



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor

DATE: November 16, 2010
AUDIT: Parking In-Car Meters
PERIOD: October 01, 2008 through June 30, 2010

This report is the result of a scheduled audit to verify that proper controls are in place to ensure the integrity, reliability, and accuracy of revenues and inventory with respect to the Parking In-Car Meter Program, as well as compliance to rules and regulations.

INTRODUCTION

On September 17, 2008, the Mayor and Commission approved an amendment to the City's parking rate ordinance which adjusted several rates, including parking meter rates south of 23rd Street from \$1.00 per hour to \$1.25 per hour. The changes were conditionally approved subject to the implementation of an in-car meter program, which would allow residents to receive a 20% discount for metered parking in this zone; therefore, instead of a \$1.25 per hour, bona fide residents continue to enjoy the \$1.00 per hour rate.

The in-car meter is a light-weight, credit card sized personal parking meter that can be used for the payment of parking fees in areas with existing parking meters or pay and display machines. This device allows the user to initially purchase and subsequently reload a value of pre-paid parking time either via telephone with a credit card, through a website, or at the City's Parking Department. In-car meters are also known as iPark and in-vehicle parking meter (IVPM).

On September 9, 2008, the City entered into an agreement with ePark Systems, Inc for the purchase of the iPark device and prepaid parking reloads in the amount not to exceed \$25,000, which is within the City Manager's purchasing authority.

Each iPark unit costs \$20.00 and this cost is passed on to the user with no up charge or markups from the City. Reloads are available in \$25.00 and \$50.00 values. City residents pay \$26.00 when purchasing reloads worth \$25.00 and pay \$52.00 when purchasing reloads worth \$50.00, while non-residents pay \$27.00 for reloads worth \$25.00 and \$54.00 for reloads purchased worth \$50.00.

iPark sales began on Monday, November 24th, 2008 with results that surpassed Parking Department's expectations and as a result, the Mayor and City Commission approved an increase of \$75,000 (from \$25,000 previously approved to \$100,000) that could be allocated for purchasing iPark devices and reloads in an amount not to exceed \$100,000 per year.

In-Car meter devices are now available to be purchased at the City's Parking Department and/or at selected retailers such as Publix and Walgreens. However, iPark devices with discounts for City residents are exclusively sold at the City's Parking Department.

We are committed to providing excellent public service and safety to all who live, work, and play in our vibrant, tropical, historic community.

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So far, the program has maintained momentum and the number of individuals benefiting from it seems to be steadily increasing. To that extent, the following table helps to illustrate actual participation in the program during our audit period (October 1, 2009 through June 30, 2010):

Fiscal Year	Number of iPark devices Sold		Number of Reloads Sold			
	Residents	Non-Residents	Residents (\$25.00)	Non-Residents (\$25.00)	Residents (\$50.00)	Non-Residents (\$50.00)
FY 09	2,568	512	1,463	393	1,461	337
FY10*	1,104	405	2,807	646	2,825	778
Totals	3,672	917	4,270	1,039	4,286	1,115

*: The numbers reflected for Fiscal Year 2010 represent 8 months (Oct. 1, 2009 – June 30, 2010)

OVERALL OPINION

Along with the increase in participation and popularity of the in-vehicle meter program, the Parking Department has been successful at documenting and communicating procedures to be consistently applied and followed regarding the software used and operations related to the program. The department has also succeeded in establishing a consistent inventory monitoring and quarterly reconciliation including a physical inventory count. However, the following areas within the operation were identified in need of correction and/or improvement:

1. Costs incurred as a result of the in-car meter program are not being fully recovered.
2. Applicable sales taxes are not being collected in relation to the sale of iPark devices and prepay time reloads.
3. Purchase of iPark devices, time reloads and related expenses are not performed using a purchase order. Instead they are being processed as direct payments (DP).
4. General Ledger postings and journal entries currently completed to account for revenues and expenses as a result of reloads do not correlate to and best describe the nature of the actual transaction.

Additional details regarding the above findings have been provided on the "Findings, Recommendations, and Management Responses" section of this report.

PURPOSE

The purpose of this audit is to ensure that proper controls are in place to maintain integrity, reliability and accuracy of revenues collected under the program. Verify controls and accountability of inventories purchased as well as compliance to rules and regulations that will help to sustain the ongoing operations of the in-car meter program.

SCOPE

1. Verify that proper controls are in place to ensure the integrity, reliability, and accuracy of meter time pre-payments and revenues in relation to this program.

2. Verify in-car meter inventory controls and accountability.
3. Verify compliance to stipulated rules, regulations, and ordinances.
4. Verify that Standard operating policies and procedures are documented and consistently followed by all personnel.

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Finding – *Costs incurred as a result of the in-car meter program are not being fully recovered.*

According to Exhibit A section 2, paragraph 2.2 of the agreement between the Parking Department and ePark, the City's vendor for the iPark devices and reloads, a fee of \$2.00 is assessed to the City for every reload purchased in increments of \$25.00, while a fee of \$3.25 is assessed for every reload purchased in increments of \$50.00. Concurrently and under the same Exhibit A, but section 3, paragraph 3.2, the City is assessed a convenience fee equal to 5% of the transaction value for every reload that is purchased by the customers through the internet or through the vendor's telephone network.

Notwithstanding and in addition to other discounts already offered for iPark devices purchased by City residents, including the 20% hourly rate discount when used in the South Beach Zone and a \$10.00 preloaded credit, the Parking department only passes through to City residents \$1.00 of the \$2.00 assessed by the vendor for reloads purchased worth \$25.00 and \$2.00 of the \$3.25 assessed by the vendor for reloads purchased worth \$50.00. As a result, City residents pay \$26.00 when purchasing reloads worth \$25.00 and pay \$52.00 when purchasing reloads worth \$50.00. At the same time, the City incurs a non-recoverable cost of \$1.00 for every reload purchased worth \$25.00 and incurs a non-recoverable cost of \$1.25 for every reload purchased worth \$50.00 by City residents.

Non-recoverable costs incurred by the City for reloads purchased by City residents are then off-set by \$0.75 for every reload purchased worth \$50.00 by non-residents. In the case of non-residents, the entire reload fee of \$2.00 per reload purchased worth \$25.00 is passed through to the customer and a margin of \$0.75 is added to the \$3.25 reload fee for reloads purchased worth \$50.00. As a result, non-residents pay \$27.00 for reloads worth \$25.00 and \$54.00 for reloads purchased worth \$50.00. Considering that some reloads purchased by either City residents or non-residents (2,986 reloads out of a total of 10,710 reloads sold) are purchased through the internet and through the vendor's telephone system as a convenience to customers, as well as to the Parking Department, a non-recoverable cost of 5% of every reload amount is incurred by the City on top and beyond the previously mentioned costs incurred for reloads purchased by City residents.

Lastly, Internal Audit learned that in order to provide an incentive to retailers, such as Publix and Walgreens to sale iPark devices for non-resident customers, iPark devices are sold to them at \$19.00 each, instead of \$20.00 which is the City's acquisition cost for the devices. As a result, the City incurs \$1.00 of non-recoverable cost for each unit sold to a retailer. Furthermore, customers who purchase their iPark device at a retailer also have thirty days to return their iPark to the Parking Department and receive a full \$20.00 refund for their purchase of the iPark. Considering that the iPark was sold at \$19.00 to the retailer, the City incurs another \$1.00 of non-recoverable cost for every iPark sold through a retailer and returned within 30 days of purchase.

In order to better illustrate the overall non-recoverable costs incurred by the City so far

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under this program, we have created the following table using reported figures during our audit period (October 01, 2008 through June 30, 2010):

Description	Non-Recoverable Unit Cost	Total Non-recovered Cost
4,270 Resident reloads worth \$25.00	\$1.00 per reload fee	\$ 4,270.00
4,286 Resident reloads worth \$50.00	\$1.25 per reload fee	\$ 5,357.50
371 iPark devices sold to retailers	\$1.00 per unit sold	\$ 371.00
\$115,369 worth of reloads (reload value) done through the vendor's web-site and phone system	5% of total reload value	\$ 5,768.45
Total		\$15,766.95
Less:		
1,115 Non-resident reloads worth \$50.00	\$0.75 per reload	\$ (836.25)
Overall Total		\$14,930.70

No units sold at a retailer have been returned within 30 days of purchased. Therefore no costs have been experienced yet as a result of this type of transaction described above.

Recommendation(s)

The Parking Department should implement a strategy to phase out the \$10.00 preloaded limited time introductory offer into each iPark sold to residents. Although the strategy has been used, according to the Parking Department, as a promotion tool to provide an incentive and increase sales, the program seems to be gaining sufficient momentum, considering that a 20% hourly rate discount is already provided under this program. Furthermore, a complete cost per unit analysis should be performed in order to identify any additional cost incurred by the City on top and beyond the 20% revenue reduction resulting from discounts already offered to City residents through this program. Once completed, the Parking Department should go back to Commission to discuss whether to recover all additional costs incurred through this program or to continue to operate as currently done despite the additional costs being incurred.

Management's Response(s)

The limited \$10 reload offered to City of Miami Beach Residents will be discontinued effective December 1, 2010, shortly after the two (2) year anniversary of the inception of the in vehicle parking meter program.

Additionally, we will seek direction from the City Manager's Office on whether or not to pursue approval from the City Commission regarding recovering the additional costs incurred.

2. Finding – *Applicable sales taxes are not being collected in relation to the sale of iPark devices and prepay time reloads.*

No Sales and Use taxes are being collected for and/or paid to the State by the City in reference to the sale of the iPark devices and corresponding reloads. As per Title XIV, chapter 212 of the Florida Statutes, such sale of a tangible personal property is a taxable transaction. Furthermore, it is the responsibility of the City to collect and pay such sales taxes to the State.

In addition, Internal Audit opines that revenues from reloads should be subject to Sales and Use taxes considering that the parking rent prepayments are done in denominations of \$25.00 and/or \$50.00 only, plus applicable fees.

Moreover, assessing sales taxes on the revenues generated from the reloads represents a more conservative approach and in our opinion, in the best interest of the City. At a minimum, considering that reload prepayments can be used to park on off-street as well as on-street parking spaces, it is reasonable to assess and pay the state Sales and Use Tax on fifty percent (50%) of the reload amount. Any other approach should be documented and researched with the Florida Department of Revenue to ensure compliance.

Recommendation(s)

The Parking Department should assess/back-out and pay to the State sales taxes for the sale of iPark devices and reloads in all future transactions.

Management's Response(s)

Parking Department Administration agrees with these recommendations and will be implementing them as follows:

- \$20 purchase of the iPark device. An additional 7% sales tax will be charged to the customer at the point of sale of the device effective December 1, 2010, since this will require software reprogramming by the vendor.
- \$25 and \$50 reload. As mentioned above, the devices can be used both on-street and off-street and currently the devices do not provide a way to retrieve historical information to determine the exact amount of time purchased on-street or off-street. After further review, we have concluded that the most accurate way to estimate sales tax for prepaid parking is by utilizing the previous year's total on-street and off-street revenue recorded for multi-space and single space meters and utilize the off-street revenue percentage as the baseline to calculate sales tax remittance to the State.

This method of calculating taxes will be retroactively effective to October 1, 2010.

3. Finding – *Purchase of iPark devices, time reloads and related expenses are not performed using a purchase order. Instead they are being processed as direct payments (DP).*

City purchases of iPark devices are not being performed using a Purchase Order (P.O.), as best practices would require. Instead, every vendor invoice is being paid through Direct Payment (DP). Considering that maximum annual amount of \$100,000 has been approved by the Mayor and City Commission under Resolution No. 2009-26983 for the purchase of in-car parking meters and prepaid parking reloads, creating purchase orders would contribute to better accountability to ensure that the maximum annual amount is not exceeded and at the same time maintain better controls through the required approvals.

Recommendation(s)

Purchase Orders (P.O.) should be created in order to purchase iPark devices from the vendor. In addition a file with each vendor invoice, a copy of the Purchase order, and a copy of the packing slip and/or bill of lading should be maintained for further reference.

Management's Response(s)

The initial process of recording ipark sales and the payment to the vendor was set-up in conjunction with the Finance Department, as most of these fees are a pass-through to the vendor. The Parking Department Administration met again with the Finance Department and the Procurement Department to determine the best way to address these concerns. As a result of this meeting, a new inventory expense account has been created, in lieu of a balance sheet inventory account. A purchase order will be open with this account in order to pay for the devices and the revenue received for the purchase of the devices will also be recorded in this inventory expense account.

Additionally, the reload fees collected will be recorded as miscellaneous revenue instead of the deferred revenue account that was later utilized to pay the vendor for these fees. These fees will instead be paid to the contractor from a parking operating expense account through a purchase order.

4. Finding – *General Ledger postings and journal entries currently completed to account for revenues and expenses as a result of reloads do not correlate to and best describe the nature of the actual transaction.*

Currently the following transaction is recorded on the City's General Ledger as a result of the sale of reload time for the iPark devices:

- 1) For sale of resident reloads worth \$25.00:

Cash.....	\$26.00
Revenue.....	\$24.00
Vendor Fees Payable.....	\$ 2.00

Once the reload fees are paid to the vendor, then the transaction is recorded as follows using the same example above:

Vendor Fees Payable.....	\$ 2.00
Cash.....	\$ 2.00

The same rationale is used when recording the sale of reloads to customers despite the reload's amounts worth. As a result, fees assessed to the Parking Department by the vendor are treated as if they were collected from the customers on behalf of the vendor.

However, reload fees assessed by the vendor represent a contractual obligation for the Parking Department. At the same time, customers who purchase the reloads have no obligation with the vendor regarding any fees assessed to the Parking Department. The Parking Department in its sole discretion may increase the purchase price of the reload to cover for the additional cost incurred as a result of the fees assessed by the vendor, which constitutes additional revenues from the transaction. In addition, there is no authority for the Parking Department to collect any fees on behalf of a vendor. Continuing to record reload transactions in this manner also results in an understatement of revenues and expenses in relation to this program.

Recommendation(s)

Instead of the current method used to record transactions resulting from the sale of iPark reloads, Internal Audit recommends the following method and rationale:

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Using the same example in the above finding:

1) For sale of resident reloads worth \$25.00:

Cash.....	\$26.00
Vendor Fees – Expense.....	\$ 2.00
Revenues - Parking.....	\$25.00
Revenues - Reload Fee.....	\$ 1.00
Vendor Fees Payable.....	\$ 2.00

Once the Fees are paid to the vendor then the transaction should be recorded as follows:

Vendor Fees Payable.....	\$ 2.00
Cash.....	\$ 2.00

Using this method also helps to properly account for revenues subject to Sales and Use Tax as required by the Florida Department of Revenue and better account for revenues and expenses as a result of these transactions. Communications with the Finance Department regarding our recommendation were successful, as the change in method does not create a major accounting change or require additional resources from the Finance Department. No objections were expressed during our communications.

The Parking Department should implement the recommended methodology and rationale to record transactions as a result of the sale of reloads as soon as possible. In addition, this method and rationale should be consistently used when recording the sale of reloads in accordance to the reload value.

Management's Response(s)

Parking Management agrees with Audit's recommendation and as mentioned above has met with Finance and the necessary changes have been made to the parking revenue system in order to properly record the revenue as detailed above.

EXIT CONFERENCE

An exit meeting was held on October 22, 2010 to discuss the audit report and to solicit management responses noted above. Attendees were Saul Frances, Parking Director, Charles Adams, Parking Assistant Director, Greeten Steele, Senior Administrator Manager, Rocio Rodriguez, Financial Analyst III, Sasha Gonzalez, Customer Service Liaison, James Sutter, Internal Auditor and Fidel Miranda, Auditor. Management responses were received shortly thereafter. All were in agreement with the contents of this report.

Audit performed by Fidel Miranda, Auditor

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cc: Jorge Gomez, Assistant City Manager
Saul Frances, Parking Director
Charles Adams, Parking Assistant Director
Patricia Walker, Chief Financial Officer