

City of Oakland Office of the City Auditor

June 23, 2010

Revenue & Costs: RPP Program Performance Audit

Weak Oversight of Entities that Pay Residential
Permit Parking (RPP) Program Permits
Resulted in Uncollected Revenue
and Unanticipated Costs



City Auditor
Courtney A. Ruby, CPA, CFE

PERFORMANCE AUDIT



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June 23, 2010

OFFICE OF THE MAYOR
HONORABLE CITY COUNCIL
OAKLAND, CALIFORNIA

**RE: REVENUE & COSTS – RESIDENTIAL PERMIT PARKING PROGRAM
PERFORMANCE AUDIT**

Dear Mayor Dellums, President Brunner and Members of the Council:

Attached is the second in a series of three reports that focuses on the Residential Permit Parking Program (RPP). Last year, the Office of the City Auditor issued an interim Residential Permit Parking Performance Audit report to assist the City Council during budget deliberations. This final RPP Performance Audit report series expands on the issues previously identified in the interim report and goes further into critical policy areas, program mismanagement and ineffective and inefficient business practices.

The objectives of the audit were to analyze and evaluate the efficiency of the RPP Program including Parking Management's oversight of a) relationships with third party entities that pay for RPP permits and b) RPP areas which have permits subsidized by the City.

Overall the audit found Parking Management:

- 1) Did not have proper internal controls in place to manage relationships with third party entities that pay for RPP permits, resulting in up to \$120,000 in uncollected, non-invoiced and improperly accounted for revenue
- 2) Was not aware of the City's financial responsibility for an estimated \$85,000 of Area B RPP permit fees

As a result, the audit concludes that, without policies and procedures in place and enforced, Parking Management cannot ensure appropriate management and oversight of RPP third party entity agreements. Additionally, it was during the audit that the City learned a) it was subsidizing area B RPP fees, and b) it was in violation of its own ordinance when it began charging residents in Area B RPP fees in 2008.

The City has a responsibility to ensure basic management systems are in place to record agreements, issue invoices, collect payments and track city subsidies. The system failures outlined in this report are examples of mismanagement. It is incumbent upon the Administration to not only fix them but to identify other areas where these types of failures may be occurring throughout the city—and to address them with haste.

I would like to express my appreciation to the Office of the City Administrator and Parking Management for their cooperation throughout this audit process. A response from Parking Management is included at the end of the report.

I would also like to acknowledge my staff for their dedicated service in performing the Residential Permit Parking Program Performance Audit Report Series.

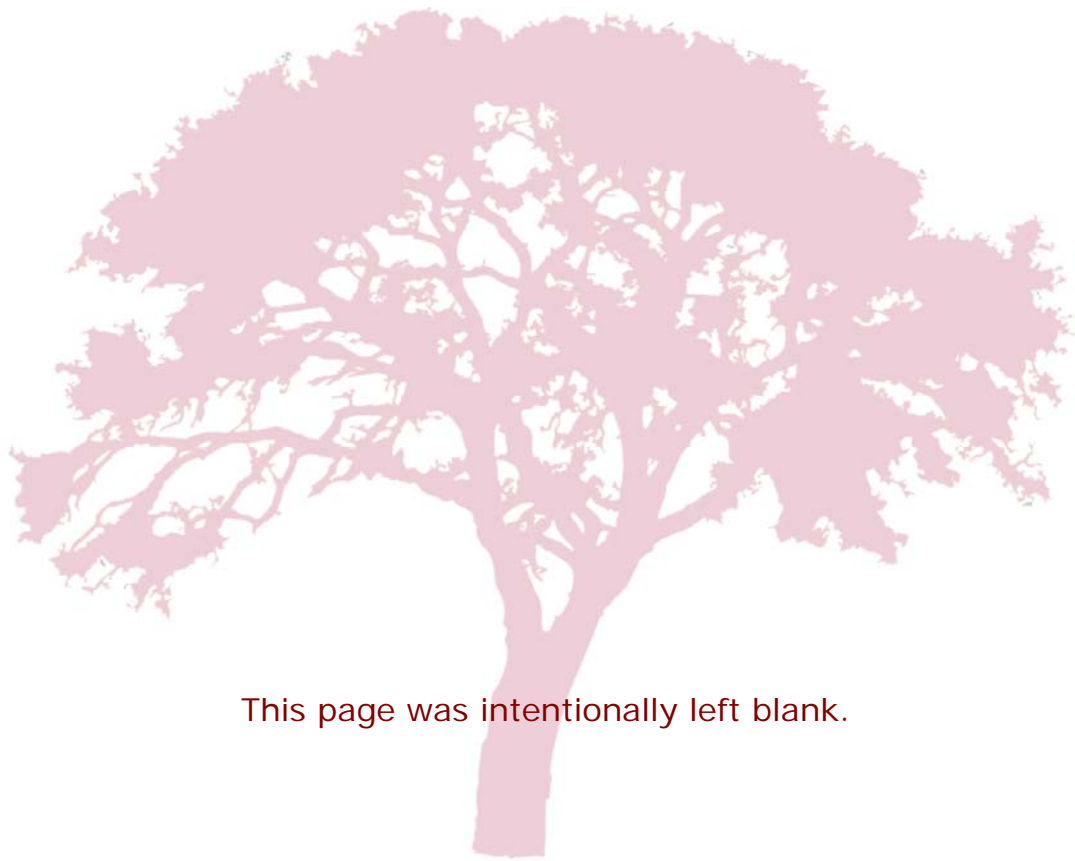
Respectfully submitted,

A handwritten signature in black ink, reading "Courtney A. Ruby". The signature is written in a cursive, flowing style with a large initial 'C' and 'R'.

COURTNEY A. RUBY, CPA, CFE
City Auditor

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Residential Permit Parking Program Performance Audit Summary

Revenue & Costs

Revenue and Costs: Weak Oversight of Third Party Entities that Pay for RPP Resulted in up to \$120,000 in Uncollected or Mishandled Revenue and \$85,000 in Unanticipated Costs to the City

Overview

The Office of the City Auditor conducted a performance audit of the Residential Permit Parking (RPP) Program, which is a program under the Parking Division of the Finance and Management Agency. The scope of the audit primarily focused on FY 2006-07 through FY 2008-09. The objective of the audit was to analyze and evaluate the efficiency and effectiveness of the RPP Program including Parking Management's oversight of a) relationships with third party entities that pay for RPP Permits and b) RPP areas with permits subsidized by the City. This report is the second in a series of three final RPP Program performance audit reports.

Key Findings

- Parking Management did not have documented agreements for all relationships with third party entities.
- Parking Management lacked an accounts receivable management system to manage third party entity transactions.
- Parking Management did not invoice third party entities in a timely manner, including an estimated \$15,000 for FY 2008-09.
- Parking Management did not collect outstanding accounts receivables totaling approximately \$50,000 from two third party entities.
- Parking Management did not maintain adequate financial records to prove payment of invoices, totaling approximately \$40,000.
- Parking Management did not charge third party entities late fees for delinquent payments totaling approximately \$15,000.
- Parking Management was not aware that the City subsidized approximately \$85,000 in Area B RPP permit sales.

Key Recommendations

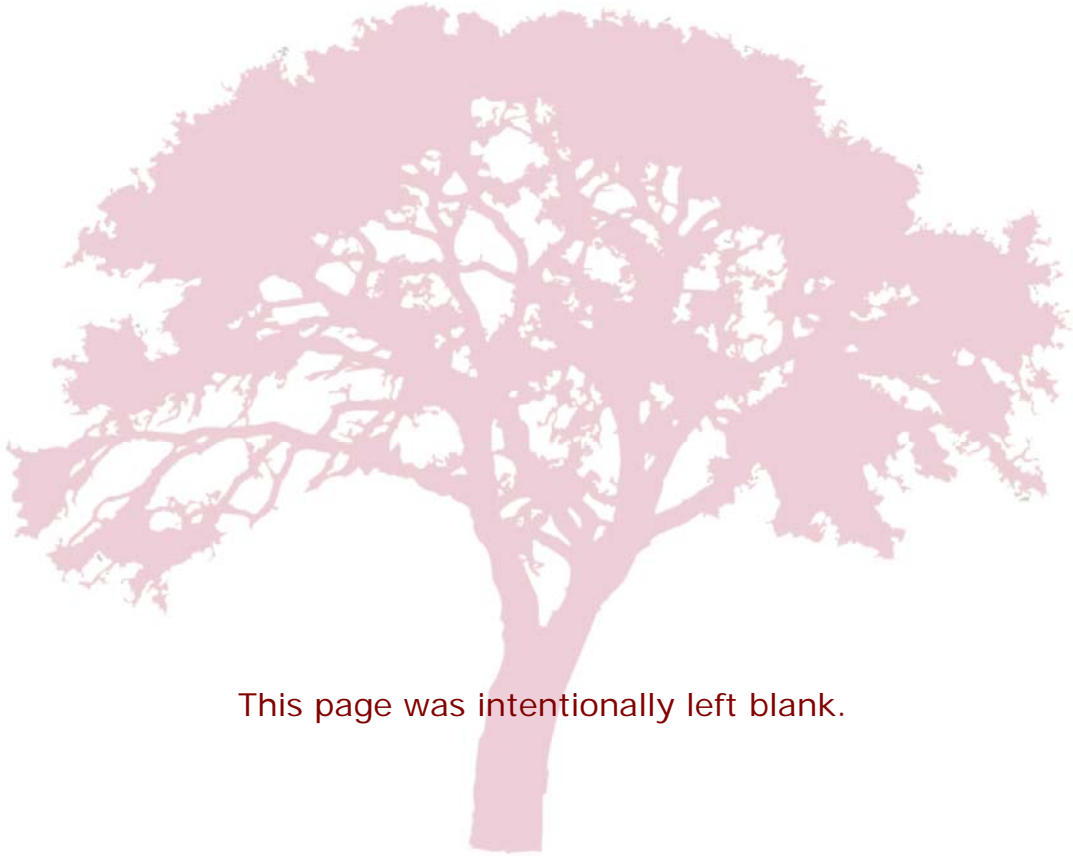
We recommend that City Council and Parking Management:

Implement a procedure to ensure all third party entities have documented ordinances or agreements which define the relationship between the City and the third party entity. The document should clearly state who is to pay for the permits, the justification for the payment and the approximate time period payments will be made.

We recommend that Parking Management:

Develop written policies and procedures for the accounts receivables system related to RPP transactions with third party entities.

Clearly document any decision and reasoning for charging Area B residents for RPP Permits. Either begin waiving the fee for Area B residents again or amend Resolution No. 68112 accordingly, with clear rationale documented to ensure full transparency.



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Introduction

The City of Oakland's (City) Residential Permit Parking (RPP) Program was instituted in 1986 after a series of public hearings found that traffic congestion and a shortage of parking were significant problems in areas with a high volume of non-resident traffic. The purpose of the RPP Program is to limit off-street parking by nonresidents in order to:

- Allow residents adequate parking space
- Promote the safety, health and welfare of the residents of Oakland by reducing motor vehicle travel and pollution

On September 23, 2008, the Parking Division of the City's Finance and Management Agency (FMA) issued an Agenda Report calling for an increase in permit parking fees and an annual adjustment of 3% to cover the cost of operating the program. City Council decided to partially increase the fees and approve the annual adjustment of 3%. City Council also requested the Office of the City Auditor (City Auditor) conduct a performance audit before further consideration of fee increases for Fiscal Year (FY) 2010-11. On May 28, 2009, the Office of the City Auditor issued an interim report to support the Mayor's and City Council's budget deliberations in a timely manner.

This report is the second in a series of three final RPP Program performance audit reports and focuses on Parking Management's oversight of:

- Relationships with third party entities that pay for RPP permits
- RPP areas with permits subsidized by the City

Background

Third Party Entities and Subsidized Permits

Due to the fact that only some Oakland residents benefit from the RPP Program, there is a user fee charged to help cover the cost of the program. The City has residents pay to opt into the program, rather than implementing a citywide tax or parcel assessment.

However, not every Oakland resident who lives in an RPP area and has an RPP permit pays for it. Residents in some parts of Area A, all of Area E, and Area H have their permits paid for by a third party entity. For purposes of this performance audit, third party entities refer to private or public entities that have land use development projects that impact neighborhood residential parking. In negotiations with the City, the third party entity agrees to take on the financial responsibility of implementing an RPP area if there is not already one in place. In addition to the implementation of the RPP area, the third party entity generally agrees to subsidize residential permits for a specified length of time. The third party entities identified during the audit were Kaiser Permanente Hospital, Head-Royce School and Highland Hospital. Third party entities and subsidized permits are further discussed in this audit report.

Objectives, Scope & Methodology

Audit Objectives

The objectives of this audit were to analyze and evaluate the efficiency and effectiveness of the RPP Program including Parking Management's oversight of:

- Relationships with third party entities that pay for RPP permits
- RPP areas which have permits subsidized by the City

Audit Scope

The scope of the audit primarily focused on FY 2006-07 through FY 2008-09. To demonstrate the financial significance of RPP permit sales revenue, we reviewed data from FY 1990-91 through FY 2008-09. Our review of internal controls was limited to the controls relied upon by Parking Management to administer the RPP Program during the primary audit scope of FY 2006-07 through FY 2008-09. During the audit period, a transition in Parking Management occurred in February 2009.

Audit Methodology

To analyze and evaluate the efficiency of the program, we:

- Interviewed Parking Management and staff to obtain an understanding of the RPP Program process and systems
- Reviewed accounts receivable documents relevant to third party entities
- Reviewed relevant RPP Program ordinances

We performed 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.

CHAPTER ONE

Parking Management did not have proper internal controls in place to manage relationships with third party entities that pay for RPP permits, resulting in up to \$120,000 in uncollected, non-invoiced and improperly accounted for revenue

Third party entities pay for RPP permits for residents due to the parking congestion caused by proposed land use development projects in a particular neighborhood. The third party entities identified in the audit were Kaiser Permanente Hospital (Kaiser), Head-Royce School and Highland Hospital.

Overall, the audit found Parking Management had poor oversight of relationships with third-party entities. The audit found that the City did not have formalized agreements approved through a City Council ordinance for Kaiser and Head-Royce School. In addition, Parking Management could not find reimbursement agreements creating financial responsibility for payment of RPP permits by Kaiser, Head-Royce School and Highland Hospital. The audit also found that Parking Management did not have controls in place to manage a) invoicing; b) collecting outstanding and delinquent invoices; c) charging late fees; and d) resolving accounts receivable discrepancies. This lack of internal controls resulted in up to \$120,000 in uncollected, non-invoiced, and improperly accounted for revenue from FY 2001-02 to FY 2008-09.

Third Party Entities

For purposes of this performance audit, third party entities refer to private or public entities that have land use development projects which impact neighborhood residential parking. In negotiations with the City, the third party entity agrees to take on the financial responsibility of implementing a residential permit parking area if there is not already one in the area. In addition to the implementation of the RPP area, the third party entity will agree to subsidize residential permits for a specified length of time. At the end of each fiscal year, Parking Staff complete an invoice totaling all new and renewal residential permits for the area and send it to each appropriate third party entity. Exhibit 1 shows the RPP areas where permits are paid for by a third party entity.

EXHIBIT 1: RPP Areas with Permits Paid by a Third Party Entity

RPP Area	Third Party Entity
Area A ¹ (partially)	Kaiser Hospital
Area E	Head-Royce School
Area H ²	Highland Hospital
Source: Parking Management	

Kaiser pays for some permits in RPP Area A because Kaiser planned to build a new medical office and needed to reduce the impact of traffic and parking in the neighborhood. Kaiser agreed to implement the RPP Program in the surrounding neighborhood as a condition of approval for building its medical office. While Head-Royce School pays for permits in Area E, Parking Management was not able to provide any additional background information about the reasons for the creation of Area E. From FY 1997-98 to FY 2007-08, Highland Hospital was responsible for paying for permits for Area H. According to City Agenda Reports, Highland Hospital was building a parking garage and was willing to pay up to \$47,000 for costs related to the initial set up of Area H and permit fees for residents.

Parking Management did not have agreements with RPP third party entities

Parking Management was not able to find an agreement with Head-Royce School stating payment responsibility for residential permits in Area E. However, the audit found that Parking Management was able to invoice Head-Royce School because a school representative remembered the agreement with the City, and was willing to make the payments.

Parking Management also was not able to find an agreement with Kaiser, stating payment responsibility for residential permits in Area A. Parking Management provided the City Auditor's Office with an interoffice letter from the Director of Public Works stating that Kaiser was to pay for the permits. While an interoffice letter does not carry the same enforceability as a signed agreement, Kaiser has continued to make payments in spite of the fact that no such agreement exists.

[Ordinance Between the City and Highland Hospital RPP Exemplifies the Best Practice for Third Party Entities Paying for Residential Permits](#)

¹ Area A includes both residents who pay for the permits, and some residents whose permits are paid for by Kaiser.

² Area H is no longer an RPP Area as of July 2008.

On November 17, 1998, the Public Works Agency submitted a Council Agenda Report on the establishment of Area H as a new RPP Area. According to the Agenda Report, Area H was to be formed as a way to discourage all day parking by vehicles displaced because of Highland Hospital's parking garage construction project. The project was scheduled to be completed in mid-2001. The Agenda Report stated that Highland Hospital would pay for the RPP permits in Area H. Staff negotiated with Highland Hospital to pay up to \$47,000 to create Area H, with \$27,000 specifically committed to permit revenue and the remaining \$20,000 to other program costs.

On December 1, 1998, City Council passed an ordinance approving the creation of RPP Area H. The ordinance clearly states who is to pay for the permits, the rationale for the payment and for approximately how long the payments will be made. All relationships between the City and third party entities should have an ordinance to formalize third party agreements. If there is no City Council ordinance, the City is at risk of not being able to enforce specific provisions formalized in a signed agreement made with third party entities.

In spite of setting the standard for formalizing relationships with third party entities, the audit found a deficiency in the ordinance's implementation. The ordinance authorized the City Administrator to negotiate a reimbursement agreement with Highland Hospital. However, the audit found that neither Parking Management nor CEDA Management could provide the reimbursement agreement. Similarly, Parking Management was also not able to provide reimbursement agreements for Kaiser and Head-Royce School.

Without Agreements in Place with Third Party Entities, the City is At-Risk of Not Being Able to Collect Revenue Due to the City

The audit found that Parking Management did not have clear policies and procedures for developing agreements with third party entities. Without agreements in place with third party entities, Parking Management puts the City at risk of not receiving payments from Kaiser and Head-Royce School for any of the permits issued within their respective RPP areas.

From FY 2000-01 through FY 2008-09, \$118,958 in permit fee revenue was at risk of not being collected from Kaiser and Head-Royce School as shown in Exhibit 2.

EXHIBIT 2: Total Permit Fees for Kaiser and Head-Royce School for FY 2001-02 Through FY 2008-09

	FY 2001-2008 (Invoiced)	FY 2008-09 (Non-invoiced) Averaged Amounts ³	Total
Total Kaiser Invoices	\$89,733	\$12,819	\$102,552
Total Head-Royce Invoices	\$14,355	\$2,051	\$16,406
Total			\$118,958

Sources: Kaiser and Head-Royce School Invoices for FYs 2001-02 through 2007-08

We recommend that Parking Management and City Council adopt an ordinance for the City's current relationships with Kaiser and Head-Royce School; and, develop a procedure to ensure the City develops an agreement with all third party entities creating new or expanding RPP areas in the future.

Parking Management lacked an accounts receivable management system

The audit found that Parking Management poorly managed RPP transactions with third party entities. Parking Management did not have a formalized accounts receivable system in place. As of the end of FY 2008-09, Parking Staff was responsible for sending out the invoices and collecting the payments, however there were no policies and procedures defining this process.

Specifically, the audit found that there were no policies and procedures in place for:

- Invoicing
- Collecting open and delinquent invoices
- Charging late fees
- Resolving accounts receivable discrepancies

³ Refer to Exhibits 3 and 4 for additional information on non-invoiced amounts.

Generally accepted government auditing standards define a program's policies and procedures as an internal control that "provides reasonable assurance that a program meets its objectives, while considering cost-effectiveness and efficiency." Without policies and procedures, Parking Management cannot effectively manage relationships with third party entities. As a result of the poor program management, there was up to \$120,000 in uncollected, non-invoiced, and improperly accounted for revenue from third party entities from FY 2001-02 to FY 2008-09.

Best Practice Guidelines State a Process Should Exist to Invoice Third Party Entities in a Timely Manner, Collect Outstanding and Delinquent Accounts, and Charge Late Fees

Best practice guidelines from the Government Finance Officers Association (GFOA) state policies and procedures should document the internal controls necessary to effectively manage the accounts receivable process. Exhibit 3 shows the GFOA standards for essential accounts receivable system components and the RPP Program audit findings associated with each of those components. In addition, the exhibit includes relevant City policy references that address the accounts receivable system components. The remainder of this chapter further discusses each of the audit findings summarized in Exhibit 5: non-invoiced revenue, uncollected revenue, improperly accounted for revenue and late fees from non-invoiced revenue.

Exhibit 3: Accounts Receivable System GFOA Standards, City Policies and Related Audit Findings

Accounts Receivable Component	Best Practice: GFOA Standard and City Policy	Audit Finding	Fiscal Impact
Invoicing	According to the GFOA guidelines for revenue policy and accounts receivable controls, "all bills should be generated within an established time after initial service provision (e.g. within 45 days)."	<p>On average Parking Management invoiced third party entities ten months after the end of the fiscal year.</p> <p>As of December 2009, Parking Management was already six months into FY 2009-10 and had not sent out the third party entity invoices for FY 2008-09.</p>	\$14,870 non-invoiced revenue
Collections	<p>The GFOA's guidelines for revenue policy and accounts receivable controls state "when services are provided by the department prior to the receipt of funds for such services, an on-going accounts receivable system, with documented internal controls, [should] be maintained for those functions as approved by the appropriate officials."</p> <p>The GFOA's guidelines also state that "all accounts receivables should be recorded in a manner to permit an analysis of aging of such receivables (e.g. <30 days, 30-60 days etc.)."</p>	<p>Parking Management was not able to provide accounts receivable documentation showing any evidence that an accounts receivable system was being maintained.</p> <p>Parking Management has no documentation to show follow-up on collection or follow up on accounts receivable discrepancies with the third party entities.</p> <p>Parking Management does not utilize the City's centralized collections function.</p>	\$49,025 uncollected revenue
Record Keeping	<p>Refer to the standard for Collections above.</p> <p>In addition to GFOA standards on record keeping, according to the City's Records Retention Schedule, collections documentation is to be kept for five years.</p>	<p>Parking Management did not maintain adequate financial records to prove payment of invoices.</p> <p>Parking Management was not able to provide accounts receivable documentation showing any collected or outstanding accounts receivables.</p>	\$39,090 improperly accounted for revenue
Late Fees for Delinquent Accounts	<p>According to the GFOA guidelines for revenue policy and accounts receivable controls, "the initiating department should have specified practices that ensure proper delinquent notice is provided to customers and continued service is restricted, unless continuation of service is required by law or resolution, until such accounts are current. Such practices should specify the threshold of materiality of a delinquency for which further collection efforts would be pursued (e.g. > 180 days and over \$25)."</p> <p>Also, according to the City's Master Fee Schedule, contractors with delinquent payments on invoices are required to pay a late fee of 10% of the invoice amount or \$150, whichever is higher.</p>	<p>Parking Management did not charge third party entities late fees for delinquent accounts.</p> <p>Parking Management has no procedures in place to require late fees be collected from third party entities with delinquent accounts.</p>	\$15,109 late fees
Total			\$118,094

Source: GFOA Accounts Receivable Standards, City of Oakland's Record Retention Schedule, Third Party Entity Invoices and Checks, City's Master Fee Schedule

Parking Management did not invoice Kaiser, Head-Royce School and Highland Hospital in a timely manner, including an estimated \$15,000 for FY 2008-09

The City Auditor's Office inspected all of the invoices from FY 2001-02 to FY 2007-08 that were sent to third party entities. We found that on average it took ten months after the end of the fiscal year for the Parking Office to invoice the entities for the previous fiscal year. We were not able to include Highland Hospital in our analysis because the single invoice provided during the audit did not specify which fiscal years were included. According to Parking Staff, the \$47,000 invoice dated May 13, 2008, to Highland Hospital, was the first invoice sent to this entity since the ordinance for Highland Hospital was signed in 1998. CEDA operated the RPP Program until FY 2000-01. The program was assigned to the Parking Division thereafter. Neither Parking Management nor CEDA, invoiced Highland Hospital for approximately 10 years.

Furthermore, as of December 2009, Parking Management was already six months into FY 2009-10 and had not sent out the third party entity invoices for FY 2008-09. Thus, we were not able to include permit sales from FY 2008-09 in our uncollected accounts receivable analysis. However, Exhibit 4 details the average of the accounts receivable amounts from FY 2001-02 to FY 2007-08. The audit used the average invoiced amount for the FY 2001-02 to FY 2007-08 period to estimate the non-invoiced revenue for FY 2008-09. As of June 2008, Area H, the area surrounding Highland Hospital is no longer an RPP area, therefore Highland Hospital is no longer invoiced for permits.

Exhibit 4: Third Party Entity Average Non-Invoiced Revenue for FY 2008-09

Third Party Entity	Average Amount Non-invoiced
Kaiser	\$12,819
Head-Royce School	\$2,051
Total	\$14,870

Sources: Kaiser and Head-Royce School Invoices FYs 2001-02 through 2007-08 and Parking Management

Parking Management did not collect outstanding accounts receivables totaling \$49,025 from Head-Royce School and Highland Hospital

The audit found that from FY 2001-02 to FY 2007-08, a total of \$49,025 had not been collected from Head-Royce School and Highland Hospital. Exhibit 5 shows the uncollected accounts receivable amounts by entity. The "Uncollected Accounts Receivables" column totals the amount that Parking Management and the City Auditor's Office agree has not been paid.

A total of \$47,000 of uncollected accounts receivables are due from Highland Hospital. Parking Management stated that Highland Hospital refuses to pay. However, Parking Management did not provide documented communication with Highland Hospital to show there was an effort made to try to resolve the invoice discrepancies.

Exhibit 5: Third Party Entity Uncollected Accounts Receivables for FY 2001-02 Through FY 2007-08

Third Party Entity	Uncollected Accounts Receivables
Kaiser	\$0
Head-Royce School	\$2,025
Highland Hospital	\$47,000
Total	\$49,025

Sources: Head-Royce School and Highland Hospital Invoices FYs 2001-02 through 2007-08 and Parking Management

Parking Management did not maintain adequate financial records to prove payment of invoices totaling \$39,090

Parking Management claimed that \$39,090 of the third party entity invoices for FY 2001-02 through FY 2007-08 had been paid. However, Parking Management was not able to provide the City Auditor's Office with any documentation showing these payments were made, either through a photocopy of the check or in reports from the City's Oracle financial system. This lack of documentation reflects poor record keeping in critical City financial systems. Exhibit 6 shows a total of \$39,090 in unaccounted for revenue.

Exhibit 6: Third Party Entity Improperly Accounted for Revenue for FY 2001-02 Through FY 2007-08

Third Party Entity	Amount Paid According to Parking Management but Improperly Accounted
Kaiser	\$26,760
Head-Royce School	\$12,330
Highland Hospital	\$0
Total	\$39,090
Sources: Kaiser, Head-Royce, and Highland Hospital FYs 2001-02 through 2007-08 Invoices and Parking Management	

Parking Management did not charge Kaiser, Head-Royce School and Highland Hospital late fees for delinquent payments totaling approximately \$15,000

The audit verified that Parking Management received payments totaling \$62,973 from FY 2001-02 to FY 2007-08. These payments were only made by Kaiser. No financial documentation was provided to verify that any payments were made by Head-Royce or Highland Hospital.

Payments totaling \$62,973 made by Kaiser were received between eight months and two years after the invoice date. According to the City's master fee schedule, contractors with delinquent payments on invoices are required to pay a late fee of 10% of the invoice amount or \$150, whichever is higher. Parking Management requested in the invoice cover letter that the third party entities make payments within 15 days of the invoice date. Although Parking Management had a payment deadline, we found that Parking Management did not charge the third party entities a late fee if they did not make the payment in a timely manner. Exhibit 7 below shows the appropriate late fees that should have been charged to Kaiser for each invoice paid.

Exhibit 7: Paid Invoices from Kaiser for FY 2001-02 Through FY 2007-08 and Applicable Uncollected Late Fees

Fiscal Year	Date Due	Date Paid	Months Lapsed	Amount Paid	Late Fee (10%)
FY 2007-08	1/7/2009	9/22/2009	9 months	\$10,440	\$1,044
FY 2004-05	4/27/2006	12/18/2006	8 months	\$13,315	\$1,332
FY 2003-04	12/1/2004	12/18/2006	24 months	\$13,040	\$1,304
FY 2002-03	1/29/2004	12/18/2006	36 months	\$14,493	\$1,449
FY 2001-02	1/29/2004	12/18/2006	36 months	\$11,685	\$1,169
Total				\$62,973	\$6,297
Sources: Kaiser Invoices, Check Photocopies, Oracle Accounts Receivable Reports for FYs 2001-02 through 2007-08 and the City of Oakland Master Fee Schedule				Note: FY 2005-06 and FY 2006-07 are not included because documentation showing payments was not provided	

Exhibit 8 shows that up to \$15,109 could have been collected in late fees for invoices that were paid late, as well as accounts receivables that are still outstanding. Of the \$15,109, \$11,200 consists of late fees from invoices that had not been paid or were paid late. The remaining balance of \$3,909 consists of late fees on payments that Parking Management claims were made. However, without documentation to confirm payment, this revenue is not properly accounted for and may still be outstanding or may have been paid late.

Exhibit 8: Late Fees from Uncollected and Improperly Accounted for Revenue for FY 2001-02 Through FY 2007-08

Third Party Entity	Uncollected Accounts Receivables	Late Fee (10%)	Improperly Accounted for Revenue	Late Fee ⁴ (10%)	Total Amount Owed in Late Fees
Kaiser	\$0	\$6,297 ⁵	\$26,760	\$2,676	\$8,973
Head-Royce School	\$2,025	\$203	\$12,330	\$1,233	\$1,436
Highland Hospital	\$47,000	\$4,700	\$0	\$0	\$4,700
Total	\$49,025	\$11,200	\$39,090	\$3,909	\$15,109

Sources: Kaiser, Head-Royce School, Highland Hospital Invoices, Kaiser Checks and Oracle Accounts Receivable Reports, for FYs 2001-02 through 2007-08 and the City of Oakland Master Fee Schedule

Conclusion

In summary, without policies and procedures in place and enforced, Parking Management cannot ensure appropriate management and oversight of RPP Program third party entity agreements. The lack of an accounts receivable system with clear procedures on invoicing, collections, proper accounting of revenue, and assessing late fees have resulted in up to \$120,000 in non-invoiced, uncollected, and improperly accounted for revenue.

We recommend that Parking Management immediately implement an accounts receivable system. The system should contain documented policies and procedures to ensure accurate and timely financial program management specifically with third party entities. We also recommend that Parking Management invoice, collect, and properly account for up to \$120,000 in third party entity revenue still due to the City.

Effective program management is dependent upon strong management systems that create internal controls such as clearly documented policies and procedures and properly designed financial controls. Without effective program management, Parking Management cannot ensure that they are meeting their objectives to serve the public in an economical manner.

⁴ These late fees would be charged if the payments were late. Late payment of an invoice would be 15 days past the invoice date, as stated on invoices to the third party entities. Since Parking Management did not provide the City Auditor's Office with documentation for actual payments, we cannot determine whether they were paid on time, late or at all.

⁵ \$6,297 is the amount of late fees for Kaiser's payment of \$62,973, which Parking Management was able to verify.

Recommendations

We recommend the City Council and Parking Management:

Recommendation #1	Implement procedures to ensure all third party entities have documented ordinances or agreements which define the relationship between the City and the third party entity. The document should clearly state who is to pay for the permits, justification for the payment and the approximate time period the payments will be made.
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We recommend Parking Management:

Recommendation #2	Develop and document policies and procedures for the accounts receivable system related to RPP transactions with third party entities.
Recommendation #3	Develop a policy and procedure to invoice all third party entities in a timely manner. Clearly identify when all invoices should be sent. Ensure that \$14,870 in FY 2008-09 invoices for third party entities identified in the audit are sent in a timely manner.
Recommendation #4	Develop a procedure to track and collect all accounts receivables, including the \$49,025 in uncollected revenue identified in the audit.
Recommendation #5	Ensure that all received revenue is accurately documented in accounts receivable records. Remedy the \$39,090 of improperly accounted for revenue identified in the audit.
Recommendation #6	Develop a policy and procedure to charge the appropriate late fees for delinquent accounts, including the \$15,109 identified in the audit.

CHAPTER TWO

Parking Management was not aware of the City's financial responsibility for an estimated \$85,000 of Area B RPP permit fees

The audit found that Parking Management was not aware of the financial responsibility for Area B permits. The Community and Economic Development Agency (CEDA) informed Parking Management that the third party entity Bay Area Rapid Transit (BART) was to pay for the permits, however no agreement with BART was found. Beginning in FY 2008-09, Area B residents were charged for the RPP permit fee. However, the audit found that this violates Resolution No. 68112, which waives RPP permit fees for Area B residents. Over the 17 year period since FY 1991-92, the City was not aware that it subsidized Area B residents' permit fees, totaling approximately \$85,000. Financial responsibility for Area B should be clearly documented to ensure effective financial management.

Area B Subsidies

With the RPP Program split between CEDA and the Parking Division, the audit found that neither CEDA nor Parking Management knew who was financially responsible for Area B permits. Further, neither could provide documentation clearly assigning financial responsibility for Area B permit fees.

Parking and CEDA Management initially believed that BART was responsible for paying the RPP fees for Area B residents. Audit requests to provide documentation for this agreement revealed that Parking Management could not locate an agreement with BART for the payment of the RPP permits. Furthermore, the audit found in spite of Parking and CEDA Management's belief that BART was responsible for payment of Area B RPP permits; neither Parking nor CEDA Management invoiced BART for any of the permits from FY 1991-92 to FY 2007-08.

Upon learning of the audit's finding, CEDA Management reversed its position and stated that there was no agreement with BART. Following additional review, the City Auditor's Office found Resolution No. 68112 dated June 11, 1991, which states "neighborhood representatives, Caltrans, and the City of Oakland have agreed that the City will waive the fees for the Residential Permit Parking stickers issued to the West Oakland residents." Parking and CEDA Management were not aware of this ordinance. As a result, CEDA and Parking Management did not know that the City had been subsidizing the Area B RPP fees from FY 1991-92 to FY 2007-08.

Parking Management's FY 2007-08 Permit Sales Report shows that a total of approximately \$5,000 would have been charged to Area B permit holders for that year. However, Area B permit holders did not pay this amount because the residents were given the permits for free. The audit used \$5,000 as the annual cost each year for covering Area B permit fees. Therefore, over the 17-year period since FY 1991-92, the City was not aware that it subsidized Area B residents' permit fees totaling approximately \$85,000.

The City Should Formalize Agreements between the City and Any Third Party Entity

Parking Management did not know whether the City had the financial responsibility of subsidizing Area B residents or if a third party entity had the responsibility to pay for the permits. However, as discussed in Chapter I, ordinances need to clearly state the rationale for subsidized permits and document agreements with third parties. If a third party entity were to pay for the permits, Parking Management and City Council should implement the best practice currently employed by the City for Highland Hospital. This includes a City Council ordinance formalizing an agreement assigning the financial responsibility for the RPP permits. If the City had the responsibility to fully subsidize the permits, the details and reasoning should have also been clearly documented through a City Council ordinance.

Parking Management Violated Resolution No. 68112

Area B residents were not charged for RPP permits from 1991 through mid-2008. In July 2008, Parking Management began charging residents for permits. However, the audit found that charging residents for the Area B permits was a violation of Resolution No. 68112, which waives RPP permit fees for Area B residents. Resolution No. 68112 states "neighborhood representatives, Caltrans, and the city of Oakland have agreed that the City will waive the fees for the residential permit parking stickers issued to the West Oakland residents."

Since the City began charging Area B residents for RPP permits in July 2008, Parking Management has not provided a) documentation to show an amendment to Resolution No. 68112; b) an explanation for the decision to begin charging residents for the permits; or c) documentation that demonstrates how the original decision was made to waive the fees for residents.

We recommend that Parking Management clearly document any decision and reasoning for charging Area B residents for RPP Permits. Parking Management should either immediately begin waiving the fee for Area B residents again or present the Area B issue to City Council so that City Council may amend Resolution No. 68112 accordingly.

Conclusion

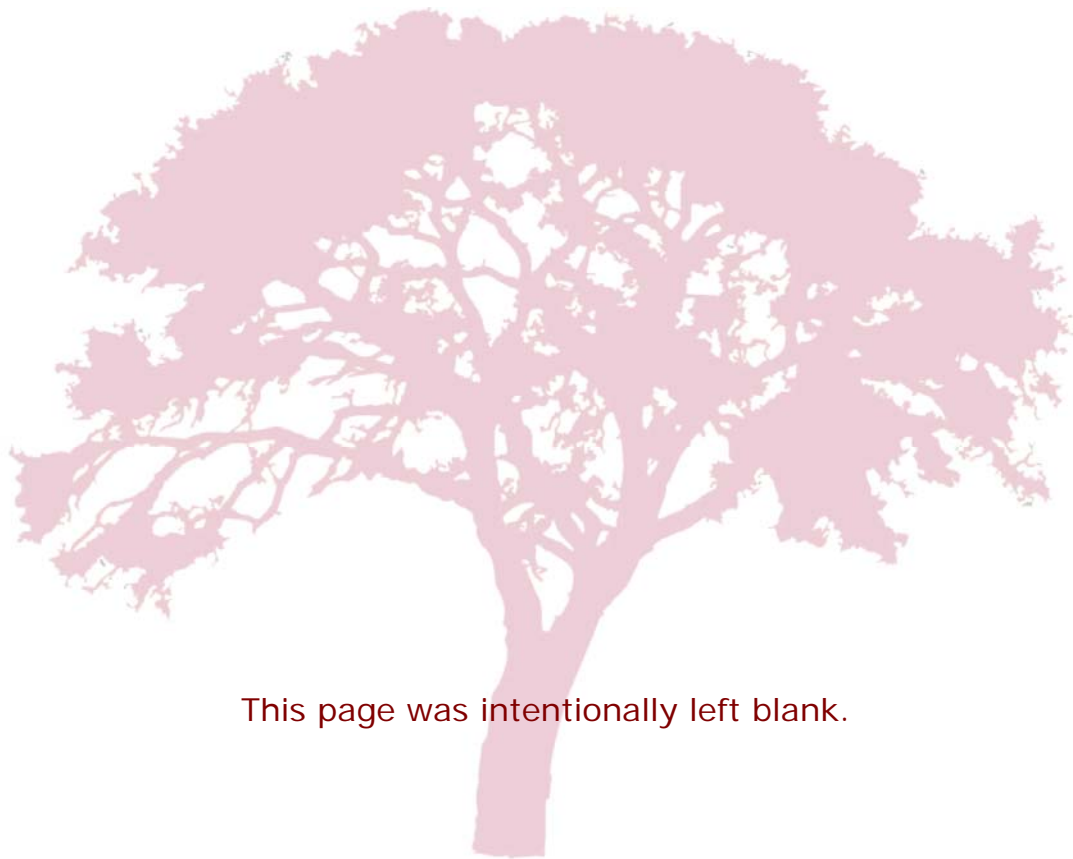
The audit found Parking Management was not aware of the City's subsidy of approximately \$85,000 in Area B permits. There were no clear roles and responsibilities defined for the financial management of RPP Area B. Further, there was no documentation detailing the rationale for past decisions made regarding Area B permits. As a result of the confusion surrounding Area B permits, Parking Management violated Resolution No. 68112, by charging Area B residents for permits. Parking Management should ensure all agreements for RPP permits are documented in a City Council ordinance stating the details regarding who maintains the financial responsibility for the RPP permits. Immediate City Council action to continue to uphold or amend Resolution No. 68112 will allow for proper financial management of the RPP Program.

Recommendations

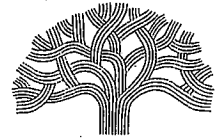
We recommend the City Council and Parking Management:

Recommendation #7

Clearly document any decision and reasoning for charging Area B residents for RPP Permits. Either begin waiving the fee for Area B residents again or amend Resolution No. 68112 accordingly, with clear rationale documented to ensure full transparency.



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June 15, 2010

Ms. Courtney Ruby
City Auditor
City of Oakland
150 Frank H. Ogawa Plaza
Oakland, CA 94612

Re: Response to Performance Audit of the Residential
Parking Program

Dear Ms. Ruby:

Attached please find the City's response to the Residential Permit Parking Program (RPP) audit, addressing Fiscal Years 2007-2008 and 2008-2009, under the previous Parking Management.

We acknowledge that some improvements have been made to the final draft of the audit to clarify that the audit deals with issues under prior management. We would like to further emphasize, however, that number of issues raised in the audit already have been or are being addressed by the current Parking Management. We request our initial and current responses to the audit (dated May 19, 2010 and June 15, 2010) be made a part of the record and release of the final report.

The current Parking Management team has already implemented procedures and internal controls for the RPP program, addressing many of the issues raised in your audit. Further, we have responded to each of the recommendations in your audit in terms of what we think is feasible, practical, and reasonable given the City's severe budget reductions and lack of staff. In summary, staff in Parking and other departments will take the following actions to implement the audit's recommendations:

Cost Recovery for RPP program – The Budget Office will formalize and document through Council Ordinance what types of costs are to be included and recovered for specific government programs and when less than full cost recovery would be appropriate. Furthermore, Administrative Instruction #19 and the Master Fee Schedule will be revised accordingly.

Contracts – The City has signed a new long term RPP contract with Kaiser Permanente which addresses audit recommendations; Parking Management will negotiate a new RPP contract with Head-Royce School.

Area B RPP Ordinance – Parking Management will submit a Resolution to Council to formally rescind the 1991 Resolution which waived RPP permit fees to Area B residents.

All other recommendations have either been implemented or are not practical for Oakland's RPP program.

The Parking Division's Management team is committed to further refining the administration of the RPP program. We look forward to a further dialogue with you as we accomplish this.

Sincerely,



Noel Pinto
Director, Parking Operations

cc: Dan Lindheim
Marianna Marysheva-Martinez
PCAC Supervisor

CITY OF OAKLAND

Response **to**

*The Final Draft Report of the Residential Permit Parking Program
Performance Audit Report #2*

June, 2010

Audit Response

This is a response to the audit conducted by the City Auditor regarding the Residential Parking Permit (RPP) program performance audit report #2. While some audit recommendations may help to further strengthen the administration of the RPP program, the audit report has some inaccurate statements in the final draft which the City is not in agreement with.

Although some changes to the audit report requested by the Parking division have been made, the report overall does not clearly emphasize that the audit findings reflect actions or decisions made by the **prior parking administration**. The report gives the appearance that the audit findings reflect current conditions under the new parking administration which is not the case.

RPP Report # 2

Chapter I: Parking Management did not have proper internal controls in place to manage relationships with third party entities that pay for RPP permits, resulting in up to \$120,000 in uncollected, non-invoiced and improperly accounted for revenue.

RECOMMENDATION NO. 1: Implement a procedure to ensure all third party entities have documented ordinances or agreements which define the relationship between the City and the third party entity. The document should clearly state who is to pay for the permits, the reasoning for the payment and for how long approximately the payments will be made.

RECOMMENDATION NO. 2: Develop and document policies and procedures for the accounts receivable system related to the RPP transactions with third party entities.

RECOMMENDATION NO. 3: Develop a policy and procedure to invoice all third party entities in a timely manner. Clearly identify when all invoices should be sent by. Ensure the \$14,870 in FY 2008-09 invoices for third party entities identified in the audit are sent in a timely manner.

RECOMMENDATION NO. 4: Develop a procedure to track and collect all account receivables, including the \$49,025 in uncollected revenue identified in the audit.

RECOMMENDATION NO. 5: Ensure that all received revenue is accurately documented in accounts receivable records. Properly account for the \$39,090 improperly accounted for revenue identified in the audit.

RECOMMENDATION NO. 6: Develop a policy and procedure to charge the appropriate late fees for delinquent accounts, including the \$15,109 identified in the audit.

Management's Response:

The current Parking Management has established procedures to manage relationships with third party entities that pay for RPP permits; we request that the Final Draft Audit Report reflect this fact (see Attachment #1). The following table identifies the third party entities that have RPP agreements with the City, RPP Area covered and outstanding billings. Staff has contacted the third parties and will be mailing invoices for the outstanding amounts. The outstanding amounts will be collected this fiscal year. Furthermore, Staff is in the process of negotiating new contracts with Head Royce School to replace former agreement, copy of which is unavailable. The City has negotiated a long term contract with Kaiser Permanente.

<u>Third Party Entity</u>	<u>RPP Area(s)</u>	<u>Contract in Place</u>	<u>Outstanding Billing</u>
Head Royce School	E	Contract document cannot be located. Parking staff will negotiate a new contract with Head Royce School	FY08/09 \$2,025
Highland Hospital	H	Contract has Expired and will not be renewed	None
Kaiser Permanente Medical Center	A	Contract document for Fiscal Years 2007/2008 and 2008/2009 cannot be located. A new fifty (50) year contract starting FY2010 -2011 has been established between the City and Kaiser and will be used for billing beginning FY2010-2011.	FY08/09 \$10,440

It is important to note that the Parking Division was not involved in establishing these third party contracts which were entered into several years ago. It is difficult to manage contracts when contract terms are not available to the contract overseers.

In conclusion:

Regarding Recommendation # 1: Have contract with Kaiser for FY10-11; in process of negotiating a contract with Head Royce School.

Regarding Recommendation # 2: Third party accounts receivable procedures have been instituted by Parking Management (see Attachment #1).

Regarding Recommendations # 3 - 4: Procedures to track, invoice and collect account receivables have been instituted (see Attachment #1)

Regarding Recommendation # 5: Procedures have been established to ensure that revenue received is accurately documented in account receivable records. (see Attachment #1)

Regarding Recommendation # 6: Policy and Procedures to charge late fees will be instituted and made part of the contracts with third party entities.

Chapter II: Parking Management was not aware of the financial responsibility for an estimated \$85,000 of Area B RPP permit sales.

RECOMMENDATION NO. 7: Clearly document any decision and reasoning for charging Area B residents for RPP Permits. Either begin waiving the fee for Area B residents again or amend Resolution No. 68112 accordingly, with clear rationale documented to ensure full transparency.

Management's Response:

Parking Management is taking steps to formally clarify, through a Council action, the financial responsibility for the Area B RPP permit sales. Area B residents have been charged for RPP permits since July 2008. A Resolution will be submitted to the City Council to rescind the 1991 Resolution waiving RPP permit fees to Area B residents.

PROCEDURE FOR BILLING THIRD PARTIES FOR RESIDENTIAL PARKING PERMITS

The City of Oakland enters into a contract with third parties for payment of residential parking permits. These agreements specify the length of the contract and the terms of billing. Parking Administration staff shall ensure that all third party contracts are maintained in a file and residential parking permits are billed in accordance with the terms of the agreements.

The procedure for billing third parties is as follows:

1. Third parties will be billed annually during the 3rd quarter of the fiscal year. Parking staff will set up a customer account for the third party (customer) and create an invoice for the total billable amount. The invoice will include a spreadsheet showing the number of residential parking permits sold and the dollar amount owed (see attached.).
2. Parking staff will forward two copies of the invoice to the FMA/AR Unit, including back-up documentation.
3. FMA/AR Unit staff reviews the accuracy of accounts, and then posts the invoice to the AR Module.
4. FMA/AR Unit staff sends monthly statements to the customer.
5. Parking Administration staff processes payment through the Point of Sale system, crediting the proper AR invoice number.
6. Parking Administration staff calls customer after 45 days of invoice, if not yet paid.
7. FMA/AR Unit staff notifies Parking Administration of accounts that are over 120 days.
8. Parking Administration sends invoices that are over 120 days old to Revenue Collections with back-up documentation. Sends a copy to the AR Unit with an invoice correction form

Analysis and Summary of Actions Necessary to Close the Report

We provided a final draft audit report to the City Administrator and Parking Management for review and comment. Parking Management’s response describes their actions taken or plans for implementing our recommendations. The Analysis and Summary of Actions Necessary to Close the Report summarizes our analysis of the agreements between the Office of the City Auditor and Parking Management on actions necessary to close the report. The status of each of the seven recommendations at the time of publication for this review is resolved, partially resolved or closed.⁶

Recommendation #1	<p>Resolved – This recommendation was directed to City Council and Parking Management. In response to the audit’s findings, Parking Management submitted a procedure specifying that the City enter into contracts with all third party entities that pay for residential parking permits. The procedure states that contracts should specify the length of the contract and the terms of billing. The procedure lacked additional detail to describe criteria or roles and responsibilities for every aspect of this process. For example, the procedure did not specify the criteria for why a new third party entity contract would be entered into or what process Parking Management will follow to bring a new third party contract to City Council for review and approval.</p> <p>To close this recommendation, Parking Management should revise the third party entity procedure with additional detail about criteria and roles and responsibilities for staff and City Council and present the procedure for City Council review and approval. A copy of the City Council-approved procedure should be provided to the Office of the City Auditor by January 3, 2011.</p>
Recommendation #2	<p>Closed – In response to the audit’s findings, Parking Management submitted a procedure for billing third party entities, including scheduling of invoicing, assigning the City’s centralized Accounts Receivable Unit the responsibility for tracking, and establishing collections procedures for overdue payments. Corrective action has been implemented and will be reviewed during the follow-up by the Office of the City Auditor.</p>
Recommendation #3	<p>Resolved – In response to the audit’s findings, Parking Management submitted a procedure for billing third party entities annually, during the 3rd quarter of the fiscal year, and forwarding two copies of the invoice to the City’s centralized Accounts Receivable Unit. Parking Management also stated in its response that it will be mailing invoices for the outstanding \$12,465 in FY 2008-09 amounts to third parties and will be collecting them this fiscal year (FY 2009-10).</p> <p>To close this recommendation, Parking Management should provide a copy of the FY 2008-09 invoices sent to Head Royce School and Kaiser Permanente, as well as evidence of collecting the revenue to the Office of the City Auditor by July 30, 2010.</p>

⁶ Resolved status indicates agreement on the recommendation and the proposed corrective action. Partially resolved status indicates partial agreement on the recommendation and the proposed corrective action. Implementation of the proposed corrective action forthcoming from the auditee. Closed status indicates the agreed upon corrective action is complete and the impact of the action will be reviewed during future audit follow-up.

<p>Recommendation #4</p>	<p>Partially Resolved – In response to the audit’s findings, Parking Management submitted a procedure for billing third party entities, including assigning the responsibility that Parking staff will call customers 45 days after an invoice is sent and has not yet been paid, the City’s centralized Accounts Receivable Unit will notify Parking Management of accounts that are over 120 days past due, and Parking Management will forward invoices over 120 days to Revenue Collections with back-up documentation. In its response, Parking Management was silent on actions to resolve the \$49,025 in uncollected revenue identified in the audit.</p> <p>To close this recommendation, Parking Management should provide evidence of collections of the \$49,025 in uncollected revenue to the Office of the City Auditor by July 30, 2010.</p>
<p>Recommendation #5</p>	<p>Partially Resolved – In response to the audit’s findings, Parking Management submitted a procedure assigning itself the responsibility to process payment of third party entity invoices through the Point of Sale system and crediting the proper A/R invoice number. Parking Management was silent on actions to resolve the \$39,090 in improperly accounted for revenue identified in the audit.</p> <p>To close this recommendation, Parking Management should produce documentation on the accounting treatment of the improperly accounted for \$39,090 in revenue to the Office of the City Auditor by July 30, 2010.</p>
<p>Recommendation #6</p>	<p>Partially Resolved – In its response, Parking Management stated that a policy and procedure to charge late fees will be instituted and made part of the contracts with third party entities. Parking Management noted that a contract had already been negotiated with Kaiser Permanente and one was being negotiated with Head Royce School. Parking Management was silent on previous late fees, including the \$15,109 identified in the audit.</p> <p>To close this recommendation, Parking Management should send a copy of the Kaiser Permanente and Head Royce School contracts, and a written determination from the City Attorney’s Office if the \$15,109 in late fees can retroactively be applied and collected by Parking Management, to the Office of the City Auditor’s Office by July 30, 2010.</p>
<p>Recommendation #7</p>	<p>Resolved – In its response, Parking Management stated that it will clarify through a proposed Council Resolution to rescind the 1991 Council Resolution that waived RPP permit fees to Area B residents.</p> <p>To close this recommendation, Parking Management should send a copy of the proposed Council Resolution on rescinding the RPP permit fees for Area B residents to the Office of the City Auditor by July 30, 2010.</p>