
OFFICE OF THE CITY AUDITOR

AUDIT OF REUNION ARENA PARKING FACILITIES

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**April 11, 2003
Report No. 382**

Memorandum



CITY OF DALLAS

April 11, 2003

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted an audit of the management and operations of Reunion Arena parking facilities by Central Parking System of Texas.

Although it appeared that Central Parking System did properly manage and operate Reunion Arena parking facilities, our audit revealed that it did not properly remit all payments to the City for non-event parking. Opportunities for improvement and related recommendations are presented in this report.

We appreciate the cooperation of City staff during our examination.

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c: Teodoro J. Benavides, City Manager

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INTRODUCTION

Authorization

We have conducted an audit of the management and operations of Reunion Arena parking facilities by Central Parking System of Texas (CPS) for September 1, 1998, through August 31, 2002. This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and according to the provisions of the Reunion Arena Management Agreement.

Scope and Methodology

Our audit was conducted in accordance with generally accepted government audit standards and, accordingly, included inquiries, tests of the accounting and related records, and other audit procedures that we considered necessary in the circumstances.

The objective of our audit was to determine whether the City received its proper payment for non-event parking.

To develop an understanding of the relevant control structure, policies, and procedures, we reviewed the latest Management Agreement. (This agreement is described in the background section.) In addition we:

- Observed procedures and applications.
- Interviewed staff regarding the City's parking activity at Reunion.
- Reviewed the accounting process and monthly report records of the operator, CPS, and the accounting records of Reunion parking for Center Operating Company (COC).
- Obtained a calendar of events held at Reunion Arena.
- Prepared a schedule summarizing the activity of selected months.
- Reviewed the reasonableness of revenues and expenses for the test months.
- Tested reports for mathematical accuracy and traced totals to appropriate accounting or payment records.
- Reviewed the parking operator's contracts for parking leases with third parties.
- Performed other tests as we deemed necessary.

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Overall Conclusion Although it appeared that CPS did properly manage and operate Reunion Arena parking facilities, our audit revealed that it did not properly remit all payments to the City for non-event parking. Opportunities for improvement and related recommendations are presented in this report.

Background Reunion Arena has seven parking lots: A, B, E, F, G, H, and J. The City owns the Reunion Parking Center (i.e., parking garage) Lots A, J, and a portion of E. The City also leased property to use and operate as Lots F and G. The City leased property from Hunt Investment Corporate to use and operate as Lots B, H, and a portion of E. Hunt Investment Corporate and the City executed the initial parking lease agreement on April 29, 1975. Later Hunt assigned its interest in the City Parking Lease to Hunt-Woodbine Realty Corporation (HWRC).

Reunion Arena parking facilities have been managed and operated under a management agreement between HWRC and CPS. This agreement was initiated on August 15, 1997, for a term of three years. HWRC, with the City's consent, has the exclusive option to renew this agreement for up to three additional three-year terms. This agreement was renewed on August 15, 2000.

Under the agreement, CPS is entitled to:

1. A management fee as compensation for its performance of its duties and obligations. The base management fee is \$30,000 per year (\$2,500/month) during the term.
2. An incentive management fee equal to 2% of annual gross operating income (gross receipts less all operating expenses and base management fee) in excess of \$1,000,000 annually.

This HWRC-CPS agreement is incorporated as an exhibit to the Reunion Arena Management Agreement¹. The Management Agreement states that non-event parking revenues shall belong to the City, subject to reduction for payment of the direct, administration, and indirect costs allocable to non-event parking

¹ Agreement is between the City of Dallas and the Arena Group.

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revenues. It also defines non-event parking revenues as “transient” parking revenues generated from the parking facilities, other than as the result of an event at Reunion Arena, regardless of how collected. Per the HWRC-CPS agreement, the City is not liable for reimbursement to CPS for any operating deficit (loss), but rather the amount of deficit shall constitute an additional deduction by CPS against the following month’s gross receipts.

OPPORTUNITIES FOR IMPROVEMENT

Our audit was not designed or intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the audit findings presented in this report may not be all-inclusive of the areas where improvements may be needed.

1. CPS was inconsistent in reporting and paying the City from November 2000 through May of 2002.

CPS failed to consistently report or pay the City for the daily parking at Reunion Arena from November 2000 through May 2002. This sporadic reporting was partially due to personnel changes at both CPS and the City Convention Center. The Management Agreement specifies that CPS must report and pay the preceding month's parking activities to the City by the fifteenth of each month.

From November 2000 through May 2002, some of the CPS monthly reports were calculated incorrectly. In compiling the monthly reports, CPS inputs the common expenses for the Reunion parking lots and divides them according to the amounts of revenues generated from the two sources: daily parking (the City) and event parking (COC). The common monthly parking expenses include the CPS management fee of \$2,500/month. However, during this period, expenses common to both the City and the COC were charged entirely to the City rather than being allocated to each entity. This miscalculation caused the City to bear more expense and reduced the amount due to the City.

CPS corrected some of these errors and on June 27, 2002, issued a check to the City in the amount of \$64,888. However, we found that the report for August 2001 had not been corrected. This report charged all of the monthly management fee and other common costs to the City. The corrections made by CPS changed the City's settlement from a \$10,566.65 deficit to a net profit of \$8,061.54.

We recommend that the Director of Convention and Event Services:

- Assign a staff member to review the CPS monthly operating statements and follow-up, on a timely basis, on issues that result from these reviews, especially late payments.
- Collect the under payment of \$8,061.54 from CPS.

Management's Response:

CPS:

In fact, CPS had paid the City the "monthly" balance due each month through May 2001, not as you stated, "November 2000." During this period, June 2001 through April 2002, the CPS Project Manager and the City Business Manager positions were temporarily vacant affording CPS no contact with the appropriate "City" authority. Also

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during this period, the Monthly Operating Reports incorrectly allocated expenses favoring COC and causing, what we thought to be, a “carryover” deficit balance for the City. Once the error had been discovered, CPS corrected the reports, which resulted in the prompt reimbursement to the City in June of 2002 in the amount of \$64,888.00. In addition, CPS had attempted through COC to determine a respondent on the City’s behalf, but to no avail. CPS reestablished contact with the proper City designate in April of 2002. This prompt and courteous relationship has continued through to the City’s return to Reunion Arena in October 2002.

The reallocation of monthly management fees and the proper distribution to COC and the City has been corrected according to the City’s audit findings. The resulting reimbursement check in the amount of \$8,061.54 has been paid.

Convention and Event Services:

Concur. As stated by CPS in their response, the actual timeframe was June 2001 through April 2002. The Financial Services Manager left in August of 2001 and during the transition to an interim manager, monitoring of CPS was inadvertently overlooked. Currently, Mr. Al Rojas, Assistant General Manager at Reunion Arena, is closely monitoring all CPS reports. A check for \$8,061.54 was received and deposited on December 5, 2002.

Auditor’s Comment:

CPS is correct in stating that its payments to the City ceased in June 2001. However, payments for the period November 2000 through May 2001 required adjustments and, thus, CPS used the November 2000 through May 2002 period for its reconciliation to identify the amount of \$64,888.29 (paid on June 27, 2002) due to the City. Therefore, this period was the period that inconsistent reporting occurred.

2. CPS collected contracted daily parking revenues for Lot G and incorrectly paid revenues to the COC.

Section 3 of the Management Agreement with CPS states that the Operator (CPS) agrees to maintain separate profit centers on the Reunion Parking Center and each surface lot of the parking facilities. In order to maintain the profit centers, CPS accounts separately for daily and event parking revenues and expenses. CPS uses the separate accounts to properly settle with the City and COC. The Reunion Arena Management Agreement between the City and the Arena Group also defines separate accounting for non-event and event parking. Section 2.16 of this agreement specifies that non-event parking revenues shall belong to the City.

We found contracts for the rental of Lot G, a remote lot used for overflow. CPS had started leasing Lot G for truck parking and forwarding the proceeds to the COC. This

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parking was for marshalling² activities related to events at the Dallas Convention Center. We questioned the payment of these revenues to the COC, since the truck parking appears to be daily parking rather than event parking (for Reunion Arena). In addition, the revenues generated by the leasing activities were not for events at Reunion Arena, but appear to be for activities related to the Dallas Convention Center. We found evidence of five contracts for this type of parking at Lot G. CPS' management has agreed with our findings.

Billings found in CPS' files for Lot G rentals are shown below:

Lessee:	Lease Amount:	Month of Rental:	Placed for the account of:
Expo Group	\$2,000.00	3/02	City
Champion Expo	750.00	5/02	COC
Coach USA	1,500.00	8/02	COC
Hargrove	1,000.00	9/02	COC
Sullivan Transfer	1,500.00	9/02	City
Total	\$6,750.00		
Less amount paid	(\$2,000.00)		
Amount Owed City	\$4,750.00		

Based on discussions with CPS and the information contained in the table above, CPS should pay the City \$4,750 for the identified contracted lease activities. Corrections are needed to reroute all contracted revenues to the City's account.

We recommend that the Director of Convention and Event Services collect the identified Lot G revenues (\$4,750) from CPS and follow up with the General Manager of CPS to ensure that future contracting activity for this lot is included in the City's revenues on CPS's reporting of Lot G parking activities.

Management's Response:

CPS:

In fact, CPS was at the time operating under the direct orders of Mr. David Brown, General Manager of the COC, who verbally directed CPS to post all contracted lease revenues of "G lot" to the event ledger. The three revenue postings that as of this audit had not yet been redirected to City revenue have since been corrected. All further lease revenues have been and will continue to be posted to the General Revenue ledger as "transient" income.

² To bring together and order in an appropriate or effective way.

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Convention and Event Services:

Concur. CPS posted \$4,000 to the City in their October 2002 report. The remaining \$750 will be correctly posted in CPS' December 2002 operating report. Mr. Al Rjas at Reunion Arena will closely monitor future contracting for daily parking at Lot G.