

June 14, 2017

REPORT #: 2017-07

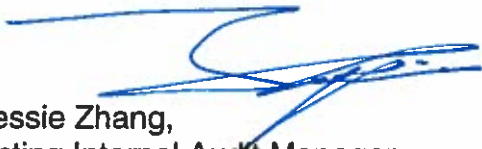
Roubik Golanian, Director
Public Works Department

Dear Roubik,

Enclosed is the final report of the Marketplace Parking Garage Agreements Review. Internal Audit would like to thank you and your staff for the support and assistance provided during the course of the review.

Should you have any questions, please feel free to contact Sameel Salim or myself.

Sincerely,



Jessie Zhang,
Acting Internal Audit Manager

Enclosure

cc: Yasmin Beers, Assistant City Manager
Tad Dombroski, Parking Manager
Robert Elliot, Director of Finance
Michele Flynn, Assistant Director of Finance
Armen Harkalyan, Revenue Manager
Scott Ochoa, City Manager
City Council
Audit Committee

REPORT #: 2017-07



INTERNAL AUDIT

Marketplace Parking Garage Agreements Review

June 12, 2017

Background

In accordance with Internal Audit's fiscal year 2016-17 audit plan, Internal Audit completed a review of the Marketplace Parking Garage Agreements. This review was requested by the parking management staff within the Administration Division of the Public Works Department.

The City of Glendale's Marketplace Parking Garage was completed in 1998. As built, the structure provides for above-ground and under-ground parking and contains approximately 1,100 vehicular parking spaces. Upon opening, the parking garage accommodated three specific tenants, as well as parking for the general public. The three original and current parking tenants at the garage are:

- Glendale Marketplace LLC (Marketplace) - In 2013, CETTG Glendale LLC (CETTG) replaced Marketplace as the parking tenant and assumed the original parking agreement between Marketplace and the City.
- Borders Books Group (Borders) - In 2011, R.A. Glendale LLC (Marshalls) took over from Borders and assumed Borders original parking agreement.
- Circuit City - In 2011, Broadway Lofts Owner LLC, took over from Circuit City and executed its own parking agreement with the City. In 2014, EQR-Eleve LP (EQR), took over from Broadway Lofts and assumed their parking agreement.

Each of the three tenants had their own parking agreements with distinct payment terms. Two of the agreements contain billing methodology changes that are triggered by defined events. The Parking Manager within Public Works is responsible for managing the daily operations of the Marketplace Parking Garage and is the main contact between the City and the parking tenants. The financial billings and collections for the parking agreements are overseen by staff within the Finance Department, Revenue Section.

Objective, Scope, and Methodology

The primary objective of this review was to re-calculate the parking fees associated with the Marketplace Parking Garage agreements and determine if the amounts being collected from the tenants are accurate per the terms of the agreements. The scope of this review is limited to current parking tenants and payment collections through August 2016.

In order to accomplish the review objectives, Internal Audit performed the following procedures:

- Obtained and reviewed the parking agreements for applicability with staff from the City Attorney's Office and the Community Development Department.
- Reviewed the payment terms of each agreement with staff from the City Attorney's Office and the Public Works Department to ensure an accurate understanding.
- Extracted invoice/payment histories from the financial system of record, GFS.

- Re-calculated what should have been billed as compared to payments received in order to determine any over/under payments by each applicable parking tenant.

Conclusion

Internal Audit reviewed the three parking agreements and noted discrepancies between the prescribed payment calculations identified in the agreements and the actual payment calculations performed by the Finance Department. The identified discrepancies along with the associated control weaknesses are summarized in the chart that follows and included in the Observation, Recommendation, and Management Response Section of this report.

Priority 1
Critical control weakness that exposes the City to a high degree of combined risks.
None
Priority 2
Less than critical control weakness that exposes the City to a moderate degree of combined risks.
Lack of familiarity with events changing billing terms (Item #1 and #2)
Priority 3
Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks.
Inaccurate application of CPI (Item #3)

	Item	Observation	Recommendation	Management Response
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Priority 2</p>	1.	<p>The parking agreement with CETTG specified the original monthly parking fees were to be fixed, subject to annual increases based upon the Consumer Price Index (CPI). However, the methodology for calculating the monthly billings would subsequently change to reflect the actual costs to operate the parking garage.</p> <p>This change in methodology was not well-known. Therefore, the methodology for calculating the monthly billings did not change and continued to be based upon the annual percent change in CPI.</p> <p>The final determination of the over/under billing is pending allocation of Public Works indirect labor costs for operating the Marketplace Parking Garage. The percentage of these costs to be allocated to the Marketplace Parking Garage is still being determined by Public Works.</p>	<p>It is recommended the Public Works management responsible for the Marketplace Parking Garage work with the Finance Department revenue staff to update the monthly parking fee calculation for CETTG to reflect the change in methodology.</p> <p>In addition, Public Works parking management should make corrections resulted from changes in billing methodology.</p> <p>In order to prevent this form of occurrence in the future, each agreement should be kept intact and reviewed at least annually in order to stay abreast of the requirements. As well, certain events which are date specific should be documented at the onset of any agreement and clearly identified.</p>	<p>Management agrees with the recommendation and will work with the Finance Department to determine the additional indirect costs that should be included, correct the billing methodology, and make billing corrections accordingly.</p> <p>Going forward, Public Works Management will meet with the Finance Department annually to review and approve payment methodologies for the upcoming year.</p> <p>Target implementation date is September 30, 2017.</p>

	Item	Observation	Recommendation	Management Response
Priority 2	2.	<p>The parking agreement with Marshalls specifies the tenant pay a monthly fee for upkeep and maintenance of the Marketplace Parking Garage while the Amended Redevelopment Plan exists.</p>	<p>It is recommended that the Public Works parking management should refund the overbilled amounts to Marshalls.</p>	<p>Management agrees with the recommendation and will refund the amount due to Marshalls.</p> <p>Target implementation date is September 30, 2017.</p>
	<p>Through discussions with staff at the City Attorney's Office and the Community Development Department, it was identified the Amended Redevelopment Plan expired in August 2015.</p>	<p>However, the Public Works parking management was not aware of the expiration provision in the agreement and Marshalls continued to be billed for parking fees into 2016. As a result, Marshalls was overbilled.</p>		

	Item	Observation	Recommendation	Management Response
<p>Priority 3</p>	3.	<p>According to the payment terms in the agreement with EQR, the parking fee is a fixed amount per year for the initial agreed upon term. After the initial term, the amount will be increased annually by a percentage determined based on CPI.</p> <p>However, the Finance Department has been incorrectly applying the percentage increase prior to the end of the initial term. As a result, EQR was overbilled.</p>	<p>It is recommended that the Public Works parking management work with the Finance Department revenue staff to update the parking fee calculation and refund EQR for the overpaid parking fees.</p> <p>Annually, when percentage changes do occur in the parking fee, Finance should communicate and obtain approval of the correct percentage of increase from the Public Works Parking Manager.</p>	<p>Management agrees with the recommendation and has already coordinated with the Finance Department and credited EQR accordingly.</p> <p>Going forward, Public Works Management will meet with the Finance Department annually to review and approve percentage of increase for the upcoming year.</p>