2007

The original audit report contained twenty-five (25) recommendations. Our Follow-Up Audit indicated that OC Public Works satisfactorily implemented nineteen recommendations, partially implemented one recommendation, and did not implement two recommendations. Three recommendations were closed for follow-up purposes. During the original audit, Parking Concepts remitted approximately \$6.7 million in gross receipts to the County and received payments of approximately \$1.7 million for the two operating agreements with the County.

AUDIT NO: 2651
REPORT DATE: JULY 24, 2008

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Deputy Director: Eli Littner, CPA, CIA
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Transmittal Letter



AUDIT NO. 2651 July 24, 2008

TO: Bryan Speegle, Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Audit of Operating
Agreements with Parking Concepts, Inc.
Original Audit No. 2590, Issued
September 11, 2006

We have completed a First Follow-Up Audit of Operating Agreements with Parking Concepts, Inc. Our audit was limited to reviewing, as of April 30, 2007, actions taken to implement twenty-five recommendations in our original report dated September 11, 2006.

The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter. Because there are three recommendations pending implementation, we have attached a Second Follow-Up Audit Report Form. Your department should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

ATTACHMENTS

Other recipients of this report listed on the Internal Auditor's Report on page 7.

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with Parking Concepts, Inc., Original Audit No. 2590
Audit No 2651*

As of April 30, 2007

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INTERNAL AUDITOR'S REPORT

AUDIT NO. 2651

July 24, 2008

TO: Bryan Speegle, Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Audit of Operating Agreements with Parking Concepts, Inc.,
Original Audit No. 2590, Issued September 11, 2006

Scope of Review

We have completed a First Follow-Up Audit of Operating Agreements with Parking Concepts, Inc. Our audit was limited to reviewing actions taken as of April 30, 2007 to implement the twenty-five (25) recommendations made in our original audit report.

On March 18, 2008 by resolution of the Board of Supervisors, Resources & Development Management Department (RDMD) was reorganized. The reorganization established OC Public Works. We have updated references to RDMD in the recommendations.

Results

The original audit report contained twenty-five (25) recommendations. Our Follow-Up Audit indicated nineteen (19) recommendations have been fully implemented, one (1) recommendation has been partially implemented, two (2) recommendations were not implemented, and three (3) recommendations were closed for follow-up purposes.

We believe the remaining three (3) recommendations not fully implemented are still appropriate and further efforts should be made to fully implement them. The six (6) recommendations that have not been fully implemented or closed for follow up purposes are noted below along with a comment on their status. The item number from the September 11, 2006 report is shown in parentheses after each heading. See *Attachment A* for Report Item Classifications.

1. Reconciliation of Daily Tickets Issued/Collected (No. 6)

Recommendation: We recommend that OC Public Works require PCI to prepare accurate reconciliations of tickets issued/collected with the layover inventory, and provide documented explanations for any unreconciled differences exceeding the approved thresholds.



Current Status: **Partially Implemented.** We reviewed the Supplemental Count Reports (daily reconciliation of tickets issued/collected with the layover inventory) for five of the six lots (Manchester, Stadium, Twin Towers, Courthouse and Hall of Administration) for the sample week of 7/23/07 – 7/29/07. We noted the Supplemental Count Reports were prepared accurately with one minor clerical error. However, we noted that the Twin Towers and Manchester lots had cumulative missing tickets (unreconciled counts) for the week of 181 and 172, respectively. These amounts exceed the combined monthly threshold of 100 missing tickets established by OC Public Works for all six lots. No documented explanations were provided by PCI for the missing tickets in excess of 100.

OC Public Works Planned Action:

Partially implemented. For clarification in understanding missing ticket activity, PCI supplied six months of parking records for parking facilities, including the Twin Towers and Manchester parking facilities, for June through September 2007 and March and April 2008. These records include missing tickets by week at these locations. The range of missing tickets varies among the locations.

At the Twin Towers structure there has been a change from a 24-hour per day, seven days per week manned operation to an unmanned status between the hours of 10:30 p.m. and 6:00 a.m. When unmanned, entry gates are maintained in the down position, while the exit gates arms are up. This requires vehicle drivers to swipe a keycard or pull a ticket when entering the structure, but allows exits without using a keycard or presenting a ticket for payment. In addition, Sheriff Department staff patrol the parking structure, entering and exiting several times nightly, pulling a ticket each time. The change in operations and the Sheriff's activities contribute to an unusually large number of missing tickets at the Twin Towers lot.

At the Manchester structure, missing ticket counts have been impacted by parking needs resulting from an expansion of the University of California, Irvine (UCI) Medical Center with an increased volume in traffic and an increase in the use of the parking structure due to a modification to the contract with UCI. UCI's contracted parking was increased from one to two levels of dedicated parking. This parking operations modification has increased income, but has caused crowding and confusion at the Manchester structure, resulting in an increase in missing tickets over the anticipated amount. Additionally, at Manchester, it is possible to exit the structure using the ramp for wheelchairs and pedestrians, outside the revenue-controlled area, without paying, resulting in missing tickets.

Given the operational changes, PCI did not consider it necessary to provide written explanations for the higher level of missing tickets. PCI provides Daily Master Reports (DMR) to OC Public Works (OCPW)/Accounting. Effective July 1, 2008, OCPW/Parking Administration (PA) also receives DMRs and logs the data into a spreadsheet daily. The spreadsheet provides a tool for monitoring voided and missing tickets. PA questions PCI on activities in excess of the OCPW-established thresholds not documented or explained by PCI.



OC Public Works has requested that PCI implement the following operational changes to mitigate the increased lost ticket activity:

1. PCI will install a Night Ticket Drop at the Twin Towers exit booths.
2. PCI and OCPW/Parking Administration will request that Sheriff Department staff drop pulled tickets in the Night Ticket Drop.
3. PCI will more closely monitor UCI and employee parking traffic at the Manchester structure.
4. PCI will continue to carefully monitor activity at all locations.
5. PCI will explain and document unusual void and missing ticket activity on DMRs, which will be reviewed by Parking Administration daily.

Additionally, OCPW will address including thresholds for void and missing tickets in future operating agreements with parking structure administrators.

In addition, to prevent vehicles from exiting the Manchester parking structures by using the ramp for pedestrians and wheelchairs, OCPW will evaluate installing bollards on the ramp, so pedestrians and wheelchairs will continue to be able to use the ramp, but vehicles will not.

Completion scheduled for September 1, 2008

2. Documenting Reasons for Missing Tickets (No. 9)

Recommendation: We recommend that OC Public Works require PCI to document reasons for unusual amounts of non-cash transactions and missing tickets on the daily reports.

Current Status: **Not Implemented.** We reviewed the Daily Master Reports (DMR) summarizing the daily parking activity for the Manchester lot for the week of 1/15/07 – 1/21/07 and for the Manchester, Stadium, Twin Towers, Courthouse and Hall of Administration lots, for the week of 7/23/07 – 7/29/07.

Our review noted the following instances for which PCI did not document an explanation:

- 1/19/07 DMR for the Manchester lot: There were 80 supervisor void tickets with no explanation provided by PCI. The expected number of supervisor voids for this lot would be six tickets, two for each of the open lanes.
- 7/23/07 and 7/24/07 DMR for the Twin Towers lot: There were 41 and 21 supervisor void tickets with no explanation provided by PCI. The expected number of voids for each day would be eight tickets.

OC Public Works Planned Action:

Partially implemented. For clarification in understanding missing ticket activity, PCI supplied six months of parking records for parking facilities, including the Twin Towers and Manchester parking facilities, for June through September 2007 and March and April 2008. These records include void and missing tickets by week at these locations. The range of void tickets varies among the locations.



Tickets may be avoided or missing for various reasons:

- When a customer pulls a ticket, realizes he has to pay and backs out of the driveway. The ticket is pulled back into the machine, automatically dropped in a box in the machine so it can be manually recovered and documented. If the customer keeps the ticket and backs out, the ticket is missing.
- When service personnel enter and exit the lots. Service personnel pull tickets which are documented as void tickets.
- When keycards are used on the first day of the month, when monthly parking rent is due. Keycards issued to direct-paying, monthly customers are automatically deactivated by the system at the end of the month. At the beginning of the subsequent month, the customer pulls a ticket, pays the parking rent for the month, and uses the keycard to exit. The pulled tickets are documented as void tickets, if they are returned by the customer. These tickets are also documented as non-cash transactions, since the customer pays the monthly fee and not the single parking fee for time parked. If the ticket is not returned, the ticket is missing and there are no documentation of a non-cash transaction.
- When a keycard does not work, is misplaced and later found, or is out of sequence, tickets are pulled by the customer until the situation can be resolved. These tickets are also documented as void. However, if the customer does not return the ticket, exiting using a keycard, the ticket is missing.
- When a ticket jam occurs. If a ticket can be recovered, even if damaged, it is documented as void.
- When unused tickets are removed from the ticket machine at the beginning of the day. Each day the ticket machine is checked to ensure sufficient tickets are available for the day. If the machine is low on tickets, the remaining ones are removed from the machine and a new box of tickets is dropped into the machine. The unused tickets are documented and voided.

Missing tickets, as explained in response to Recommendation No. 6, above, are most frequently the result of a recent change in operations at the Twin Towers parking structure. The exit gates at this structure remain open between the hours of 10:30 p.m. and 6:00 a.m., while the entrance gates are down. During this time the structure is unmanned. This requires drivers of vehicles to swipe a keycard or pull a ticket when entering the structure, but allows exits without using a keycard or presenting a ticket for payment. In addition, Sheriff Department staff patrol the parking structure, entering and exiting several times nightly, pulling a ticket each time. The change in operations and the Sheriff's activities contribute to an unusually large number of missing tickets at the Twin Towers structure.

In addition, as noted above, at the Manchester structure, missing ticket counts have been impacted by an increased volume in traffic and in the use of the parking structure due to an expansion of the UCI Medical Center and a modification to the parking contract with UCI. This parking operations modification has increased income, but has caused crowding and confusion at the Manchester structure, resulting in an increase in missing tickets of the anticipated amount. Additionally, it is possible to exit the structure using the ramp for wheelchairs and pedestrians, outside the revenue-controlled area, without paying, resulting in missing tickets.



Although PCI documented void and missing tickets, PCI did not document the activity as unusual given the myriad of void and missing ticket opportunities discussed above and the consistent void ticket activity experienced, as documented. The only tickets that cannot be documented and accounted for are missing tickets.

OCPW has requested that PCI implement the following operational changes to document void and missing ticket activity and non-cash transactions:

1. PCI will document each void ticket.
2. PCI will continue to carefully monitor void ticket activity at all locations.
3. PCI will document daily occurrences and unusual void and missing ticket activity and non-cash transactions on DMRs, which will be reviewed by Parking Administration daily.

Additionally, OCPW will address including thresholds for void and missing tickets in future operating agreements with parking structure administrators.

In addition, to prevent vehicles from exiting the Manchester parking structure by using the ramp for pedestrians and wheelchairs, OCPW will evaluate installing bollards on the ramp, so pedestrians and wheelchairs will continue to be able to use the ramp, but vehicles will not.

Completion scheduled for September 1, 2008

3. **Documentation for Key Cards Authorized (No. 14)**

Recommendation: We recommend that OC Public Works prepare a current master list of the number of key cards authorized for each employer/department and for the monthly key cards issued by PCI.

Current Status: **Not Implemented.** A master list of key cards authorized for each employer/department and for the monthly key cards issued by PCI was not available during our review.

OC Public Works Planned Action:

Fully implemented. At the time of the follow up audit, there was a master key card list, but the format of the list had been changed since the initial audit. OCPW reviewed six months of past records. A printout including Employer, Department, Card Number, Last Name, First Name, Account Number and Account Name is provided by PCI to OCPW with each monthly invoice.

Maximum card authorization limits have been established for the Courthouse parking structure, Twin Towers parking structure, and Manchester Parking Complex. There are still vacant parking spaces at the Stadium parking structure, so no maximum limit has been established for that location. PCI is not authorized to issue cards above the established maximum levels.

We regret any confusion this change in format may have caused.



4. **Monitoring of Operating Schedule (No. 12)**

Recommendation: We recommend OC Public Works perform regular documented reviews of parking utilization and statistical reports (such as the Daily Master Reports and Entry/Exit Time Reports) to ensure cost effectiveness and reasonableness of the Operating Schedule.

Current Status: Closed. A weekly review of the staffing requirements and parking lot operating schedules is performed by OC Public Works/Parking Administration. They informed us that due to the limitations of the current software (McGann), it is not feasible to obtain relevant statistical reports from the parking revenue control system. OC Public Works is in the process of replacing the current parking revenue control system which should result in improved reporting capabilities upon completion. Therefore, we will consider this recommendation closed for follow-up purposes.

5. **Documentation for Keycards Activated (No. 16)**

Recommendation: We recommend that OC Public Works and PCI work with the software vendor to determine which reports can be generated from the McGann software for keycards activated.

Current Status: Closed. OC Public Works informed us that it has investigated expanding the reporting capabilities within the McGann software but has determined the software cannot accommodate the expansion. As discussed above in item 4, the McGann software is in process of being phased out. The replacement parking revenue control system should address this recommendation. Therefore, we will consider this recommendation closed for follow-up purposes.

6. **Debit Card Report from the McGann Software (No. 23)**

Recommendation: We recommend that when OC Public Works updates or replace the McGann software, the quarterly debit card report should be corrected.

Current Status: Closed. OC Public Works is in the process of replacing the current parking revenue control system which will result in improved reporting capabilities upon completion. Therefore, we will consider this recommendation closed for follow-up purposes.

We appreciate the courtesy and cooperation extended to us by the personnel at PCI and OC Public Works/Asset Management and OC Public Works/Accounting Services. If you have any questions regarding this follow-up audit, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Autumn McKinney, Senior Audit Manager at 834-6106.

OC Internal Audit Report



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Debra Lakin, Chief, OC Public Works/Central Quality Assurance
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Services
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

- ▶ **Material Weaknesses:**
Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.
- ▶ **Significant Issues:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.
- ▶ **Control Findings and/or Efficiency/Effectiveness Issues:**
Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: OC Public Works Management Responses



Bryan Speegle, Director
300 N. Flower Street
Santa Ana, CA
P.O. Box 4048
Santa Ana, CA 92702-4048
Telephone: (714) 834-2300
Fax: (714) 834-5188

memo

DATE: July 18, 2008
TO: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department
FROM: Bryan Speegle, Director
OC Public Works (OCPW)
SUBJECT: Response to Draft Report on First Follow-Up Audit No. 2651 of Operating Agreements with Parking Concepts, Inc., Original Audit No. 2590, dated September 11, 2006

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2008 JUL 21 PM 1:58

I am pleased to provide OCPW's response to the Draft Report on the First Follow-Up Audit of Operating Agreements with Parking Concepts, Inc. (PCI), Original Audit No. 2590, dated September 11, 2006, completed by the Internal Audit Department.

The Internal Audit Department's Draft Report of the First Follow-Up Audit indicated that satisfactory corrective action was taken to fully implement nineteen (19) recommendations, partially implement one (1) recommendation, three (3) recommendations were closed for follow-up purposes, and that two (2) recommendations were not implemented. Since the follow-up audit was completed OCPW has taken action to partially implement and fully implement the two (2) recommendations previously not implemented. The recommendations are noted below with OCPW's planned action. The item number from the September 11, 2008 report is shown in parentheses after each heading.

1. **Reconciliation of Daily Tickets Issued/Collected (Recommendation No. 6)**

Recommendation: We recommend that OC Public Works require PCI to prepare accurate reconciliations of tickets issued/collected with the layover inventory, and provide documented explanations for any unreconciled differences exceeding the approved thresholds.

OC Public Works Planned Action:

Partially implemented. For clarification in understanding missing ticket activity, PCI supplied six months of parking records for parking facilities, including the Twin Towers and Manchester parking facilities, for June through September 2007 and March and April 2008. These records include missing tickets by week at these locations. The range of missing tickets varies among the locations.

At the Twin Towers structure there has been a change from a 24-hour per day, seven days per week manned operation to an unmanned status between the hours of 10:30 p.m. and 6:00 a.m. When unmanned, entry gates are maintained in the



ATTACHMENT B: OC Public Works Management Responses Continued

down position, while the exit gates arms are up. This requires vehicle drivers to swipe a keycard or pull a ticket when entering the structure, but allows exits without using a keycard or presenting a ticket for payment. In addition, Sheriff Department staff patrol the parking structure, entering and exiting several times nightly, pulling a ticket each time. The change in operations and the Sheriff's activities contribute to an unusually large number of missing tickets at the Twin Towers lot.

At the Manchester structure, missing ticket counts have been impacted by parking needs resulting from an expansion of the University of California, Irvine (UCI) Medical Center with an increased volume in traffic and an increase in the use of the parking structure due to a modification to the contract with UCI. UCI's contracted parking was increased from one to two levels of dedicated parking. This parking operations modification has increased income, but has caused crowding and confusion at the Manchester structure, resulting in an increase in missing tickets over the anticipated amount. Additionally, at Manchester, it is possible to exit the structure using the ramp for wheelchairs and pedestrians, outside the revenue-controlled area, without paying, resulting in missing tickets.

Given the operational changes, PCI did not consider it necessary to provide written explanations for the higher level of missing tickets. PCI provides Daily Master Reports (DMR) to OC Public Works (OCPW)/Accounting. Effective July 1, 2008, OCPW/Parking Administration (PA) also receives DMRs and logs the data into a spreadsheet daily. The spreadsheet provides a tool for monitoring voided and missing tickets. PA questions PCI on activity in excess of the OCPW-established thresholds not documented or explained by PCI.

OC Public Works has requested that PCI implement the following operational changes to mitigate the increased lost ticket activity:

1. PCI will install a Night Ticket Drop at the Twin Towers exit booths.
2. PCI and OCPW/Parking Administration will request that Sheriff Department staff drop pulled tickets in the Night Ticket Drop.
3. PCI will more closely monitor UCI and employee parking traffic at the Manchester structure.
4. PCI will continue to carefully monitor activity at all locations.
5. PCI will explain and document unusual void and missing ticket activity on DMRs, which will be reviewed by Parking Administration daily.

Additionally, OCPW will address including thresholds for void and missing tickets in future operating agreements with parking structure administrators.

In addition, to prevent vehicles from exiting the Manchester parking structure by using the ramp for pedestrians and wheelchairs, OCPW will evaluate installing bollards on the ramp, so pedestrians and wheelchairs will continue to be able to use the ramp, but vehicles will not.

Completion scheduled for September 1, 2008



ATTACHMENT B: OC Public Works Management Responses Continued

2. **Documenting Reasons for Missing Tickets (Recommendation No. 9)**

Recommendation: We recommend that OC Public Works require PCI to document reasons for unusual amounts of non-cash transactions and missing tickets on the daily reports.

OC Public Works Planned Action:

Partially implemented. For clarification in understanding missing ticket activity, PCI supplied six months of parking records for parking facilities, including the Twin Towers and Manchester parking facilities, for June through September 2007 and March and April 2008. These records include void and missing tickets by week at these locations. The range of void tickets varies among the locations.

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- When a keycard does not work, is misplaced and later found, or is out of sequence, tickets are pulled by the customer until the situation can be resolved. These tickets are also documented as void. However, if the customer does not return the ticket, exiting using a keycard, the ticket is missing.
- When a ticket jam occurs. If a ticket can be recovered, even if damaged, it is documented as void.
- When unused tickets are removed from the ticket machine at the beginning of the day. Each day the ticket machine is checked to ensure sufficient tickets are available for that day. If the machine is low on tickets, the remaining ones are removed from the machine and a new box of tickets is dropped into the machine. The unused tickets are documented as void.

Missing tickets, as explained in response to Recommendation No. 6, above, are most frequently the result of a recent change in operations at the Twin Towers parking structure. The exit gates at this structure remain open between the hours of 10:30 p.m. and 6:00 a.m., while the entrance gates are down. During this time the



ATTACHMENT B: OC Public Works Management Responses Continued

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Completion scheduled for September 1, 2008

3. **Documentation for Key Cards Authorized (Recommendation No. 14)**
Recommendation: We recommend that OC Public Works prepare a current master list of the number of key cards authorized for each employer/department and for the monthly key cards issued by PCI.



ATTACHMENT B: OC Public Works Management Responses Continued

OC Public Works Planned Action:

Fully implemented. At the time of the follow-up audit, there was a master key card list, but the format of the list had been changed since the initial audit. OCPW reviewed six months of past records. A printout including Employer, Department, Card Number, Last Name, First Name, Account Number and Account Name is provided by PCI to OCPW with each monthly invoice.

Maximum card authorization limits have been established for the Courthouse parking structure, Twin Towers parking structure, and Manchester Parking Complex. There are still vacant parking spaces at the Stadium parking structure, so no maximum limit has been established for that location. PCI is not authorized to issue cards above the established maximum levels.

We regret any confusion this change in format may have caused.

I would like to express my appreciation for the professionalism of the Internal Audit Department staff that conducted this audit.

Should you have any questions regarding OCPW's responses to the Internal Audit Department's recommendations, or require additional information on these items, please contact Debra Lakin, Chief, OCPW/Central Quality Assurance at (714) 834-5593. Thank you.



Bryan Speegle

cc: Dori Malloy, Director, OCPW/OC Facilities
Tony Ferrulli, Manager, OCPW/Real Estate & Asset Management
Gail Dennis, Manager, OCPW/Asset Management
Carlos Bustamante, Director, OCPW/Administration
Debra Lakin, Chief, OCPW/Central Quality Assurance
Mary Fitzgerald, Manager RDMD Accounting Services
Betsy Estrada, Chief, OCPW/Accounting Services/External Claims/OC Parks Programs
Merry Papin, Senior Accounting Office Supervisor, OCPW/Accounting Services
Eli Littner, Deputy Director, Internal Audit
Autumn McKinney, Audit Manager, Internal Audit
Susan Nestor, Senior Auditor, Internal Audit