



OFFICE OF THE AUDITOR

**DEPARTMENT OF PUBLIC WORKS
CENTRAL PARKING SYSTEMS, INC.
CONTRACT COMPLIANCE AUDIT
JULY 2009**

*Dennis J. Gallagher
Auditor*



City and County of Denver

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000, FAX 720-913-5247
www.denvergov.org/auditor

Dennis J. Gallagher
Auditor

July 9, 2009

Mr. Bill Vidal, Manager
Department of Public Works
City and County of Denver

Dear Mr. Vidal:

Attached is the Auditor's Office Audit Services Division's contract compliance audit report of Central Parking Systems Inc., at Denver Performing Arts Complex. The audit was for the period October 1, 2007 through September 30, 2008. The purpose of the audit was to determine if Central Parking Systems, Inc. and the City and County of Denver complied with the terms and conditions of the contract and whether internal controls in place were adequate.

The audit revealed reportable weaknesses related to internal controls and contract administration. These weaknesses are disclosed in details within the accompanying report.

If you have any questions, please call Kip Memmott, Director of Audit Services, at 720-913-5029.

Sincerely,

Dennis J. Gallagher
Auditor

DJG/ect

cc: Honorable John W. Hickenlooper, Mayor
Honorable Members of City Council
Members of Audit Committee
Ms. Kelly Brough, Chief of Staff
Mr. Claude Pumilia, Chief Financial Officer
Mr. David Fine, City Attorney
Ms. Lauri Dannemiller, City Council Executive Staff Director
Ms. Beth Machann, Controller
Mr. Matt Wager, Manager II of Public Works Traffic Engineering Services

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.

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Auditor

AUDITOR'S REPORT

We have completed a contract compliance audit of Central Parking Systems, Inc. at Denver Performing Arts Complex (DPAC) for the period October 1, 2007 to September 30, 2008. The purpose of the audit was to determine whether Central Parking Systems and the City complied with the terms and conditions of the contract, City rules and regulations, and whether internal controls in place were adequate. This audit was included in the Auditor's Office Audit Services Division's 2008 Annual Audit Plan and is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, *General Powers and Duties of Auditor*.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit found that the Department of Public Works failed to evaluate gross revenues to identify and pay the annual incentive fee for the years ended September 30, 2008 and September 30, 2007. In addition, the Department of Public Works approves and reimburses an unallowable operating expense by accepting invoices modified by Central Parking that include hand written Denver sales tax amounts.

We extend our appreciation to the personnel who assisted and cooperated with us during the audit.

Audit Services Division

A handwritten signature in black ink that reads "K. Memmott".

Kip R. Memmott, MA, CGAP, CICA
Director of Audit Services

Date: July 9, 2009

Staff: John Finamore, CPA, CICA, Internal Audit Supervisor
Jacob Claeys, CICA, Lead Internal Auditor
Freddie Martin, CICA, Staff Internal Auditor

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We will monitor and report on recommendations and progress towards their implementation.*

CENTRAL PARKING SYSTEMS, INC.
EXECUTIVE SUMMARY
FOR THE PERIOD OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2008

This summary highlights the findings of our contract compliance audit of the Central Parking Systems, Inc. The Findings and Recommendations section of the report beginning on page 7 further describes these issues in detail. The Department of Public Work's response is contained in Exhibit A beginning on page 11.

1. Failure to Evaluate Gross Revenues to Identify and Pay the Annual Incentive Fee

The Department of Public Works (Public Works) failed to identify and pay \$21,151 in annual incentive fees to Central Parking for the periods ending September 30, 2008 and 2007. During the audit, Public Works became aware of the current and prior period incentive fees awardable to Central Parking and promptly paid amounts due. We recommend the Department of Public Works evaluate gross revenues to determine the annual incentive fee after receiving all twelve monthly reports.

2. Public Works Approves and Reimburses an Unallowable Operating Expense

Central Parking calculates and manually includes Denver's sales tax amount on their supplier's Digital Printing Systems invoices then remit the modified invoice to Public Works for reimbursement. Public Works approves the modified invoice and reimburses Central Parking for the hand written business tax amount. Central Parking then uses these reimbursed tax proceeds from the City to pay the State of Colorado and Denver's sales and use taxes. Section A, subsection C of the Standard Operating Procedures provides that all licenses, permits, fees and business taxes necessary to conduct business are expressly excluded from reimbursement. The continuing practice of reimbursing business tax amounts may risk significant loss of tax revenues to the City.

We recommend the Department of Public Works stop approving and reimbursing business tax amounts as currently submitted. Public Works should require Central Parking to comply with the conditions of the contract and standard operating procedures to ensure proper compliance. We also recommend that the Department of Public Works conduct an assessment on all Digital Printing Systems invoices to determine total sales tax reimbursed, and as a result of the assessment recover these business tax amounts.

CENTRAL PARKING SYSTEMS, INC.
BACKGROUND, SCOPE, OBJECTIVE AND METHODOLOGY
FOR THE PERIOD OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2008

Background

Central Parking Systems Inc. (Central Parking), a subsidiary of Central Parking Corporation, headquartered in Tennessee, is an independent contractor retained by the City under a management agreement. The contractor is to ensure courteous and prompt service to the general-public in its management and operation of the parking garage located on 14th and Speer adjunct to the Denver Performance Arts Complex (DPAC).¹ The garage is an enclosed, eight-level parking facility within a double helix structure. It has 1,750 parking spaces with twenty-nine handicap accessible parking spaces. The contractor anticipates installing automated ticket machines in June 2009.

Management Agreement

The current management agreement became effective on October 1, 2005. The agreement has an option(s) to be extended by the Denver City Council. The City amended the agreement in 2008 to modify the expiration term to September 30, 2009 and to add additional provisions for credit card use, vehicle reimbursement, and employment guidelines for illegal immigrants. The Manager of Public Works is responsible for authorizing and approving work performed under this agreement. Central Parking is required to deposit all gross receipts on a daily basis into a City bank account. The City agrees to pay the contractor \$57,000 annually, payable per month in the amount of \$4,750. The City reimburses Central Parking for approved operating expenses such as salary and wages, security, repair cost, etc. In addition to the management fee, the City agrees to pay an annual incentive fee of 4.75% of gross revenues over \$3,500,000 on a twelve (12) month basis.

Scope

We conducted audit fieldwork for the period from October 1, 2007 through September 30, 2008. The scope of our work included determining compliance with the contract conditions and standard operating procedures, a review of deposits made into the City designated account, and a review of various expenditures payments made to the contractor.

¹ The City and County of Denver owns the three largest theaters in the complex: 1) the Ellie Caulkins Opera House in the Newton Auditorium, 2) the Boettcher Concert Hall, and 3) the Temple Hoyne Buell Theater.

Objective

The objective of our audit was to determine whether the City properly paid Central Parking's management fees, reimbursed operating expenses and paid the annual incentive fee in accordance with the contract and standard operating procedures. In addition, we determined whether Central Parking deposited the proper amount into the City's designated account. We also determined whether Central Parking and the Department of Public Works complied with other terms and conditions of the contract, whether the accounting and administrative internal controls were adequate and effective, and if the entities complied with other rules and regulations.

Methodology

The evidence gathering and analysis techniques used to meet our audit objectives included, but were not limited to the following:

- Reviewing the contract and amendment to determine legal conditions;
- Reviewing the standard operating procedures to understand requirements;
- Conducting interviews with representatives of Public Works and Central Parking;
- Testing deposits and verifying operating expense claims for reimbursements;
- Reviewing and assessing the adequacy of accounting and administrative internal controls;
- Conducting physical ticket count on a sample basis;
- Verifying insurance policies and bonding;
- Verifying expending authority signatures according to fiscal accountability rules; and
- Utilizing analytical procedures to test all financial related transactions.

**CENTRAL PARKING SYSTEMS, INC.
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2008**

Finding I: Failure to Evaluate Gross Revenues to Identify and Pay the Annual Incentive Fee

Audit work found that Public Works failed to evaluate gross revenues to determine the annual incentive fee awardable to Central Parking for managing the DPAC garage. As a result of audit work, Public Works became aware that the incentive fee in the amount of \$12,548 was due to Central Parking as compensation. The Management Agreement specifies, as compensation for managing the garage, the City shall pay an incentive fee of 4.75% of all gross revenues achieved by the contractor in the operation of the garage in excess of \$3,500,000. Public Works personnel indicated they did not evaluate gross revenues to determine the incentive fee awardable because Central Parking did not remit an invoice for the incentive fee.

In addition, audit work found the incentive fee for the prior period October 1, 2006 to September 30, 2007 was not paid in the amount of \$8,603.² Public Works has compensated Central Parking for the current and prior periods.

Recommendation

1. We recommend the Department of Public Works evaluate gross revenues monthly and determine the incentive fee after receiving all twelve monthly reports and pay the annual incentive fee to Central Parking within 30 days as stipulated in the agreement.

² Article 7 of the Management Agreement provides that an incentive fee shall be paid by the City within 30 days after all twelve approved monthly reports, justifying incentive fee on basis of gross revenues, are received by the Director from contractor during any twelve month year in which such incentive fee is awardable.

Finding II: Public Works Approves and Reimburses an Unallowable Operating Expense

Audit work determined that Central Parking calculates and hand writes Denver's sales tax amount on their supplier Digital Printing Systems invoices then remits the modified invoices to Public Works for reimbursement.³ Public Works approves the modified invoices and reimburses the hand written business tax amount. Central Parking collects and uses the reimbursed tax proceeds from the City to pay the State of Colorado and Denver's sales and use taxes. According to Public Works personnel, the Department of Public Works agrees and accepts the write in tax amounts on Digital Printing System's invoice because Public Works believe the sales tax written on the invoice is not a "business or use" tax. Section A, subsection C of the Standard Operating Procedures provides that all licenses, permits, fees and business taxes (other than payroll taxes) necessary to conduct business pursuant to this agreement are expressly excluded from reimbursement as operating expenses under the annual and monthly budgets.

However, based on Public Works interpretation of the management agreement, the write-in sales tax amount is a reimbursable expense under the contract. We believe as a consequence of the continuing practice of reimbursing business tax amounts, the City may risk significant loss of tax revenues.

Recommendation

2. We recommend the Department of Public Works immediately cease approving and reimbursing Central Parking's business tax amounts as currently calculated on Digital Printing Systems invoices. We also recommend Public Works require Central Parking to comply with the terms and conditions of the contract and standard operating procedures to ensure proper compliance.
3. We recommend the Department of Public Works to conduct an assessment on all of Digital Printing Systems invoices for current and prior periods to determine total sales tax reimbursed, and as a result of the assessment recover these business tax amounts.

³ Article 9 of the management agreement provides that the contractor shall pay all operating expenses for the garage, as outlined in the agreement and standard operating procedures. The contractor shall be reimbursed by the City only for City-approved operating expenses as set out in Exhibit B, standard operating procedures.

CENTRAL PARKING SYSTEMS, INC.
SCHEDULE OF GROSS RECEIPTS, EXPENDITURES AND FEES
FOR THE PERIOD OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2008

Gross Receipts (Note 1)		\$ 3,764,213
Less Expenditures and Fees:		
Reimbursed Operating Expenses (Note 2)		806,660
Contractor Fees (Note 3)		
Management Fee	57,000	
Annual Incentive Fee Awarded – 9/30/08	12,548	
Annual Incentive Fee Awarded – 9/30/07	<u>8,603</u>	<u>78,151</u>
Net Proceeds to the City		<u>\$ 2,879,402</u>

The accompanying notes are an integral part of this schedule.

CENTRAL PARKING SYSTEMS, INC.
NOTES TO SCHEDULE OF GROSS RECEIPTS, EXPENDITURES AND FEES
FOR THE PERIOD OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2008

Note 1. Gross Receipts – Gross receipts, as reported in the accompanying schedule, shall include all revenues generated at the garage from any source, including but not limited to, fees from all parking operations at the garage, parking space leases, parking violations, penalties, vending, and advertising as outlined in Article 8 of the management agreement. All interest accruing on such gross receipts shall be the property of the City. The contractor is required to deposit daily monies collected into designated City bank account within 24 hours of the transaction date, excluding recognized holidays on which the City designated bank is closed as stipulated in Section C of the Standard Operating Procedures.

Note 2. Reimbursable Operating Expenses:

- A. Monthly Reimbursement – The City will reimburse the contractor for the following categories of City-approved operating expenses for the previous month, and for no other expenses of any kind or description as outlined in Section I of the Standard Operating Procedures. Categories of City-approved operating expenses are salary and wage, security expenses, repair and maintenance cost, tickets, credit card processing fee, etc.
- B. Excluded From Reimbursement – Section A, subsection C of the Standard Operating Procedures, the following items are expressly excluded from reimbursement as operating expenses under the annual and monthly Budgets (which items shall be provided by the contractor at its own expense). Items excluded from reimbursement are entertainment expenses; general or administrative overhead; all licenses, permits, fees and business taxes (other than payroll taxes); off-site payroll; contractor employee theft, shortage, or mismanagement, etc.

Note 3. Contractor Fee(s):

- A. Management Fee – Article 7 of the management agreement, the City agreed to pay the contractor as compensation for managing garage, a flat fee per year of \$57,000, payable per month in the amount of \$4,750.
- B. Annual Incentive Fees – Incentive Fees, as reported in the accompanying schedule, represents the gross revenue threshold achieved by the contractor in a twelve-month year for the years ended September 30, 2007 and 2008. Article 7 of the management agreement, provides for an incentive fee of 4.75% of all gross revenues achieved by the contractor in excess of \$3,500,000 as compensation for managing the garage. Such annual incentive fee shall be paid by the City within 30 days after all twelve approved monthly reports are received by the Director from the contractor in which such incentive fee is awardable.



Department of Public Works
Engineering Division
Capital Projects Management - Dept. 506
Development Engineering Services - Dept. 507
Traffic Engineering Services - Dept. 508
201 W. Colfax Avenue
Denver, CO 80202
www.denvergov.org/PublicWorks

June 25, 2009

Mr. Kip R. Memmott, MA, CGAP, CICA
Director of Audit Services
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. Memmott:

The Office of the Auditor has conducted a performance audit of the Central Parking Systems Inc., at the Denver Performing Arts Complex for the audit period October 1, 2007 through September 30, 2008.

This memorandum provides a written response for each reportable condition noted in the Auditor's Report final draft dated June 9, 2009. This response complies with Section 20-276 (b) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING I:

The Department of Public Works (Public Works) failed to identify and pay \$21,151 in annual incentive fees to Central Parking for the periods ending September 30, 2008 and 2007. During the audit, Public Works became aware of the current and prior period incentive fees awardable to Central Parking and promptly paid amounts due.

RECOMMENDATION 1:

- We recommend the Department of Public Works evaluate gross revenues to determine the annual incentive fee after receiving all twelve monthly reports.

➤ **RESPONSE/ACTION PLAN:**

- **Traffic Engineering Services has created a spreadsheet that tracks the status gross revenues year to date. The possible effect of that revenue on the potential for an incentive fee is evaluated monthly. Incentive fees will be paid after the 12 monthly reports have been received and the revenues required to qualify for the incentive fee are verified.**



State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
The agency agrees with the recommendation	Implemented	Matthew Wager Manager II 720-865-4061

AUDIT FINDING II:

Central Parking calculates and manually includes Denver’s sales tax amount on their supplier’s Digital Printing Systems invoices then remit the modified invoice to Public Works for reimbursement. Public Works approves the modified invoice and reimburses Central Parking for the hand written business tax amount. Central Parking then uses these reimbursed tax proceeds from the City to pay the State of Colorado and Denver’s sales and use taxes.

RECOMMENDATION 2:

- o We recommend the Department of Public Works stop approving and reimbursing business tax amounts as currently submitted. Public Works should require Central Parking to comply with the conditions of the contract and standard operating procedures to ensure proper compliance.

RESPONSE/ACTION PLAN:

The Agency has stopped reimbursing business tax amount as previously submitted. The Agency is requiring Central to comply with the conditions of the contract and standard operating procedures. Hand written invoices will not be accepted. Modified invoices will not be approved for payment.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
The Agency agrees with the recommendation.	Implemented	Matthew Wager Manager II 720-865-4061

RECOMMENDATION 3:

- We recommend that the Department of Public Works conduct an assessment on all Digital Printing Systems invoices to determine total sales tax reimbursed, and as a result of the assessment recover these business tax amounts.

➤ **RESPONSE/ACTION PLAN:**

- **Traffic Engineering Services is conducting an assessment of Digital Printing Invoices submitted by Central Parking for sales tax reimbursement and will recover appropriate amounts.**

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
The Agency agrees with the recommendation.	Assessment underway	Matthew Wager Manager II 720-865-4061

Please contact Matthew Wager at 720-865-4061.

Sincerely,



**Matthew Wager
Manager II**

cc: **Bill Vidal, Manager of Public Works
Lesley Thomas, Public Works Executive Manager
George Delaney, Public Works Executive Manager**