

Memorandum



CITY OF DALLAS
(Report No. A15-005)

DATE: February 13, 2015
TO: Honorable Mayor and Members of the City Council
SUBJECT: Audit of Parking Management Contract Oversight ¹

The Dallas Police Department's (DPD) oversight and contract monitoring activities over the *Acquisition Contract for Services Related to Meter Operations and a Parking Management Information System* (Parking Management Contract) and cash collections (see textbox) do not sufficiently reduce the risk of financial loss or vendor noncompliance. While DPD performs certain contract monitoring activities related to cash, the DPD does not:

- Have formal (documented) policies and procedures to guide DPD personnel's contract monitoring activities
- Sufficiently monitor the third party vendor's (ACS/Xerox) parking management activities to detect errors or potential fraud

Background

Effective May 21, 2005, the City of Dallas (City) and ACS State and Local Solutions, Inc. (ACS) entered into a Parking Management Contract to provide meter operations and a parking management information system over five City-owned parking lots and approximately 4,250 parking meters. When ACS merged with Xerox, additional services were added, and the revenue share agreement was amended.

Currently, the City and ACS/Xerox revenues are shared based upon established percentages of monthly gross revenues. The City receives approximately \$7.8 million to \$8.5 million in revenue annually from parking meters, parking lots, parking citations, parking permits, and valet services.

Source: DPD, Parking Management Contract

¹ We conducted the Audit of Parking Management Contract Oversight under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year (FY) 2014 Audit Plan approved by the City Council. This performance audit was conducted 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 conclusion based on our audit objectives. The audit objectives were to evaluate: (1) management's oversight and monitoring controls to assess the third party's compliance with the contract terms; and, (2) the adequacy of internal controls over cash collections. The audit scope included management operations from FY 2012 through FY 2014. We interviewed DPD personnel, reviewed policies and procedures, tested random samples of transactions, including supporting documentation, and performed various analyses. We also reviewed applicable City Administrative Directives, the Parking Management Contract, and Supplemental Agreements.

- Have a process for monitoring Supplemental Agreement No. 3 which calls for specific credits and refunds to the vendor/City based on a payment rate calculation
- Ensure ACS/Xerox consistently follows City of Dallas (City) policy which requires cash to be deposited within one business day of receipt²

As noted in Attachment II, City management disagreed with and declined to implement three of the four recommendations to improve oversight and contract monitoring. Of particular concern is management's reluctance to improve monitoring of the revenue sharing arrangement between the City and ACS/Xerox which was amended in May 2010 through Supplemental Agreement No. 3 (see page 5). Similar recommendations to develop and document contract monitoring procedures were made in an audit report issued in September 2008³. Although at that time City management agreed to implement those recommendations, they were never fully implemented. As a result, the risk of financial losses resulting from vendor errors, contract noncompliance, or potential fraud has existed for over six years and will continue to remain unmitigated.

I encourage City management to reconsider its position regarding the implementation of these three recommendations.

The findings and recommendations resulting from this audit are discussed in more detail on the following pages.

² On November 4, 2014, City Charter Ordinance No. 29376 was amended resulting in a change to the requirement of Administrative Directive 4-13, *Cash and Debt Management Policies and Procedures*, that cash be deposited on the day of receipt if possible or within one business day of receipt. The City Charter now requires cash to be deposited promptly in a commercially reasonable manner in city depositories.

³ *Audit of Service Contract Monitoring Controls* (Report No. A08-026)

Formal Policies and Procedures for Contract Monitoring Activities Are Not in Place

The DPD does not have formal (documented) policies and procedures for contract monitoring activities. Without formal contract monitoring policies and procedures, DPD cannot ensure ACS/Xerox has effective internal controls and DPD personnel are performing their duties consistently to reduce the risk of financial loss and Parking Management Contract noncompliance.

The Committee of Sponsoring Organizations⁴ (COSO) identified established policies and procedures as a control activity needed to manage risk.

Policies and Procedures

Policies and procedures:

- Ensure that fundamental organizational processes are performed in a consistent way that meets the organization's needs
- Exist to effect internal controls

Source: Committee of Sponsoring Organizations (COSO) and the Office of the City Auditor

The DPD Does Not Perform Sufficient Monitoring Activities

The DPD performs certain contract monitoring activities related to cash that provide some level of oversight; however, these activities do not validate ACS/Xerox's: (1) internal control effectiveness; and, (2) compliance with Parking Management Contract terms; including whether parking revenue collections and revenue share calculations are accurate and complete.

Monitoring Activities

ACS/Xerox is contractually responsible for the internal controls for all parking related activities specified in the Parking Management Contract.

The DPD is responsible for monitoring the effectiveness of ACS/Xerox's internal controls.

Monitoring activities assess whether internal controls are present and functioning as intended.

Source: COSO and the Office of the City Auditor

The DPD's cash monitoring includes comparing the following for accuracy and consistency:

- ACS/Xerox reported amounts to daily deposit slips prepared by the armored car company
- Accumulated daily deposit slips to a monthly and bi-monthly transaction reports

⁴ The COSO is recognized as a leading framework for designing, implementing, and assessing the effectiveness of internal control.

- Credit card deposits to the monthly credit card vendor statements

Additional detailed and documented monitoring processes, however, would increase DPD's ability to identify issues, such as the following noted during the audit:

- **Internal Control Weaknesses**

Discrepancies were noted among the following sources tested: (1) actual daily cash receipts to bank deposits; (2) monthly cash receipts to the monthly transaction report gross revenue amounts; and, (3) monthly transaction report gross revenue amounts to the gross revenues used to calculate the revenue share. Specifically:

- Monthly transaction report gross revenue amounts did not agree to amounts used to compute the monthly gross revenue share for six of the six months tested, or 100 percent
- Gross revenues for meters on the ACS/Xerox monthly transaction report and the monthly Revenue Billing Report did not agree to the bank deposits for four of the six months tested, or 67 percent
- ACS/Xerox deductible expenses allowed by the Parking Management Contract differed from the amounts on the month end credit card merchant statements for two of the six months tested, or 33 percent

In addition, DPD did not ensure: (1) ACS/Xerox provided reconciliations necessary to identify discrepancies among sources; (2) the collection rate for delinquent accounts was maintained or improved by monitoring ACS/Xerox collection activities; and, (3) ACS/Xerox provided detailed support for the monthly gross revenue amounts needed to comply with Supplemental Agreement No. 3.

- **Contract Noncompliance**

- Revenue share percentages used by ACS/Xerox differ from the percentages specified in Supplemental Agreement No. 3 for six of the six months tested, or 100 percent

Although the inaccuracies and inconsistencies among ACS/Xerox documents were not always significant, DPD is not monitoring sufficiently to periodically validate: (1)

ACS/Xerox's internal control effectiveness; (2) compliance with Contract terms; and, (3) the City receives the appropriate parking revenue⁵ from ACS/Xerox.

The COSO identified monitoring as a key component of the organization's assessment of the effectiveness of internal controls.

Process for Monitoring Supplemental Agreement No. 3 Is Not in Place

The DPD does not have a process to ensure ACS/Xerox complies with Supplemental Agreement No. 3, Exhibit A, 2. Supplemental Agreement No. 3 requires the tracking of: (1) Gross Revenues (all monies collected from parking meters, cash keys, parking lot revenues, fines and other penalties, permits, fees, and hooding fees); and, (2) Computation of a Payment Rate compared to the Baseline Payment Rate.

As a result, DPD cannot determine if Gross Revenues have fluctuated by an amount equal to or greater than three percentage points in any given month. A three percent fluctuation could result in either a credit to the City, a liability to the City, a Cost of Living Adjustment (COLA) for ACS/Xerox, or justification for ACS/Xerox to ask for a renegotiated contract and/or a right to terminate (see textbox).

The City's Administrative Directive 4-05, *Contracting Compliance*, states: "Each City department has the primary

Supplemental Agreement No. 3

Baseline Payment Rate

"In the event actual annual Gross Revenues....decrease more than 3%, using 2010 Gross Revenues as a baseline, CITY and VENDOR agree to adjust the revenue share set forth in Exhibit D."

"Each month, VENDOR will submit the DAMISSPC Report with a summary of the payment rate calculation.... The payment rate (67.40%) will represent the Baseline Payment Rate for the remaining Contract term".*

"In the event the 12-month payment rate is less than the Baseline Payment Rate by an amount equal to or greater than three (3) percentage points in any given month, the VENDOR agrees to credit the CITY \$7,000 for that month. In the event the 12-month payment rate is more than the Baseline Payment Rate by an amount equal to or greater than three (3) percentage points in any given month, the CITY agrees to pay the VENDOR \$7,000 for that month. If at the conclusion of a Contract year during which any such credits were assessed, the VENDOR maintains an average yearly payment rate of 67.40% or greater, the CITY agrees to refund to VENDOR any credits issued to CITY during that year. The average yearly payment rate will be calculated by adding each of the twelve (12) monthly rate calculations and dividing by twelve".

Source: Supplemental Agreement No. 3, Exhibit A, 2.

⁵ Monthly Gross Revenues for parking meters and parking lots observed in the auditor's sample selection ranged from approximately \$631,000 to approximately \$1,005,000. The share due to the City for those months ranged from approximately \$427,000 to approximately \$730,000.

responsibility for monitoring the performance of vendors providing goods or services solely to that department.”

The DPD Does Not Ensure ACS/Xerox Complies with City Deposit Policy

The DPD has not established a monitoring activity or designated the DPD personnel responsible for monitoring ACS/Xerox to ensure cash collections are deposited timely. Audit testing showed ACS/Xerox did not consistently deposit parking receipts timely in accordance with City policy. A sample of 30 deposits showed three deposits, or ten percent, were not deposited timely. According to ACS/Xerox, the:

Administrative Directive 4-13

Department Directors are responsible for depositing cash collections into the City Treasury on day of receipt if possible or within one business day of receipt.

Source: Administrative Directive 4-13, *Cash and Debt Management Policies and Procedures* (AD 4-13)

- November 21, 2012 deposit of \$9,961.33 was delayed **eight business days** due to a date discrepancy on the armored car service count worksheet. The e-mail trail shows ACS/Xerox was aware of the date issue on the same day as the deposit; however, it took the armored car service eight days to properly credit the deposit into the City’s account in the bank.
- September 6, 2013 deposit of \$667.25 was delayed **two business days** because the processing for parking lot receipts is handled differently from the receipts for parking meters. The multi-space machines in the parking lots accept dollar bills, which have to be separated manually from the coins, and counted separately. According to the ACS/Xerox Project Manager, the parking lot deposits are now credited the next business day.
- October 31, 2013 deposit of \$6,785.29 was delayed **59 business days** because the bank credited the wrong account.

According to DPD, the contract with ACS/Xerox does not include a provision that requires ACS/Xerox to comply with City Deposit policy. Noncompliance with AD 4-13 *Cash and Debt Management Policies and Procedures* (AD 4-13)⁶ increases the risk that cash could be misappropriated.

⁶ On November 4, 2014, City Charter Ordinance No. 29376 was amended resulting in a change to the requirement of Administrative Directive 4-13 that cash be deposited on the day of receipt if possible or within one business day of receipt. The City Charter now requires cash to be deposited promptly in a commercially reasonable manner in City depositories.

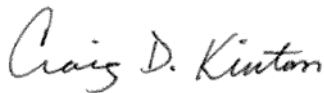
We recommend the Chief of Police:

- I. Develop and implement formal documented policies and procedures for contract monitoring activities that provide guidance to DPD personnel on their Parking Management Contract monitoring duties
- II. Improve and document monitoring activities to periodically validate: (1) ACS/Xerox's internal control effectiveness; (2) compliance with Parking Management Contract terms; and, (3) the City receives the appropriate parking revenue from ACS/Xerox
- III. Develop a process to monitor ACS/Xerox compliance with Supplemental Agreement No. 3, Exhibit A, 2 of the Parking Management Contract
- IV. Establish a monitoring activity for daily cash deposits and designate the DPD personnel responsible for monitoring ACS/Xerox's compliance with City policy

Please see Attachment I for Background information related to the audit and Attachment II for Management's Response to the report recommendations.

If you have any questions or need additional information, please contact me at 214-670-3222 or Carol Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,



Craig D. Kinton
City Auditor

Attachments

- C: A. C. Gonzalez, City Manager
Eric Campbell, Assistant City Manager
Chief David O. Brown – DPD
Donzell Gipson, Assistant Director – DPD Finance and Contract Management

Background

Effective May 21, 2005, the City of Dallas (City) and ACS State and Local Solutions, Inc. (ACS) entered into the *Acquisition Contract for Services Related to Meter Operations and a Parking Management Information System* (Parking Management Contract) to provide contracted services over five City-owned parking lots and approximately 4,250 parking meters. In February 2010, ACS merged with Xerox and became ACS/Xerox. Following the merger, additional services were added to the contract and the revenue share agreement was amended through supplemental agreements.

Currently, the City and ACS/Xerox share revenue based upon established percentages of monthly gross revenues. The City receives approximately \$7.8 million to \$8.5 million in revenue annually from parking meters, parking lots, parking citations, parking permits, and valet services.

Initial Parking Management Contract

The initial Parking Management Contract ensured the City would receive a \$5.9 million annual revenue guarantee from tickets, meters, parking lots, and permits. ACS/Xerox would receive a share of the gross revenues based upon established Gross Revenue Tiers and percentages of Gross Revenues (see Table I below).

Table I

**City of Dallas Revenue Share
Based Upon Established Gross Revenue Tiers**

Gross Revenue Tiers	Revenue Guarantee City Percent of Total Gross Revenues
\$0 – \$5,900,000	100
\$5,900,001 – \$8,400,000	0
\$8,400,001 – \$9,900,000	80.5
\$9,900,001 – \$11,150,000	84.5
\$11,150,001 – Greater	88.5

Subsequently, the City and ACS/Xerox added the following five Supplemental Agreements:

- Supplemental Agreement No. 1 (April 26, 2006) – The purpose of this supplemental agreement is to provide additional services and equipment, including the procurement of AutoVu license plate recognition cameras, the

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addition of a pay station and customer service center at the Dallas Police Department (DPD) Auto Pound, the reimbursement to the City for two Boot Officers, and to provide compensation for these additional services and equipment by assigning additional revenues generated through new fee and penalty increases to ACS.

- Supplemental Agreement No. 2 (April 12, 2007) – The purpose of this supplemental agreement is to amend Exhibit D, Section 1, Conditions of Revenue Guarantee. Exhibit D outlines the revenue guarantee scale which includes the base amount owed to the City and to ACS and any additional revenues to be shared. These amounts are all based on the City issuing at least 198,000 tickets annually. It does not address the ability to adjust the scale up or down if the City does not make the 198,000 ticket goal. The ability to adjust the scale would allow for adjusting the shared revenue after the minimum guarantee based on the number of tickets issued, without being tied to a minimum of 198,000 citations issued annually.
- Supplemental Agreement No. 3 (May 26, 2010) – The purpose of this supplemental agreement is to amend the agreement by deleting all the language in Schedule D and replacing it with a new Schedule D. The amended agreement requires tracking of Gross Revenues and computation of a Payment Rate compared to a Baseline Payment Rate. Changes of three percent from month to month or annually could result in either a credit to the City, a liability to the City, a Cost of Living Adjustment (COLA), or justification for ACS/Xerox to ask for a renegotiated contract, with right to terminate.

The amended agreement eliminates the revenue guarantee in the initial contract and replaces it with the currently used Performance Revenue Share:

Table II

Monthly Revenue Performance Tiers

Revenue Tiers	Gross Revenue Share Percentages	
	City of Dallas	ACS/Xerox
\$0 – \$700,000	68	32
\$700,001 – \$825,000	80.5	19.5
\$825,000 – \$929,167	84.5	15.5
\$929,168 – Greater	88.5	11.5

Supplemental Agreement No. 4 (November 20, 2012) – The purpose of this supplemental agreement is to amend Schedule D to provide services for collections, maintenance, communications, reporting, licensing costs, and any optional service add-ons for the new multi-space meters.

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Supplemental Agreement No. 5 (December 3, 2012) – The purpose of this supplemental agreement is to procure ten multi-space meters with related warranties, parts, and service, as well as a card reloader and reloadable stored value cards.

Methodology

Reviewed the following:

- Parking Management Contract and Supplemental Agreements
- DPD Parking Contract Performance Monitoring Matrix
- DPD Management Monthly Performance measures
- Administrative Directive 4-05, *Contracting Policy*
- Administrative Directive 4-09, *Internal Control*
- Administrative Directive 4-13, *Cash and Debt Management Policies and Procedures*
- Xerox Parking Workflow Overview
- Xerox Meter Collection Process
- City Charter Ordinance No. 29376 amended on November 4, 2014

Interviewed DPD and ACS/Xerox personnel and tested:

- Thirty days of daily cash collections and deposits
- Six months of parking meter revenue receipts
- Six months of revenue share computations

Management's Response

Memorandum

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City Auditor's Office



CITY OF DALLAS

DATE: January 16, 2015

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report:
Audit of Parking Management Contract Oversight

Our responses to the audit report recommendations are as follows:

Recommendation I

We recommend the Chief of Police develop and implement formal documented policies and procedures for contract monitoring activities that provide guidance to DPD personnel on their Parking Management Contract monitoring duties.

Management Response / Corrective Action Plan

Agree Disagree

Clear and concise guidance has been provided to DPD personnel responsible for daily activities that include the monitoring of revenues and other contract monitoring functions. This includes review by management and supervisory personnel.

The audit report recommends a formal documented manual of procedures/policies that surpass in quality of instruction the current compilation of written work steps/procedures, informal notes, instructional emails, database extraction instructions, and samples of documents for review, monitoring, and analysis.

The Police Department agrees with this recommendation and has already begun construction of the formal documented manual. DPD believes this will increase internal controls measures and consistency of contract monitoring related to staff training as well as any turnover of personnel or monitoring policy changes.

Implementation Date

December 31, 2015

Responsible Manager

Assistant Director, Financial and Contract Management

Recommendation II

We recommend the Chief of Police improve and document monitoring activities to periodically validate: (1) ACS/Xerox's internal control effectiveness; (2) compliance with Parking Management Contract terms; and, (3) the City receives the appropriate parking revenue from ACS/Xerox.

Management Response / Corrective Action Plan

Agree Disagree

DPD disagrees with items (1) and (2) of Recommendation II.

- (1) The City Auditor's report describes internal controls over cash; however, this item is not limited to the relevant cash controls included in the audit. DPD does and has periodically evaluated the internal control effectiveness over cash.
- (2) This portion of the recommendation regarding compliance with Parking Management Contract terms appears to be a duplicate to Recommendation I.

However DPD agrees that improvements are needed on item (3) to validate the City receives the appropriate parking revenues from ACS/Xerox.

Part I

In 2013, DPD performed a self-evaluation of procedures for monthly reconciliation of parking revenues. DPD determined that the bank reconciliation process with Xerox had deficiencies. DPD disclosed this to the City Auditor prior to initiation of the audit in a management letter.

To begin the process of instituting best practices for monthly bank reconciliation and to assure that all revenues due to City were received, DPD made several requests of Xerox to include:

- 1. Discontinue deposits of parking revenues and red light photo enforcement revenues into the same bank account and setup separate accounts accordingly.
- 2. Begin to (1) develop a process to change the monthly payments to City to be based on revenue recognized in the reporting period instead of being based on transferring the on-hand month-end amount in the bank account from deposits made during the month (2) develop an additional area of monthly reconciliation to include tracking all types of deposits through the entire process from point of service to secondary banking measure (credit card processor/cash collection agency to deposit in the revenue holding bank account. The additional area of reconciliation also requires notation of and backup documentation regarding fees or other charges that reduce the deposit to the revenue holding bank account or the net payment to the City.
- 3. Perform an audit of payments provided to City from 2010 to 2013 to assure that all revenues due to City were received based on revenue recognized in the reporting period.
- 4. City to request "view" access to bank concentration account (currently, we only receive a copy of month-end statement).

Part II

As described in the aforementioned management letter to the City Auditor, DPD is currently in the midst of a parking modernization plan. A parking pilot program was launched in January 2014 with multiple components that are related to this audit's recommendations. The Pilot Program tests and seeks ways to modernize the entire parking system that include monitoring internal control effectiveness and additional assurance in receipt of appropriate parking revenues. To be more specific:

Electronic Locks

Secures meter
Prevents unauthorized access
Reductions in theft
Sends alerts
Provides audit trail

Smart Meters/Sensors

Increase revenue tracking
Increase payment options
Decrease payment leakage
Send maintenance alerts
Decrease shrinkage

To address the need for stronger controls on assurance in receipt of the appropriate parking revenue and proper accounting of revenues, DPD is considering employing a third-party to monitor and audit the activities of the contractors that performs services for meter operations and ticket processing along with other functions. This will be addressed in a future procurement and subsequent contract terms with the vendors to include progressive Service Level Agreements (SLA's) and possible liquidated damages.

Implementation Date

Part I – December 31, 2015

Part II - Upon award of future "Smart Technology" Parking Contract

Responsible Manager

Assistant Director, Financial and Contract Management

Recommendation III

We recommend the Chief of Police develop a process to monitor ACS/Xerox compliance with Supplemental Agreement No. 3, Exhibit A, 2 of the Parking Management Contract.

Management Response / Corrective Action Plan

Agree Disagree

DPD monitors Xerox's compliance with Supplemental Agreement; however, the provisions in Supplemental Agreement No. 3 are in dispute and have been since 2012 and remain in dispute. This dispute was also identified in the management letter to the City Auditor.

The items in dispute involve (1) the total "actual" annual gross revenue provision (based on 2010) and (2) the baseline payment rate target on collection of parking citations.

The annual gross revenue provision is in dispute pending Xerox delivery of supporting documents to validate the actual revenues for 2010 to include bank reconciliation. This provision provides a penalty to the City for each 3% reduction in annual revenues when compared to 2010 actual revenue as a "baseline". A portion of the 2010 calendar year was governed by a MAG contract and the remainder of the year was under a revenue share agreement; however, an end of the year reconciliation was not completed or agreed upon to establish the 2010 baseline amount at the close of the 2010 Calendar year.

The baseline payment rate target on collection of parking citations is in dispute pending audit of the business logic of the report responsible for calculation of the monthly monitored rate. Specifically the dismissal rate is in question related to accuracy.

Also, there are months that Xerox has not met the baseline payment rate on collection of parking citations. Xerox claims relief for these months due to the contract condition that the dismissal rate cannot increase by more than one percentage point. This claim requires validation of the business logic of the dismissal rate which when discussed with Administrative Adjudication in Public Works; it does not coincide with their records.

Implementation Date

Not applicable

Responsible Manager

Assistant Director, Financial and Contract Management

Recommendation IV

We recommend the Chief of Police establish a monitoring activity for daily cash deposits and designate the DPD personnel responsible for monitoring ACS/Xerox's compliance with City policy.

Management Response / Corrective Action Plan

Agree Disagree

Timely deposits of revenue are critical and are monitored. However, the contract with Xerox does not include a provision that they deposit in concert with City policy as described in AD 4-13. DPD cannot enforce compliance on a non-existent contract provision.

As reference above, in Recommendation II, DPD will request "view access" to the concentration account to help monitor timely deposit activity.

Future contracts will be developed with appropriate timely deposit provisions as described in the recent City Charter amendments which effectively void the conditions for deposit in AD 4-13.

Implementation Date

Not applicable

Responsible Manager

Assistant Director, Financial and Contract Management

Sincerely,



Chief David O. Brown
Dallas Police Department



Eric Campbell
Assistant City Manager

C: