

City of Detroit

OFFICE OF THE AUDITOR GENERAL



Audit of the Municipal Parking Department Contract Administration

July 2011 – April 2014



MEMORANDUM

DATE: September 23, 2014

TO: Honorable City Council
 Honorable Mayor Mike Duggan

FROM: Mark W. Lockridge, CPA *M.W.L.*
 Auditor General

RE: Audit of the Municipal Parking Department – Contract Administration

CC: Norman White, Interim Director
 Palencia Mobley, City Council Liaison

Attached for your review is our report on the Audit of the Municipal Parking Department's Contract Administration. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations; and the responses from the Municipal Parking Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Municipal Parking Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 7.5-105(4) of the City Charter which states in part:

Recommendations that are not put into effect by the department shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

Copies of all of the Office of the Auditor General reports can be found on our website at <http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral.aspx>.

July 2011 – April 2014

Contents

	Page
AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS	1
BACKGROUND	3
AUDIT FINDINGS AND RECOMMENDATIONS	
1. MPD Did Not Comply With the City of Detroit Contract Administration Procedure	5
2. MPD Failed to Require the APS Contractor to Establish and Maintain An Expense Account	7
3. MPD Did Not Prevent the APS Contractor from Co-Mingling Personal Funds with Parking Facilities' Revenue	8
4. MPD Was Improperly Billed for Manager Bonuses	10
5. MPD Failed to Enforce Exhibit A and B of the Contract Relating to Reimbursable Cost	11
6. MPD Failed to Enforce the Professional Service Contract Section 7.0 Compensation and Records	15
7. MPD Did Not Enforce Exhibit A Section IV of the Professional Service Contract Requiring the APS Contractor to Maintain and Submit Verifiable Schedules for the Managers	17
8. MPD Did Not Require the APS Contractor to Have All Personnel Necessary to Operate Parking Facilities	18

Attachment A

AGENCY RESPONSE

Municipal Parking Department

AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Municipal Parking Department was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to conduct audits of the financial transactions, performance and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by the City Council, and report findings and recommendations to the City Council and the Mayor.

AUDIT SCOPE

The scope of this audit was an independent review and assessment of the effectiveness and efficiency of the Municipal Parking Department's operations internal control procedures for transactions and its compliance with applicable Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions for the period July 1, 2011 through April 30, 2014. This report focuses on the Municipal Parking Department's (MPD) Contract Administration.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were:

- To determine MPD's compliance with applicable Finance Directives, policies, procedures, laws, and regulations.
- To determine if the MPD is properly monitoring contractor performance.

AUDIT METHODOLOGY

To accomplish the audit objectives, our audit work included:

- Reading the prior audit report.
- Reviewing prior audit working papers, City Charter, Municipal Manual, DRMS reports, the department's budget reports, the CAFR, contracts and organization charts.
- Conducting an audit-planning meeting to determine the scope, audit objectives, the financial transactions and/or areas to audit.
- Interviewing department personnel, reviewing documentation, and making observations to aid in developing the audit program.
- Other audit procedures that we considered necessary to achieve our audit objectives.

CONCLUSIONS

As a result of our audit we have concluded that MPD:

- Failed to monitor and enforce the terms and conditions of the APS vendor contract which resulted in the APS contractor:
 - Violating the terms of their contract.
 - Failing to maintain appropriate documentation concerning expenditures.
 - Over billing for reimbursable expenditures.
 - Co-mingling personal funds with parking facility revenue.
- Lacked appropriate internal controls to detect inappropriate reimbursable cost.
- Needs training on properly monitoring contractor compliance to contract terms.

The Finance Department should provide training to departments on internal controls and Contract Administration especially contract monitoring.

BACKGROUND

The Municipal Parking Department's (MPD) mission is to provide and promote economical on and off-street public parking services; to enforce City of Detroit parking ordinances; and to coordinate parking with economic development projects throughout the City of Detroit. The MPD is organized into two core divisions, the Auto Parking System (APS), which is one of the City's enterprise agencies, and the Parking Violations Bureau (PVB), which is a part of the general fund.

This report focused on MPD's monitoring of its contractors. The MPD has three major contracts:

1. Pierce Monroe and Associates, LLC. is contracted for the processing and collection of parking tickets, cashiering, and customer service for the MPD. The contract provides for the provision and ongoing, operation, maintenance, and enhancement of the City's Parking Violation Processing and Collections System (PVPCS). The Contractor shall be responsible for the ongoing operation of the automated and non-automated requirements of the PVPCS. The Office of the Auditor General issued a report on the Parking Violations Bureau on April 7, 2014.
2. The City of Detroit, as the landlord, and Olympia Entertainment, Inc. (Olympia) as the tenant, and the Detroit Red Wings Inc. were parties to a Lease Agreement dated August 16, 1978, as subsequently amended in 1980 and again in 1990 with respect to the Riverfront Arena commonly known as "Joe Louis Arena." The City and Olympia were also the parties to an Operating and Management Agreement for the Riverfront Arena Parking Facility dated August 16, 1978 with respect to the multi-story parking structure commonly known as "Joe Louis Arena Garage." The original lease and original parking agreement expired on June 30, 2010. Olympia has continued to use and occupy Joe Louis Arena and has continued to operate and manage the Joe Louis Arena Garage since that date. A new lease with Olympia was approved in 2014 and commenced as of July 1, 2010.
3. Park Rite-Detroit Inc. is contracted for the management, operation and maintenance of designated City of Detroit Parking Facilities. The parking facilities are Cultural Center Underground Garage, Eastern Market Garage, Ford Underground Garage, Grand Circus Park Underground Garage, Millennium Garage, Premier Underground Garage and the Cadillac/Farmer Lot. The Cadillac Farmer Lot is no longer associated with the MPD. The Contractor shall also provide consulting and advisory services to the City concerning the Parking Facilities. This audit report focuses on the management and operations of the parking facilities.

AUDIT FINDINGS AND RECOMMENDATIONS

1. MPD Did Not Comply With the City of Detroit Contract Administration Procedure

The auditors noted the following deficiencies with the monitoring of the Auto Parking System (APS) contract:

- Based on an interview with the MPD Contractor Liaison, they were not aware of the terms and conditions pertinent to the APS contract.
- MPD failed to keep documentation concerning the performance of the APS contractor.
- MPD failed to notify the APS contractor and the Purchasing department in writing when deficiencies were discussed and/or cured by the APS contractor.
- MPD did not properly monitor contractor reimbursement payments. (Discussed further in audit finding 5 on page 11 of this report.)

According to the City's Contract Monitoring Manual:

- The liaison should be familiar with the scope of work, delivery schedule, expiration date of the contract and any other terms and conditions pertinent to the contract.
- It is the responsibility of the using department to always document contractor performance. This may be the most important step in monitoring contracts. Since the department is the entity that is utilizing the contract, they are responsible for keeping a written record of any performance issues. Departments are also encouraged to document performance that meet or exceed expectations:
 - Assure that contracts contain performance schedules and that the vendor's performance is monitored on a periodic basis.
 - Establish and maintain a process to routinely and periodically monitor the quality of a vendor's work. Written reports of these compliance reviews should be prepared and the Purchasing Division and management shall be informed of significant deviations as they occur and proposed corrective actions.
 - Keep an activity log of each contract.
- The department shall inform the vendor, in writing, to identify their specific concerns as it relates to the terms and conditions of the contract (i.e. delivery time, quality and quantity of product shipped, responsiveness, etc). The department shall then forward to the responsible Purchases Agent all written correspondences (department and vendor) that address areas of concern.

MPD was unaware of the City's Contract Administration manual. MPD's failed to properly monitor and enforce the APS contractor's compliance to terms and conditions included in their contract.

MPD staff did not have knowledge of the terms and conditions of the APS contract making it impossible to properly administrator and monitor the contract. MPD staff did not have copies of the relevant contracts and documents to impose the requirements outlined and agreed to in the APS contract.

Recommendations:

We recommend that MPD staff:

- Adhere to the City of Detroit Contract Administration Manual.
- Become familiar with the APS contract terms and conditions.
- Enforce the APS contract provisions.

2. MPD Failed to Require the APS Contractor to Establish and Maintain An Expense Account

The APS Contractor did not establish an expense account as stated in their contract to exclusively pay expenses including payroll for Parking Facilities.

The Professional Service Contract between MPD and the APS contractor states:
Expense Account – The Contractor shall establish a separate bank account for the Parking Facilities in a bank with an office located in downtown Detroit, acceptable to the City. This account shall only include operating expenses of the City of Detroit and shall not include any third party accounts. The Contractor shall utilize this account for the payment of all Reimbursable Expenses including payroll for the Parking Facilities.

The APS Contractor co-mingled funds to pay City expenses with funds to pay for the APS Contractor's expenditures. The co-mingling of funds does not provide assurance that MPD is being properly billed. In addition, the auditors could not review bank reconciliations for the Expense Account as part of their normal audit process.

MPD did not enforce Exhibit B, Item III, Bank Account – Expense Account which requires the APS contractor to have a separate account for MPD expenses.

Recommendations

We recommend that MPD require the APS Contractor to adhere to the contract and establish the Expense Bank Account.

3. MPD Did Not Prevent the APS Contractor from Co-Mingling Personal Funds with Parking Facilities' Revenue

The APS contractor failed to deposit all cash collected into the revenue account. The APS contractor routinely co-mingled MPD cash parking revenue with personal funds. The APS contractor would cash checks with cash revenue collected with personal checks and employee paychecks and deposit the checks into the MPD Revenue Bank Account.

The auditors reviewed daily cashier reports and deposits at four MPD parking facilities from July 1, 2011 through December 31, 2013. We noted the following deficiencies with checks deposited in the daily revenue:

- Copies of checks deposited in the MPD bank account were not always maintained.
- The APS Contractor's employees cashed their paychecks and personal checks using the daily revenue. One hundred thirty-nine (139) checks were cashed totaling \$32,846.32. The following is a summary of the checks cashed:
 - Cadillac Farmer Garage (September - November 2013)
Six checks were cashed totaling \$1,244.11:
 - Three checks were APS Contractor employees' paychecks.
 - One check was made out to cash.
 - Two checks were made out to the APS Contractor's General Manager. The checks issued to the General Manager were from a cell phone company and a management company.
 - Ford Underground Garage (January 2012, October –December 2013)
Thirteen checks were cashed totaling \$6,987.29:
 - No copies of the checks were submitted with the daily paperwork.
 - Grand Circus Park Garage (September, October and December 2013)
Eight checks were cashed totaling \$3,939.78:
 - There were no copies of four checks submitted with the daily paperwork.
 - One check was made out to cash.
 - Two checks were personal checks issued to the APS Contractor's employees.
 - One check was the APS Contract's employee's paycheck.
 - One check was issued to a relative of the APS Contractor's General Manager.
 - Millennium Garage (April–June 2012, August 2012, January–April 2013, July 2013 and September–December 2013)
Fifty-six checks were cashed totaling \$20,675.14:
 - Forty-two checks were issued by the APS Contractor to employees or to cash.
 - One check was written by a APS Contractor employee made out to cash for \$1,000.

- One check was an income tax refund check issued by the City of Detroit to the APS Contractor's General Manager and a relative.
- Three checks were issued to the APS Contractor's General Manager
- Two checks were issued to the APS Contractor's General Manager's relative.
- There were no copies of seven checks included in the daily paperwork.

The Professional Service Contract between MPD and the APS contractor requires:

- The Contractor shall be responsible for the development and implementation of revenue control and cash handling procedures and shall instruct its personnel to comply with same. These procedures shall include, but shall not be limited to:
 - Employees shall not co-mingle their funds with Parking Facilities' Revenue.

The APS Contractor's Cash Handling Procedure requires:

- No cash shall be given to anyone who is not a Supervisor, Manager or Owner.
- Employees shall not co-mingle their personal funds with their parking revenues.

The State of Michigan Accounting Procedures Manual for Local Units of Government in Michigan requires:

- **Cash Receipts Required Procedures** - the change drawer should never be used to cash personal checks.
- **Bank Accounts and Deposits** - All deposits are to be made intact. Intact means that the deposit must include the checks and cash received.

Allowing employees to cash checks from daily revenue creates the risk that fraudulent or inappropriate cash transactions can occur leading to theft of City revenue. Failure to maintain adequate controls over cash receipts can result in multiple abuses including theft and misappropriation of receipts.

MPD management indicated a lack of resources as the cause for this particular finding.

Recommendations

We recommend that MPD:

- Require that all cash collected by contractors is deposited intact;
- Create a policy prohibiting any contractor from cashing and depositing personal and employee pay checks; and
- Review daily cashier reports and supporting documentation for violations of City policy.

4. MPD Was Improperly Billed for Manager Bonuses

The auditors reviewed payroll reimbursements and determined that the following bonuses were billed to and paid by MPD which are non-reimbursable expenses for the APS contractor:

- Calendar Year 2012 Bonuses - \$4,935
- Calendar Year 2013 Bonuses - \$1,000

Note: These amounts do not include any applicable payroll taxes.

The response to the RFP submitted by the APS Contractor states:

"We have decided to institute an employee bonus plan. This plan will be a non-reimbursable expense and 100% of the cost will be born by the APS Contractor."

MPD was over billed \$5,935 in bonuses for the APS contractor's employees (not including applicable payroll taxes). MPD does not properly monitor expenditures which increases the likelihood that MPD is spending more money in reimbursable cost than necessary.

MPD failed to properly review invoices processed for reimbursement. According to the APS contractor their payroll software was not properly coding payroll charges. The APS contractor did reimburse MPD for this cost on their May 2014 invoice.

Recommendations

We recommend that MPD:

- Review all payroll cost to ensure that they are appropriate reimbursable cost; and
- Require the APS contractor to reimburse all cost associated with the bonuses.

5. MPD Failed to Enforce Exhibit A and B of the Contract Relating to Reimbursable Cost

The Professional Service Contract between the City of Detroit and the APS Contractor contains an Exhibit A and Exhibit B. Exhibit A contains the Scope of Services to be performed by the APS Contractor per the contract. Exhibit B is the Fee Schedule which explains the annual budget for each garage, what constitutes reimbursable expenses and non-reimbursable expenses. It also explains the Bank Accounts that are required for the contract.

During a review of reimbursement payments (invoices and payroll) for the period of July 2012 through March 2014, the auditors determined that the following conditions existed:

- During the period of July 2012 thru December 2013 reimbursements in the amount of \$9,267 were processed and paid without supporting documentation.
- Amounts on copies of invoices were manually changed to higher amounts which were reimbursed.
- The APS contractor does not pay invoices before submitting reimbursement packages to the City for reimbursement as stated in the contract.
- The payroll process is in such disarray it is non-existent.

Also, the auditors' review of payroll determined the APS Contractor routinely paid employees straight time pay for hours worked over 80 hours in a two-week period. This practice allowed the APS contractor to have employees work over their normal schedule without prior approval from MPD management for overtime as required per the contract.

The auditors selected a random sample of six out of seventy eight payroll periods to review .The following table details examples of payroll testing that revealed straight time hours paid in excess of 80 hours for a two-week period to the APS Contractor's employees.

7/20/12 Payroll	
Position	Hours Paid
Supervisor	107
Cashier	89
Cashier	81
Maintenance	178
10/12/2012 Payroll	
Supervisor	99.5
Cashier	84
Cashier	85
Cashier	90
Cashier	90
Maintenance	186

1/4/13 Payroll	
Supervisor	92
Maintenance	208.5
Maintenance	97
4/12/13 Payroll	
Supervisor	109
Cashier	97.25
Cashier	86
Cashier	85
Cashier	90
Cashier	88
Cashier	90
Maintenance	264
7/5/13 Payroll	
Supervisor	119.5
Cashier	96
Cashier	125.5
Cashier	90
Cashier	87.5
Cashier	96
Cashier	96
Maintenance	267.5
10/11/13 Payroll	
Supervisor	95.5
Cashier	84
Cashier	90
Cashier	98
Cashier	90
Maintenance	167

A full time employee that works 40 hours per work for 52 weeks in a year will work 2,080 hours. The table below takes the yearly wages for employees per their W-2 and is divided by their hourly rate to determine how many hours the employee was paid for each year. The hours highlighted in red are hours in excess of 2,080. The two sets of hours highlighted in yellow are in excess of 3,800 hours.

	2011	2012	2013
Employee 1	1,257	2,536	2,775
Employee 5	2,028	2,063	2,107
Employee 10	1,758	2,233	2,228
Employee 13	2,183	2,287	2,321
Employee 14	2,139	2,127	2,060

Employee 16	0	0	2,108
Employee 17	2,102	235	2,168
Employee 20	2,122	2,061	2,000
Employee 22	2,130	2,331	2,273
Employee 23	2,174	2,296	2,237
Employee 25	120	2,461	2,446
Employee 29	2,153	2,063	2,078
Employee 35	2,340	2,518	2,712
Employee 38	2,152	2,562	6,455
Employee 39	1,611	3,826	1,801

The auditors could not determine if the payroll expenditure was valid because the records were missing or incomplete. The APS Contractor issued multiple checks for employees when they worked at more than one parking facility. This practice concealed the total actual amounts paid to employees especially if they worked more than 80 hours in any given two-week period

According to Professional Service Contract:

- Exhibit A asserts: All operational costs of the Parking Facilities shall be performed and initially paid by the Contractor and then reimbursed by the City, after approval, through the monthly billing process.
- Exhibit B asserts: Overtime will be reimbursed with prior written approval only.

When MPD management does not adequately monitor contractor reimbursements, MPD cannot avoid duplicate payments and expenditure fraud. In addition, internal controls cannot be enforced to deter fraudulent and deceptive practices designed to gain access to cash, which is the City's most valuable asset.

The APS contractor did not obtain the required approval from MPD staff to pay employees overtime thus payroll cost may have been artificially increased.

Although MPD management has assigned department personnel to log and review individual reimbursement packages, the assigned staff are not adequately trained to recognize fraud and deceptive practices when logging and reviewing the invoices that are submitted by the APS Contractor.

MPD staff stated that they did not require the APS contractor to have overtime approved in advance. However they have recently started to enforce the overtime provision in the Professional Service Contract.

Recommendations

We recommend that the MPD:

- Enforce Exhibit A and B of the Professional Service Contract regarding reimbursement requirements.

- Properly monitor contractor reimbursement payments.
- Ensure that reimbursement packages include all supporting documents.
- Ensure that original invoices are not manually changed to higher amounts.
- Require prior approval for payment of overtime expenditures.
- Ensure that invoices are paid by the APS contractor before being submitted to the city for reimbursement.

6. MPD Failed to Enforce the Professional Service Contract Section 7.0 Compensation and Records

The auditors performed a review of the documentation available to substantiate the reimbursable payroll expenditures submitted by the APS Contractor to MPD. The auditors determined that the time records maintained by the APS contractor were missing, non-existent, incomplete and not sufficient. They noted the following deficiencies:

- The 2012, 2013 and 2014 time records were incomplete and did not support the payroll selected for testing and reimbursed by MPD.
- Time records reviewed for the pay period ending April 6, 2014 had the following deficiencies:
 - None of the 29 time cards reviewed had been authorized by a supervisor or manager.
 - Two of the 29 time cards were for employees not listed on the payroll input sheet and these employees did not receive paychecks per the payroll register.
- Time records reviewed for the pay period ending January 12, 2014 had the following deficiencies:
 - Of 32 hourly employees paid, 24 did not have any time records.
 - The cards for the eight employees with time cards were calculated with the following results:
 - Two employees time records match the hours paid per the payroll register.
 - Six employees time records did not match the hours paid per the payroll registry.
 - The payroll input sheet compared to the actual pay register had a variance of 446.25 hours.
 - The 446.25 hours are listed on an email from a manager requesting that 182.75 hours be paid to employees. There is handwriting on the same email for an additional 165 hours to be paid. The auditors noticed only initials and not the names of employees paid the 165 hours were listed on the email.

The Professional Service Contract between MPD and the APS Contractor requires under Section 7.0 Compensation and Records: The Contractor shall maintain full and complete Records reflecting all of its operations related to this contract.

The auditors could not assess and conclude on the validity of reimbursed payroll cost because the MPD did not require the APS contractor to maintain or use time cards.

MPD's failed to monitor and enforce the Professional Service Contract provision that required full and complete records reflecting all operations related to the contract.

According to the APS contractor: The time clocks have been broken at various times throughout their history managing MPD facilities. Therefore in many cases the dates are not even correct since the time clocks don't work.

The auditors determined that MPD did not test or verify the supporting documentation for the reimbursements especially employee payroll.

Recommendation

We recommend MPD enforce the contract and require the APS Contract maintain accurate and complete records for reimbursable cost.

7. MPD Did Not Enforce Exhibit A Section IV of the Professional Service Contract Requiring the APS Contractor to Maintain and Submit Verifiable Schedules for the Managers

The auditors determined there was no supporting payroll documentation for the three managers for calendar years 2012, 2013 and 2014.

A comparison of W-2 wages compared to the RFP contract wages revealed the general manager was overpaid \$2,000 in calendar year 2013.

The APS Contractor failed to provide a required report per the contract that includes the names of managers, the City Parking Facility to which they are assigned and their hours at each facility.

The Professional Service Contract between MPD and the APS contractor requires:

- A report must be submitted to the City which includes the names of managers, the City Parking Facilities to which they are assigned, and their hours at each parking facility.
- The Contractor's designated employee performing on-site management shall be on site for a minimum of one thousand forty (1,040) hours per year, which shall be documented by the Contractor with a verifiable actual schedule on a weekly basis.

There was no supporting payroll documentation to substantiate the actual cost and reimbursement of salaries paid to the managers by MPD. The auditors were able to determine one manager was overpaid and believe that the other two managers were overpaid as well.

MPD did not require the contractor to adhere to Exhibit A Section IV of the Professional Service Contract requiring on-site management to document actual hours worked.

Recommendation

We recommend that MPD enforce the contract and require the APS contractor's management staff to submit a weekly schedule as required by Exhibit A of the contract.

8. MPD Did Not Require the APS Contractor to Have All Personnel Necessary to Operate Parking Facilities

The APS Contractor had twelve full-time and eleven part-time cashiers during calendar year 2012 and 2013. The auditors noted that:

- Maintenance/attendant employees worked as cashiers.
- Contract security officers that are not employees of the APS Contractor were used as cashiers at the Premier parking garage.

According to the Professional Service Contract:

- The Contractor shall hire all personnel necessary for the operation of the Parking Facilities, including but not limited to licensed cashiers. Staffing requirements must be approved by the City prior to scheduling.
- The Contractor warrants and represents that all persons assigned to the performance of this Contract shall be regular employees or independent contractors of the Contractor.

The contracted security guards are not providing the service that they were hired to do; securing the premises. Maintenance employees were allowed to work excessive hours in some cases (see finding #5 on page 11).

According to MPD, the former manager did not understand the significance of having security guards work as cashiers and was focused more on cost savings.

Recommendations

We recommend that MPD:

- Utilize part-time cashiers as needed to cover staff shortages; and
- Not use contract security personnel as cashier.



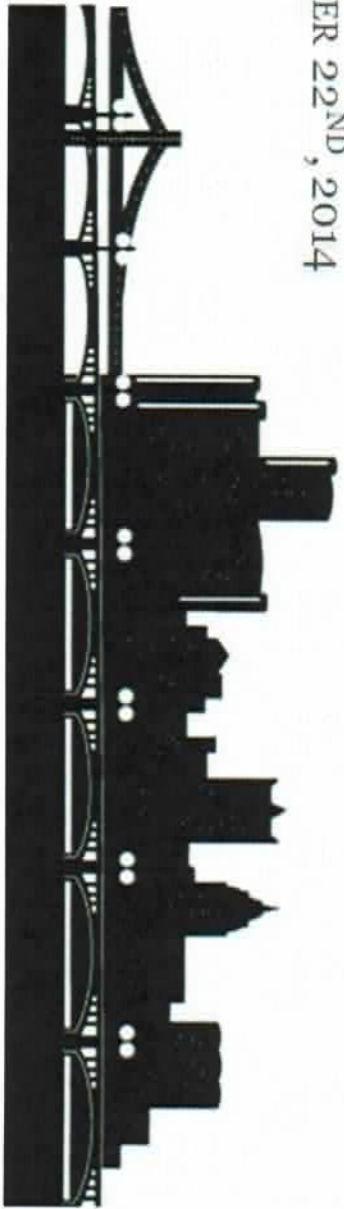
Municipal Parking Department

AUDIT RESPONSE & EXECUTIVE SUMMARY

PREPARED ON SEPTEMBER 22ND, 2014



CITY of DETROIT



EXECUTIVE SUMMARY

The City of Detroit's Auditor General's Office recently completed an audit of the City's Municipal Parking Department's Contract Administration Division for the time period between July 2011, and April 2014. The audit found several contract management and accounting compliance deficiencies within the department.

MPD does not dispute ANY of the Auditor General's findings.

In fact, since the appointment of new leadership in September of 2013 – prior to this audit - the Department quickly identified these very issue areas and moved aggressively to resolve these and other deficiencies within the department. As a result, MPD has already begun to implement procedural changes, the reassignment of personnel, the addition of three accountants, and technology upgrades that will change the complexion of the entire department, ushering MPD's operation into the 21st Century.

However, it is important to note how the department reached this level of inefficiency. Over the past four years, MPD - like many city departments - has experienced massive turnover as a result of budget constraints as the City slipped into an unprecedented era of bankruptcy. As an example, MPD's contract management position alone has experienced four managers in as many years. While MPD and other departments have been challenged to do more with less, it became apparent - and now validated by the Auditor General Report - that MPD has been unable to meet that challenge to date. The Department lost its ability to properly manage its contract and comply with basic accounting and finance procedures.

As identified by the Auditor General Report, MPD:

- Failed to monitor and enforce the terms and conditions of the APS garage vendor contract, which resulted in the APS contractor:
 - Violating the terms of their contract
 - Failing to maintain appropriate documentation concerning expenditures
 - Overbilling for reimbursable expenditures
 - Co-mingling personal funds with parking facility revenue
- Lacked appropriate internal controls to detect inappropriate reimbursable costs
- Needs training on properly monitoring contractor compliance to contract terms

MPD MOVING MORE AGGRESSIVELY INTO THE 21ST CENTURY WITH GREATER TECHNOLOGY AND EFFICIENCY

MPD has terminated its APS garage vendor's contract, effective October 4, 2014, and has already begun to implement an automated system that will replace the current APS garage operation. This transition, alone, addresses nearly 90 percent of the

violations/recommendations identified by the Auditor General Report; ensures that these issues will never occur again; and is expected to increase revenue, while improving the customer experience at its garages.

For its garages, MPD is installing state-of-the art management systems to cut down on human error; to increase efficiencies; and to improve its motorists' overall parking experiences in the city. Powered by Amano McGann Inc., the new garage systems will be fully automated, utilizing technology that will be able to dispense, validate, and accept a full range of payments, and real-time reconciliation of revenue from ingress and egress.

AMG-2000 Entry Stations will accept a wide-variety of tickets and credit cards for motorists and will also have the capability to employ QR barcodes which can be scanned from smart-phones, paper, or electronic media. Such innovation will allow for increased flexibility for visitors who utilize parking passes for work, or for businesses that wish to have special rates for special events.

AMG-6800 Exit Pay Stations will then allow motorists a wide-variety of ease in paying for their parking stay, allowing for customers to pay via credit card, validation ticket, or cash. In addition, the Amano system will allow for the full automation of entire garages, thus eliminating human error in bookkeeping. Amano McGann computer systems, and mass validators will aid in garage organizational efforts, allowing the calculation of parking fees up to one year, as well as the easy creation of validation tickets for regular use and events.

Finally, all systems will have remote assistance features, which will allow motorists to get real-time assistance from parking official in a remote location in the event that they need technical assistance.

MPD ALSO MOVES TOWARDS A MORE EFFICIENT METER OPERATION

On September 15, 2014, MPD issued an RFP for new multi-space meters. This will replace the outdated meters remaining throughout the city, offering motorists an option of paying by credit card on all meters. This allows the department to become more efficient in its collections and maintenance of meters.

The meters will also be "pay-by-plate," which will use technology to significantly increase flexibility for parkers. In addition, people will be able to purchase time for their parked cars at any kiosk; and extend time from a remote location using a mobile application on their smartphone. Motorists will simply input their vehicle license plate number into a payment kiosk instead of requiring a parking space number or paper receipt. Enforcement officers will then be fitted with cellular handheld devices, which can quickly check the payment status of a vehicle. From there, the officer can electronically log the violation and print a paper ticket to place on the windshield, significantly cutting down on the time it takes to issue a written ticket manually.

This system changed was modeled after the City of Pittsburgh to benefit residents and visitors. *In the first five months of the rollout, pay-by-plate boosted the Pittsburgh Parking Authority's income by nearly 60 percent, while writing fewer tickets.* (StateTech Magazine, "Pittsburgh Leads in Parking Payment Technology").

CONCLUSION

Integrity and confidence in our City's operations is paramount as the City of Detroit emerges from bankruptcy and seek to rebuild the city that our citizens deserve. That's why we have worked to identify inefficiency within the department and have moved aggressively to remedy those issue areas, even prior to this audit.

We recognize that contract policies are in place to ensure the integrity of the system. Therefore, we have a zero-tolerance for violations. We are confident that these changes will finally allow MPD to meet the challenge of doing more with less, while thrusting the MPD into the 21st Century.

Detroit is currently in the process of rebuilding itself. With the groundbreaking of the M-1 Rail system, as well as the impending construction of both the New International Trade Crossing and the new Red Wings Stadium, Detroit requires a more advanced parking system that will improve its ability to service visitors to these, as well as many other of the city's great attractions.

As such, Detroit will seek to upgrade its existing parking infrastructure to keep pace. Its goals are simple: improve the ease and convenience of parking in the city for all of Detroit's visitors and residents, increasing parking revenue to the city, and improve efficiencies for city workers and visitors alike.

September 22, 2014

Mark Lockridge, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 216
Detroit, Michigan 48226

RE: MPD Official Response to Auditor General Audit Report July 2011 – April 2014

Dear Mr. Lockridge:

The following presents the Municipal Parking Department's response for the indicated findings and related recommendations in the July 2011 – April 2014 audit of the Municipal Parking Department's Contract Administration, as prepared by the Office of the Auditor General.

While the findings in the audit report are deeply troubling, MPD welcomed them as validation to reforms and upgrades already underway since the appointment of a new director in September of 2013.

MPD takes very seriously any failure to properly monitor private contractors or enforce its contracts. We must have zero tolerance for any private contractor to deviate from its obligations and putting the integrity of our system at risk. Even the appearance of impropriety is sufficient cause for concern and unacceptable in any case.

The majority of these contract violations occurred because a failure of oversight and responsibility for monitoring contract performance and because the MPD garage system relied on a low-tech, labor-intensive structure that invited human error, inefficiencies and deviations from contract requirements. Both of these issues have been addressed by the Department through major reforms.

First, the Department reformed its contract compliance process and capabilities. In the past, monitoring, enforcement and oversight of contracts was inconsistent at best and there was no system to ensure consistency and stability in the midst of personnel changes. The reforms appoint specific responsibilities to staff who will be responsible for and accountable to the Department for contract oversight.

- 1) For any existing or new contract, the Department will review the contract with the contractor and MPD staff to ensure all parties understand the contract terms, expectations for compliance and process for enforcement.
- 2) The Department has implemented a contract compliance team where copies of

all relevant contracts are provided to MPD staff with assignments to each for monitoring specific portions of the contracts for compliance.

- 3) The Department has established a schedule for regular training, review and documentation as outlined in the City's Contract Administration manual.
- 4) The Department has added to three accountants to its personnel roster whose expertise will greatly enhance the capability for performing financial analyses and oversight.

It is important to note that the APS garage vendor's contract has been terminated effective October 4, 2014, and the implementation of an automated system at MPD garage sites has begun. With the phasing-out of the Joe Louis Arena contract, the only remaining contract at this juncture is for collections processing.

The overhaul of MPD's parking structure operation brings it into the 21st century with state-of-the-art management systems.

The new system will:

- Fully automate the garage systems permitting remote monitoring and assistance at a central and remote location;
- Dispense, validate, and accept a full range of payments including cash, credit card and/or validated tickets;
- Have the capability to employ QR barcodes which can be scanned from smart-phones, paper, or electronic media;
- Provide flexibility for visitors who utilize parking passes for work, or for businesses that wish to have special rates for special events;
- Provides real-time accounting and revenue reconciliation.

This system will eliminate revenue control issues and ensure more efficient monitoring of revenue procedures because the revenue accounting is fully centralized and automated. This system will bring greater efficiencies and cost savings by eliminating the need for on-site personnel and the labor-intensive system employed by the current APS garage vendor, and attendant oversight issues will no longer exist.

The Department believes these fundamental organizational reforms and technology investments will bring greater efficiencies to MPD and ensure that all private MPD contractors will fulfill the terms and fully perform their contracts.

SPECIFIC POINT-BY-POINT RESPONSE TO AUDIT

Although MPD is confident that this document adequately responds to the Auditor General's Audit and Recommendations, the following are specific to each recommendation set forth in the Report:

Finding Number 1. Municipal Parking Department (MPD) Did Not Comply With the City of Detroit Contract Administration Procedure.

- a. Based on an interview with the MPD Contractor Liaison, they were not aware of the terms and conditions pertinent to the APS contract.
- b. MPD failed to keep documentation concerning the performance of the APS contractor.
- c. MPD failed to notify the APS contractor and the Purchasing department in writing when deficiencies were discussed and/or cured by the APS contractor.
- d. MPD did not properly monitor contractor reimbursement payments. (Discussed further in audit finding 5 on page 11 of this report.)

Department's Response. Copies of all relevant contracts have been distributed to MPD staff with responsibilities related to the contract. MPD Staff will be assigned to directly monitor each contract for compliance. Ongoing training sessions will be held with staff responsible for monitoring contracts that will review proper monitoring and documentation processes as stated in the City's Contract Administration manual. Contracts will be reviewed with both the contractor and MPD staff to ensure all involved parties are aware of the contract terms and conditions and ensure enforcement of contract provisions.

Finding 2. MPD Failed to Require the APS Contractor to Establish and Maintain an Expense Account

The APS contractor did not establish an expense account as stated in their contract to exclusively pay expenses including payroll for parking facilities.

Department's Response. The department experienced a high turnover rate, with 4 (four) managers responsible for the monitoring of the contract in as many years. The department has instituted procedures that will ensure all future contractors abide by the terms set forth in the contract regardless of the fluidity of the managerial personnel. The current contract with the APS contractor is scheduled to end October 4, 2014.

Finding 3. MPD Did Not Prevent the APS Contractor from Co-Mingling Personal Funds with Parking Facilities' Revenue.

The APS contractor failed to deposit all cash collected into the revenue account. The APS contractor routinely co-mingled MPD cash parking revenue with personal funds. The APS contractor would cash checks with cash revenue collected from personal checks and employee paychecks and deposit the checks and employee paychecks into the MPD Revenue Bank Account.

Department's Response. As stated above, MPD acknowledges that the department has experienced many staffing issues over the past several years due to finance management changes as well as reductions in the finance departmental work force. MPD recently attained a new finance manager in February and a senior accountant in May 2014. With these additions, priority has been given to the daily monitoring of all aspects of the contract and the contractor to ensure compliance.

MPD management and staff understand the importance of proper cash management and revenue control. With the new revenue equipment discussed earlier, the department will ensure proper checks and balances are put into place, which will be designed to be executed on a daily basis. Cash collected (by MPD staff or contractors) will always be deposited intact and all staff will know the consequences of any deviations.

Finding 4. MPD Was Improperly Billed for Manager Bonuses.

MPD was over billed \$5,935 in bonuses for the APS contractor's employees (not including applicable payroll taxes). MPD does not properly monitor expenditures increasing the likelihood that MPD is spending more money in reimbursable cost than necessary. The APS contractor did reimburse MPD for this cost on their May 2014 invoice.

Department's Response. As previously stated, managerial changes and staffing reductions created a deficiency in our ability to adequately monitor the contract. However, the department's new automated system combined with written procedures and assigned staff to monitor all contracts for compliance will remedy this deficiency.

Finding 5. MPD Failed to Enforce Exhibit A and B of the Contract Relating to Reimbursable Cost.

- a. During the period of July 2012 thru December 2013 reimbursements in the amount of \$9,267 were processed and paid without supporting documentation.
- b. Amounts on copies of invoices were manually changed to higher amounts which were reimbursed.
- c. The APS contractor does not pay invoices before submitting reimbursement packages to the City for reimbursement as stated in the contract.
- d. The payroll process is in such disarray it is non-existent.

Department's Response. As previously stated, managerial changes and staffing reductions created a deficiency in our ability to adequately monitor the contract. However, the department's new automated system combined with written procedures and assigned staff to monitor all contracts for compliance will remedy this deficiency. Reimbursement packages will include all supporting documents and any expenditures requiring prior approval will be obtained. All contract terms will be enforced by staff

and management.

Finding 6. MPD Failed to Enforce the Professional Service Contract Section 7.0 Compensation and Records.

The auditors performed a review of the documentation available to substantiate the reimbursable payroll expenditures submitted by the APS Contractor to MPD. The auditors determined that the time records maintained by the APS contractor were missing, non-existent, incomplete and not sufficient.

Department's Response. MPD will ensure the analyst has copies of all relevant contracts needed to perform the necessary tasks. Terms of any professional services contracts will be reviewed with staff to ensure all parties involved with reviewing payments and performance has the information needed to perform those duties. Any and all contractors will be required to maintain accurate and complete records for reimbursable cost.

Finding 7. MPD Did Not Enforce Exhibit A Section IV of the Professional Service Contract Requiring the APS Contractor to Maintain and Submit Verifiable Schedules for the Managers.

- a. The auditors determined there was no supporting payroll documentation for the three managers for calendar years 2012, 2013 and 2014.
- b. A comparison of W-2 wages compared to the RFP contract wages revealed the general manager was overpaid \$2,000 in calendar year 2013.
- c. The APS Contractor failed to provide a required report per the contract that includes the names of manager, the City Parking Facility to which they are assigned and their hour(s) at each facility.

Department's Response. As previously stated, managerial changes and staffing reductions created a deficiency in our ability to adequately monitor the contract. However, the department's new automated system combined with written procedures and assigned staff to monitor all contracts for compliance will remedy this deficiency.

Finding 8. MPD Did Not Require the APS Contractor to Have All Personnel Necessary to Operate Parking Facilities.

- a.) Maintenance/attendant employees worked as cashiers.
- b.) Contract security officers that are not employees of the APS Contractor were used as cashiers at the Premier parking garage.

Department's Response. Due to reductions in the department's budget and therefore contractor's budget, there was a reduction in personnel by the contractor. However, due

to the increased efficiencies in the Parking Revenue Equipment, this concern will be eliminated.

In conclusion, MPD appreciates the opportunity to address these findings, and will continue to strive toward becoming a more efficient and effective department.

Sincerely,



Norman White
Director