

**Performance Audit 14-04:  
City-Owned Parking**

**November 2014**

**City Auditor**

Stan Sewell, CPA, CGFM, CFE

**Senior Auditor**

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# OFFICE OF INTERNAL AUDIT

## Stan Sewell, City Auditor

December 2, 2014

To: Mayor Andy Berke  
City Council Members

Subject: City-Owned Parking (Report #14-04)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of the Chattanooga Downtown Redevelopment Corporation's (CDRC) management agreement with Selig Parking, Inc. d/b/a AAA Parking. We identified instances of non-compliance with the agreement. However, the instances of non-compliance do not appear to have a material impact on the operations of the parking facilities.

Although we found the bidding process for management of CDRC owned parking facilities did not comply with state and city code requirements, the resulting management contract appears to have been beneficial when compared to the previous contract.

We determined the processes and controls utilized by the contractor to oversee the parking facilities were efficient, effective and ensure proper safeguarding of assets; proper internal controls were in place for the cash collections process; cash collections were properly documented and submitted to the City; and expenditures were appropriate, adequately documented and in compliance with the agreement.

Additionally, we identified key opportunities for improvement and recommended a cost-benefit analysis to substantiate our preliminary analysis that the improvements will be beneficial.

We thank the management and staff of the Finance and Administration, and General Services departments for their cooperation and assistance during this audit. We also thank the management and staff of AAA Parking, whose cooperation during this audit was essential to its completion.

Sincerely,

Stan Sewell, CPA, CGFM, CFE  
City Auditor

Attachment

cc: Travis McDonough, Chief of Staff  
Brent Goldberg, Chief Operating Officer  
Audit Committee Members  
Daisy Madison, Chief Finance Officer and CDRC Chair  
Cary Bohannon, Director General Services  
AAA Parking

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## TABLE OF CONTENTS

AUDIT PURPOSE.....	1
BACKGROUND.....	1
Financial and Statistical Information.....	2
FINDINGS AND RECOMMENDATIONS.....	3
Compliance with Terms and Conditions of Agreement.....	3
Required Procurement Process – Competitive Bid..	4
Approval Documentation for Additional Parking Lots.....	5
Key Improvement Opportunities .....	5
APPENDIX A: SCOPE, METHODOLOGY & STANDARDS.....	12

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## AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2014 Audit Agenda. The objectives of this audit were to determine if:

- The processes and controls utilized to oversee the parking facilities managed by AAA Parking are efficient, effective and ensure proper safeguarding of assets;
- The appointment of AAA Parking followed proper policies and procedures;
- Proper internal controls are in place for the cash collection process;
- Cash collections are properly documented and submitted to the City of Chattanooga (City); and
- Expenditures are appropriate, adequately documented and in compliance with the agreement between the Chattanooga Downtown Redevelopment Corporation (CDRC) and AAA Parking.

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## BACKGROUND

CDRC is a blended component unit of the City reported as a business-type activity which, in substance, is part of the primary government's operations, even though it is a legally separate entity. The entity's purpose is to facilitate redevelopment projects in downtown Chattanooga.

On March 1, 2011, AAA Parking took over operation of two CDRC owned parking garages and one CDRC owned surface parking lot. The parking garages are the Chattanooga and River Pier, and the surface lot is located at Second and Walnut Streets. Prior to this, CDRC contracted with Republic Parking System, Inc.

CDRC entered into a management agreement with Selig Parking, Inc. d/b/a AAA Parking to manage and maintain the parking facilities. The initial term of the agreement was March 1, 2011 to February 28, 2013 with two additional one year terms which occur automatically without notice.

Additionally, there is a Parking Agreement between CDRC and Tennessee Valley Authority (TVA) to provide parking spaces for TVA in the Chattanooga Parking Garage at prevailing market parking rates. The Parking Agreement runs from December 2001 to October

2030. TVA has the right to terminate the agreement upon 30 days written notice.

Also, there is a contract for sale and purchase between CDRC and the City to purchase property from Jenkins Road LLC. In lieu of cash payment for the property, the agreement includes the right to validate parking for the customers and employees of Hennen's Restaurant at the prevailing market rate. The right to validate parking is limited by the purchase price (\$555,985). The agreement runs for 5 years from December 2007 and is renewable for another 5 years if the purchase price has not been repaid. As of June 30, 2014, \$166,476 remains available to validate parking.

## Financial and Statistical Information

### Exhibit 1: Parking Spaces

Description	Parking Spaces
Chattanooga	953
River Pier	374
Surface Lot	<u>87</u>
Total	<u>1,414</u>
Source: AAA Parking	

### Exhibit 2: Revenue and Expense

Description	Fiscal Year 2014		
	Revenue	Expense	Net
Chattanooga	\$ 788,859	\$ 326,598	\$462,261
River Pier	302,177	132,777	169,400
Surface Lot	<u>51,119</u>	<u>17,891</u>	<u>33,228</u>
Total	<u>\$1,142,155</u>	<u>\$ 477,266</u>	<u>\$664,889</u>
Source: City Finance Department Records			
Note: Expense does not include depreciation or debt service.			

## Exhibit 3: Revenue and Expense per Parking Space

Description	Fiscal Year 2014		
	Revenue per Space	Expense per Space	Net per Space
Chattanooga	\$ 828	\$ 343	\$ 485
River Pier	808	355	453
Surface Lot	588	206	382
Total	<u>\$ 808</u>	<u>\$ 338</u>	<u>\$ 470</u>

Source: Office of Internal Audit Computation.

## Exhibit 4: Capital Assets – Parking Facilities

Description	June 30, 2014		
	Cost	Book Value	Annual Depreciation
Chattanooga	\$ 9,766,173	\$ 6,213,944	\$ 313,705
River Pier	7,275,496	5,290,662	233,510
Surface Lot	412,867	412,867	-
Total	<u>\$17,454,536</u>	<u>\$11,917,473</u>	<u>\$ 547,215</u>

Source: City Finance Department Records

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**FINDINGS AND RECOMMENDATIONS**
**Compliance with Terms and Conditions of Agreement**

The agreement between CDRC and AAA Parking enumerates the terms and conditions related to the management of the parking facilities. The following are instances where there was non-compliance with the terms and conditions of the agreement:

- Sections 2(a) – states in part, “...Manager shall develop and recommend to Owner all necessary policies, procedures and operating methods, which shall be submitted in written form to Owner for its approval...”
- Section 3(c) – states in part, “...the parties shall negotiate an adjustment in the management fee payable at the beginning of the third (3<sup>rd</sup>) year of this Agreement, on January 1, 2013, and again at the beginning of the fourth (4<sup>th</sup>) year, on January 1, 2014, and at the beginning of the fifth (5<sup>th</sup>) year, on January 1, 2015...”
- Section 5 – states in part, “Manager will keep the Parking Facilities open for business on a schedule to be established by Manager and approved in writing by Owner...”

- Section 7(a) – states in part, “...Manager shall not incur or pay a single expense greater than Five Hundred Dollars (\$500) not included in the approved annual budget without the express written consent of Owner...”
- Section 8(d) – states in part, “Manager shall furnish to Owner, between September 1 and October 1 each year, a proposed budget for ensuing calendar year for Owner's review and approval...”

The non-compliance instances do not appear to have a material impact on the operations of the parking facilities. However, compliance with the terms and conditions of an agreement ensures that the agreement is being executed with the intent of all parties to the contract. Non-compliance occurred because certain requirements of the agreement were not approved or initiated, which can be attributed to lack of management oversight. Without compliance with the terms and conditions of the agreement, there is an increased risk there will be a failure to achieve the intent of all parties to the contract.

### **Recommendation 1:**

We recommend CDRC monitor the agreement to ensure compliance with all terms and conditions.

### ***Audit Client Response (CDRC):***

*We concur. The policies & procedures, schedule and budgets were approved at CDRC's November 24, 2014 board meeting. The management fees and expense approval will be addressed in the upcoming Request for Proposal.*

### **Required Procurement Process – Competitive Bid**

CDRC issued a Request for Proposal (RFP) utilizing a negotiated procurement to acquire management of the parking facilities. AAA Parking was selected during the RFP process and a resolution authorizing the agreement was approved by the Chattanooga Downtown Redevelopment Corporation (CDRC) Board of Directors on November 15, 2010.

Based on City Code requirements in effect during 2010, the management agreement with AAA Parking should have been competitively bid. Not using competitive bidding could result in failure to obtain the best possible price for goods and services. However, this RFP was publicly advertised, there was documentation of diligent analysis, and it was deliberated in an open/public meeting.



In this instance, the use of a request for proposal resulted in lower management fees and does not appear to have negatively impacted the result.

### **Recommendation 2:**

We recommend CDRC follow required procurement procedures when procuring management services.

#### ***Audit Client Response (CDRC):***

*We concur. During the November 24, 2014 meeting, the CDRC Board approved use of a competitive RFP process to be completed by the end of February 2015.*

### **Approval Documentation for Additional Parking Lots**

In addition to the parking facilities managed by AAA Parking, CDRC owns additional parking facilities operated by CARTA (Riverfront Parkway and Manufacturers Road). Neither CDRC nor CARTA management could locate a written agreement for use of these CDRC assets by CARTA. Documentation approving use by CARTA was not found in the minutes of CDRC's board of directors. The lack of approval and documentation can be attributed to lack of management oversight.

Effective internal control includes approval and adequate documentation related to the use of significant assets. Proper approval and documentation of significant asset transactions ensure that agreements entered into adhere to proper guidelines and the wishes of the governing body. As a result, the CDRC could incur added expenses or a loss in revenue.

### **Recommendation 3:**

We recommend CDRC approve and document all significant asset transactions in their board minutes. City or CDRC officials should not take actions that have not been properly approved. If the use by CARTA was or is not the intent of the CDRC Board, we recommend CDRC include these properties in the RFP for management services currently being developed.

#### ***Audit Client Response (CDRC):***

*We concur. The agreement with CARTA was approved at CDRC's November 24, 2014 board meeting.*

### **Key Improvement Opportunities**

During our audit, we considered potential efficiencies and, while reviewing revenue and expense transactions, we discussed

opportunities for improvement with AAA Parking representatives. We appreciate their input and suggestions. We identified key improvement opportunities as follows:

### Automated Pay Station System – Chattanooga Parking Garage

The Chattanooga Parking Garage utilizes a controlled entrance (ticket dispenser and gate) and a cashier's booth at the exit. However, cashiers are only present for two shifts during weekdays and the exit gate is raised during the overnight hours and weekends.

Since the Chattanooga Parking Garage is not automated and has only two shifts of cashiers during weekdays, parking customers are often able to exit the garage without having to pay. The customer not only exits without paying but also exits with the actual dispensed ticket. This causes problems when attempting to reconcile the number of tickets dispensed to revenue collections.

In the past, most parking facilities utilized cashiers for the collection of parking fees. However, with technological innovations some of the technological changes have included paying for parking at an automated pay station rather than at a cashier booth. Current parking technology includes Automated Pay Stations (APS) which allow for automated ticket processing. This technology is currently used in the River Pier Parking Garage and eliminates the need for cashiers. These can include pay-in-lane (see Exhibit 5) and pay-on-foot (see Exhibit 6) machines. In addition, these machines accept multiple forms of payment and provide receipts.

#### Exhibit 5: Automated Pay Station – River Pier Parking Garage



## Exhibit 6: Pay-on-Foot Machines – River Pier Parking Garage



### Pay-and-Display/Pay-by-Space System – Surface Lot

The surface lot located at Second and Walnut Streets has an uncontrolled entrance using an “Honor Box”. Customers enter the uncontrolled entrance to the surface lot and park in a numbered parking spot. Ideally, the patron then proceeds to the “Honor Box”, which has numbered slots that correspond with the numbered parking spaces. Parkers then find the corresponding slot and push money inside based on the fee schedule displayed on the box. AAA Parking employees monitor the surface lot daily to verify that the vehicles currently in the lot have paid.

The “Honor Box” system provides very little control over the collection of parking fees at the surface lot. The only mitigating control procedure is that AAA Parking requires two employees to be present when the collections are retrieved. However, it is still possible for one person to open the “Honor Box” without another person being present. Also, without any record of how much has been collected, there is an additional risk employees could collude to steal all or part of the parking fees.

As stated above, in the past, most parking facilities utilized cashiers for the collection of parking fees. However, with technological innovations, some have been paying for parking at an automated pay station rather than at a cashier booth. Current parking technology includes Pay-and-Display machines, as well as Pay-by-Space machines. They rely on the customer indicating a space number and paying or purchasing a ticket from the machine and displaying it on their dashboard (see Exhibit 7). Details on the printed tickets are generally the location, the amount paid, the time entered and expiration time.

Exhibit 7: Pay-and-Display System



### Energy Efficient Lighting – Chattanooga & River Pier Parking Garage

While reviewing expenses, we noted the annual electricity bill for both facilities exceeds \$100,000, which is primarily the cost of lighting. The Chattanooga & River Pier Parking Garages together have in excess of 500 metal halide lights and over 100 other various types of lights. At one time metal halide lights were a good alternative for lighting efficiency. However, with the improvement of LED technology (see Exhibit 8), LEDs are now an excellent and better lighting alternative to achieve lower energy and maintenance cost.

As with any technology, lighting continues to improve. With the large volume of lights in a parking garage and largely a 24/7 operation, opportunities for energy and maintenance savings need to be constantly monitored. As a result of using outdated lighting technology, the best and lowest cost for lighting energy and cost might not be obtained. Other similar parking garage lighting improvement projects have yielded savings of 57% with a payback on capital expenditure of around two years.<sup>1</sup>

#### Exhibit 8: LED Lighting - Chattanooga Area Regional Transportation Authority (CARTA) Parking Garage



#### Monthly Parking – Surface Lot

An alternative to maximize revenue for a parking facility is to provide monthly parking at a competitive rate. Monthly parking is provided at both the Chattanooga and River Pier Parking Garages. The surface lot located at Second and Walnut Streets does not provide monthly parking.

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<sup>1</sup> Paul Tarricone, “Out of the Shadows”, *LD+A*, (June 2012): 45.

Originally, the surface lot was used for special events. AAA Parking suggested the lot be used for transient parking. Our analysis of revenues and sample inspections indicate the lot rarely (during special events) reaches maximum capacity. With nearby residential and business development in the last decade, there may be a demand for monthly parking. Not offering monthly parking may prevent attaining maximum income from the parking facility.

#### Exhibit 9: Surface Lot (Second and Walnut)



#### Recommendation 4:

We recommend CDRC prepare a cost-benefit analysis to determine if the following improvements would be beneficial:

- Automated pay station system – Chattanooga Parking Garage
- Pay-and-display or Pay-by-Space system – Surface Lot
- Energy efficient lighting – Chattanooga & River Pier Parking Garages
- Monthly parking – Surface Lot

***Audit Client Response (CDRC/Finance):***

*We concur. However, during its November 24, 2014 meeting, the CDRC board authorized an amendment to the agreement with Urban Renaissance Group, LLC allowing them to exercise an option to purchase the surface lot during the next year. Therefore, we do not expect to make any investments in that property.*

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## APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covered parking facilities owned by CDRC, in particular, those managed by AAA Parking from July 1, 2011 to June 30, 2014. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the City's Finance & Administration Department, General Services Department and AAA Parking. Original records as well as copies were used as evidence and verified through physical examination.

To ensure examination of the audit universe (all parking facilities), we interviewed staff for the City of Chattanooga, CARTA and AAA Parking. We also reviewed CDRC Board minutes and information at the Hamilton County Register of Deeds office.

To determine whether the processes and controls utilized to oversee the parking facilities managed by AAA Parking are efficient, effective and ensure proper safeguarding of assets, we interviewed the staff responsible for the oversight of the parking facilities and reviewed the management agreement. In addition, we assessed compliance with the agreement and evaluated whether the oversight provided adequate information to identify and address non-compliance.

To determine whether the appointment of AAA Parking followed proper policies and procedures, we reviewed the City Code, ordinances, resolutions (purchasing manual) and minutes, examined the procurement file documentation, the type of procurement method used, specifications required and the criteria used to evaluate the proposals.

To determine whether the proper internal controls are in place for the cash collection process, we interviewed the staff responsible for cash collections and observed the collection process including shift change procedures. Additionally, we reviewed the cash collection policies and procedures, and determined if they are being followed.

To determine whether the cash collections are properly documented and submitted to the City of Chattanooga, we examined a judgmental sample of daily cash collections. This included collections for daily transient parkers, monthly parkers and payments received by the City of Chattanooga.

To determine whether the expenditures are appropriate, adequately documented and in compliance with the agreement between CDRC and AAA Parking, we interviewed the staff responsible for expenditures and examined a judgmental sample of expenditures.



Additionally, we examined payroll and City of Chattanooga transactions that were charged to the parking facilities.

In order to improve the overall efficiency of the audit, sample sizes and selections were determined judgmentally. Three basic issues determined which items were selected for examination: Value of items – A sufficient number of higher dollar items were selected to provide adequate audit coverage. Relative risk – Items prone to error due to their nature were given special attention. Representativeness – Items selected provided coverage of all types of items in the population.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the Revenue Management System (RMS). We assessed the reliability of the data contained in the RMS system and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from April 2014 to November 2014 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.

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