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**Audit of  
Department of Public Works  
Parking Structure Cash  
Controls**

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April 17, 2014

Honorable Tom Barrett, Mayor  
The Members of the Common Council  
City of Milwaukee

Dear Mayor Barrett and Council Members:

The attached report summarizes the results of the follow-up Audit of Department of Public Works (DPW) – Parking Structure Cash Controls. The objectives of the audit were to evaluate the adequacy of, and compliance with, Imperial Parking’s (Impark) established policies and procedures as they relate to cash controls; to evaluate the adequacy and effectiveness of the internal controls surrounding the collection and processing of cash and cash equivalents by Impark; and to follow-up on the recommendations reported in the Audit of DPW Parking Structures Cash Controls and Leases dated November 11, 2012.

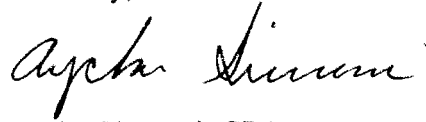
Overall, the audit concluded that there are internal controls over parking structure cash and cash equivalents; however, these controls demonstrated enhancement opportunities. For certain controls identified within this report, gaps existed in the developing control designs. This report identifies six recommendations and two observations to address these issues.

Delays were encountered during the audit due to the inherent challenges present in an ongoing vendor management transition requiring process and control enhancements.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report which has been reviewed by DPW-Parking and Impark management. DPW-Parking and Impark management agree with Internal Audit’s recommendations and observations. They have planned and begun implementation of the remediation process. Internal Audit fully agrees with DPW-Parking and Impark’s proposed plan.

Appreciation is expressed for the cooperation extended to the auditors by the management and staff of Impark and the Department of Public Works – Parking Operations.

Sincerely,

A handwritten signature in black ink, appearing to read "Aycha Sirvanci". The signature is fluid and cursive, with a prominent initial "A" and a long, sweeping underline.

Aycha Sirvanci, CPA  
Audit Manager

AS:acf

## **I. Audit Scope and Objectives**

A new parking structure vendor, Imperial Parking Corporation (Impark) was contracted to assume the daily management responsibilities of four City of Milwaukee owned, downtown, parking structures. Milwaukee city officials approved Impark's assumption of the city's parking structure management contract as of February 1, 2013. The Department of Public Works – Parking Operations group administers the operational aspects of this contract with Impark on behalf of the city.

The mitigation of risks inherent to this management transition process, and the physical control and management of operational cash assets and daily cash revenues, prompted the development of the follow-up audit scope and objectives. The scope of this follow-up audit included: cash collection activities; verification of the completion of reported prior audit findings; and relevant policies, procedures, and control testing for the four parking structures as of when Impark assumed control of the management contract on February 1, 2013. The audit did not replicate the scope of the initial audit (Audit of DPW Parking Structures Cash Controls and Leases (report dated November 30, 2012)). The audit excluded the review and testing of the billing and receipts for the parking lot and parking structure leases.

Audit procedures were developed to evaluate applicable processes and controls in order to accomplish the audit's objectives that consisted of: interviews with DPW and Impark management and staff; process walkthroughs; review of the vendor's policies and procedures; inspection of relevant control documentation; and detailed control testing for cash-related activities from February 1, 2013 through July 31, 2013.

Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The objectives of the follow-up audit were to:

- Evaluate the adequacy of, and compliance with, Impark's established policies and procedures as they relate to cash controls;
- Evaluate the internal controls surrounding the collection of cash and cash equivalents by Impark;
- Follow-up on the recommendations reported in the Audit of DPW Parking Structures Cash Controls and Leases (dated November 30, 2012).

## **II. Organization and Fiscal Impact**

DPW – Parking Operation's responsibilities include managing the city's five parking structures and 45 parking lots. Four of the parking structures which are available for public use are operated by Impark and provide daily, monthly, and special events parking. The fifth parking structure is leased entirely by a local company which pays an annual rent to the city.

Impark provides the city with full parking management services for the four structures which includes staffing, operations, reporting and the improvement of systems and services. The four City of Milwaukee parking structures under Impark's operational management maintain 4,383 parking stalls and include the following locations:

- North Water Street;
- Highland Avenue and 4<sup>th</sup> Street;
- Plankinton Avenue and 2<sup>nd</sup> Street; and
- MacArthur Square.

Since the management transition from Standard Parking to Impark, the four applicable parking structure operations have continued to generate notable revenues as can be referenced below.

### Impark Managed Parking Structures Gross Revenues (GR) for February 2013-May 2013

Structures:	February	March	April	May	Total GR
Water Street	\$122,330	\$125,989	\$123,955	\$120,235	\$ 492,509
Highland	\$115,758	\$127,260	\$103,150	\$ 41,260	\$ 387,428
Plankinton	\$ 49,024	\$ 68,233	\$ 64,317	\$ 64,373	\$ 245,947
MacArthur Sq.	\$353,055	\$359,751	\$366,701	\$308,670	\$1,388,177
<b>Total GR<sup>1</sup>:</b>	<b>\$640,167</b>	<b>\$681,233</b>	<b>\$658,123</b>	<b>\$534,538</b>	<b>\$2,514,061</b>

### III. Audit Conclusions and Recommendations

The internal control systems, developed and implemented by Impark and DPW, over the parking structure cash operations have been designed to provide management with assurance that: processes and controls are performed consistently and are in compliance with policy, procedure and best practice; cash is received, disbursed, collected and verified appropriately; cash transactions are processed and recorded accurately for deposit; and that cash on-hand is adequately maintained and safeguarded.

This internal control system for cash handling and management is crucial to the prevention of the mishandling of funds, the accuracy of deposits, the recording of transactions, and is designed to safeguard and protect employees.

Overall, the audit concluded that there are internal controls over parking structure cash and cash equivalents; however, upon review and testing these controls demonstrated enhancement opportunities. For certain controls identified within this report, gaps existed in the developing control designs. This report identifies six recommendations and two observations to address these issues.

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<sup>1</sup> The revenues generated consist of cash, credit card, and check proceeds (as of the Impark management contract assumption on February 1, 2013).

This audit makes six recommendations for improvement:

1. Impark should develop monthly parker reconciliation guidelines.
2. Impark should develop and implement control reporting over cash handling and cash verifications that provide evidence of independent review.
3. Impark should strengthen control procedures over standard processes requiring documented signatory evidence of task completion.
4. Impark should perform a monthly, independent, surprise, physical count of the parking operation cash and coin assets.
5. Impark should strengthen control procedures over the physical management and documentation of the safe cash transactions.
6. DPW-Parking should strengthen procedures over the cash revenue verification and reconciliation controls.

This audit also identifies two observations. An observation may not constitute a recommendation, but the following should be taken under advisement by management:

1. Impark should develop and maintain a control log for occasional checks received and deposited.
2. DPW-Parking should develop and maintain standard documented procedures for the parking structure operations.

Additional details regarding the recommendations for improvement are provided in the remaining sections of this report.

#### **A. Policies and Procedures**

Impark policies and procedures are well defined, specific, and consistent regarding the daily revenue collection, processes, controls and techniques utilized over cash operations and management.



The purpose of any policy, procedure or guideline is to provide a central repository of the information and direction pertaining to the conduct of standard operations and their related activities regarding a specific process, processes or controls. The utilization of standard policies and procedures is considered a best practice.

Standard best practices must be observed regarding all processes and controls to ensure consistent and appropriate operations and risk mitigation. Best practice application should also include separation of duties. Separation of duties provides reasonable assurance that no one individual has physical or system access that allows control over all aspects of a business process or transaction from authorization, to asset custody, to verifications and record keeping.

When these functions cannot be separated, a mitigating or compensating control activity or procedure must be implemented to reduce the inherent risks to an acceptable level.

#### **Monthly parker reconciliation guidelines**

The Audit of Department of Public Works Parking Structures Cash Controls and Leases performed in 2012 (with a report dated November 2012) determined that the overall system of internal controls was adequate to effectively mitigate risk to an acceptable level; however, several outstanding issues identified required follow-up testing during the performance of this audit.

The outstanding audit issues identified were successfully completed; however, “Recommendation 2: Document policies, procedures, and controls for key processes in a procedure reference manual,” had not yet been remediated at the close of testing for this current audit. The recommendation required that, “The Contractor should develop a procedure manual including policies and step-by-step instructions for processes performed by the Contractor.”

#### **Recommendation 1: Impark should develop monthly parker reconciliation guidelines.**

The parking structure contracted vendor, Impark, should develop or demonstrate that a procedure or guideline for the monthly parking operations that includes specifications for the performance of the reconciliation process have been implemented.

### **Cash handling and verifications**

The performance of the cash, coin and attendant ticket verification functions must demonstrate adequate and standard separation of duties or be performed utilizing appropriate mitigating controls that provide for an indication of successful completion.

Secondary verifications of the maintained assets (cash and coin), daily deposits, and attendant booth cashier's cash and parking tickets are not being adequately documented.

### **Recommendation 2: Impark should develop and implement control reporting over cash handling and cash verifications that provide evidence of independent review.**

The performance of the cash, coin and attendant ticket secondary verification functions must demonstrate adequate and standard separation of duties, or be performed utilizing appropriate mitigating controls, that provide an evidentiary indication or demonstration of successful completion. This minimally includes: the daily deposits; attendant booth cashier cash and ticket verifications; and the daily safe and pay station (automated cash collection and change dispenser) cash reconciliations.

### **Signatory evidence of task completion**

Control standards typically require the signatory evidence of task performer and reviewer/verifier completion. Review of the standard operational documentation utilized by Impark personnel revealed that one of the two required signatures demonstrating completion of a task, process, operation or review, by the appropriate individual, was not consistently noted when necessary.

### **Recommendation 3: Impark should strengthen control procedures over standard processes requiring documented signatory evidence of task completion.**

The operational documentation and reports should be signed by the individual performing a specific function (i.e.: Imperial Parking Shift Report, Daily Deposit Totals report, Cash Count Record-Petty Cash/Float Reconciliation form, etc.).

Requiring the signature of the task performer on standard documentation allows for expedited identification of the individual that performed the work if there are follow-up questions. Additionally, signatory evidence supports specific employee accountability.

## **B. Cash Maintenance and Monitoring**

Cash flow management, maintenance and monitoring is a process that involves collecting payments or revenues, controlling disbursements, analyzing shortfalls, forecasting cash needs, and investing idle funds. The goals of a successful cash management and monitoring operation can include:

- Consistency of cash collection procedures and controls;
- Enhancement of business practice and return;
- Providing safety and security to the individuals, departments, the city and the assets involved.

To accomplish these goals, standard best practices for the maintenance, monitoring and the controls over the storage, acceptance, distribution, reconciliation and documentation of cash collections include the following:

- All currency, coin or checks should be kept in a locked/combo vault, safe or cash drawer during non-business hours;
- Access to areas where cash is stored should be limited to those employees who require access and have been designated to have access;
- To reduce the risk of error, all stored cash and coin should be separated according to denomination (and any checks should be stored together separately);
- Cash should be deposited within three business days;
- Cash collected should be documented upon receipt;
- Cash transfers (from a safe or locked storage unit) should be documented and authorized;
- Cash and receipts should be counted and balanced daily;
- Supervisory or management verification of receipts or deposits should be performed; and
- Independent, periodic surprise cash counts of maintained assets should be performed.

Potential consequences of not establishing adequate controls mentioned above include:

- An unsafe work environment;
- Lost, misplaced or inaccurate cash receipts;
- Inaccurate application of cash receipts to accounts;
- Undetected errors, discrepancies, or irregularities.

Though an implemented control structure was observed during the review and testing of safe and pay station cash maintenance and monitoring, control enhancements have been identified.

### **Cash counts**

The daily safe cash counting process and pay station reconciliation, and monthly surprise cash count, is not being performed by someone independent of the operation and is being performed daily by two employees that have access to the safe and pay station currency and coin, supporting documentation and control reporting. The documentation of the safe and pay station currency and coin asset reconciliations are not adequate as balances cannot be consistently vouched to source documentation.

### **Recommendation 4: Impark should perform a monthly, independent, surprise, physical count of the parking operation cash and coin assets.**

An independent, surprise cash count of the currency and coin maintained in the safe and pay stations should be performed at least monthly and be adequately documented. These cash counts should be evidenced by the signatures of the persons performing the counts and the date of completion. Surprise cash counts should be performed using standard best practice and demonstrate the verification of beginning balance, cash transfers, and ending asset balances.

### **Safe maintenance**

The controls implemented to physically secure the assets of the parking operations safe and pay stations are significant; however, safe and pay station cash maintenance and documentation are not consistent with standard best practices. In the safe, various types of coin are often intermingled; a bulk and working supply of currency and coin has not been established; bulk float/daily change receipts (safe cash inputs) are not adequately documented; and bulk float/pay station change replenishments (safe cash outputs) are not adequately documented. The

combination of these oversights rendered the process of verifying the total safe and pay station asset balances either challenging or not possible. Additionally, the risk associated with not being able to verify an ongoing total asset balance increases the opportunity for errors, discrepancies, or undetected irregularities.

**Recommendation 5: Impark should strengthen control procedures over the physical management and documentation of the safe cash transactions.**

Impark management must develop cash storage practices including a tracking document that can expedite the cash counting and review processes, exhibit the daily cash management of the safe asset transactions, provide an audit trail for reconciliation purposes, and limit the overall inherent risks to the city's operational assets and Impark personnel using best practices. Guidelines should include:

- The maintenance of separate, and counted, currency and coin;
- All cash inputs or outputs to the safe (and pay stations) must be authorized and documented;
- Ongoing total asset balances must be verifiable and reconcilable.

Audit procedures concluded that the safe and pay station change fund is potentially at risk for misappropriation should this ongoing total balance be irreconcilable or unverifiable.

Additionally, per Impark management on February 4, 2014 the inputs and outputs to the safe and pay station total asset balance (change fund/float) should be documented per Impark procedure.

**C. Vendor Management Transition and Reporting**

The DPW-Parking managed transition of the Imperial Parking Corporation's contracted assumption of daily management responsibilities of four City of Milwaukee owned parking structures demonstrated the utilization of standard best practice. Best practices regarding the implementation of a new service vendor management company demonstrate the following key critical success factors:

- Communication and relationship management;
- Performance analysis and improvement;
- Issue and dispute resolution;

- Change management; and
- Transition monitoring.

However, pending process and control enhancements were identified during this ongoing transition.

### **Revenue verification and reconciliations**

Verification of the daily deposited cash revenues, and the monthly bank reconciliation were not being performed utilizing appropriate system based reports, or original pay station tape reports.

Verifications and reconciliations of the pay station daily cash revenues were not being performed timely. As of November 11, 2013, reconciliations of the daily cash revenue amounts deposited at the bank had not been performed in the Office of the City Treasurer since May 2013. This process was pending the receipt of the necessary reporting documentation.

DPW-Parking operations personnel were not receiving a consistent set of daily reports from Impark that are required for the daily processing as of November 2013. The non-utilization of a standard set of reports could hinder the verification processes or operations post vendor management transition.

Reconciliations are a key internal control activity and, per best practice, should be performed with regularity to provide assurance over the general ledger and account balances. Risks inherent to not performing standard reconciliations include:

- Misstatement of revenues reported for accounting purposes; and
- Misappropriation of assets.

### **Recommendation 6: DPW-Parking should strengthen procedures over the cash revenue verification and reconciliation controls.**

DPW-Parking management should ensure that standard revenue verification and reconciliation processes are performed according to best practice as follows:

- Control reports are appropriately utilized in the verification and reconciliation processes;
- All control-based processes (i.e. reconciliations) are performed timely;

- A consistent and adequate daily processing documentation/report set is developed and utilized.

#### **D. Observations**

The following audit observations do not constitute a recommendation; however, management should take these items under advisement.

**Observation 1: Impark should develop and maintain a control log for occasional checks received and deposited.**

Checks are typically logged upon receipt, including payments for validation coupons; however, checks that are received occasionally, and deposited, are not always being logged.

Best practice criteria indicates that check receipts should be logged daily as they can be subject to misappropriation, deposit errors, or reconciliation errors if they are not adequately controlled.

**Observation 2: DPW should develop and maintain standard documented procedures for the parking structure operations.**

DPW-Parking management should document control-based procedures and guidelines for the city's applicable parking structure operations as a result of process enhancements implemented since the conclusion of the audit testing.