AUDITOR'S REPORT

FACILITIES & PROPERTY MANAGEMENT
LAZ PARKING AGREEMENT

July 11, 2014

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BARBARA J. SCHOTT, C.P.A.
HARRIS COUNTY AUDITOR

July 11, 2014

Mr. Willie P. Loston
Director, Facilities & Property Management
1310 Prairie St, Suite 1330
Houston, Texas 77002

RE: Facilities & Property Management LAZ Parking Agreement for the 23 months ended July 31, 2012

At the request of the former Director of Facilities and Property Management, the Audit Services Department performed procedures relative to the LAZ Parking Agreement. The objective of the engagement was to review contractual compliance by LAZ Parking Texas, LLC and Facilities & Property Management. Our procedures included the following:

- Met with the County's Facilities & Property Management and LAZ Parking personnel and obtained an understanding of the critical controls relative to the budget, revenue, and expense processes.
- Selectively evaluated compliance with the LAZ Parking Agreement.
- Evaluated whether operating and capital project budgets were prepared and approved in accordance with the LAZ Parking Agreement.
- Selectively performed site visits to evaluate the controls for assessing and collecting parking fees.
- Performed analytical review procedures to evaluate whether parking and related fees were properly assessed, collected, deposited, reported, and monitored.
- Evaluated whether net parking revenues were remitted to the County in accordance with the LAZ Parking Agreement and were recorded accurately in the County's financial accounting records.
- Selectively tested parking expenses to evaluate whether they were allowable pursuant to the LAZ Parking Agreement and were properly approved, supported, paid, recorded, and monitored.

The engagement process included providing you with engagement and scope letters and conducting an entrance and exit conference with your personnel. The purpose of the letters and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

Mr. Willie P. Loston
Director, Facilities & Property Management

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,

Barbara J. Schott
County Auditor

cc: District Judges
County Judge Ed Emmett
Commissioners:
R. Jack Cagle
El Franco Lee
Jack Morman
Steve Radack
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

The County's Facilities & Property Management (FPM) department is responsible for the management and maintenance of County-owned facilities, which includes various parking lot and garage facilities. Certain responsibilities for managing these parking facilities have been outsourced to a third party, LAZ Parking Texas, LLC (LAZ), through a contracted services agreement. The contracted services agreement between LAZ and the County includes the contract itself and by incorporation and reference, the terms, conditions, and specifications of the Request For Proposal (RFP), Addendums 1 and 2 to the RFP, and LAZ's responses and Best And Final Offer (BAFO), collectively the Agreement.

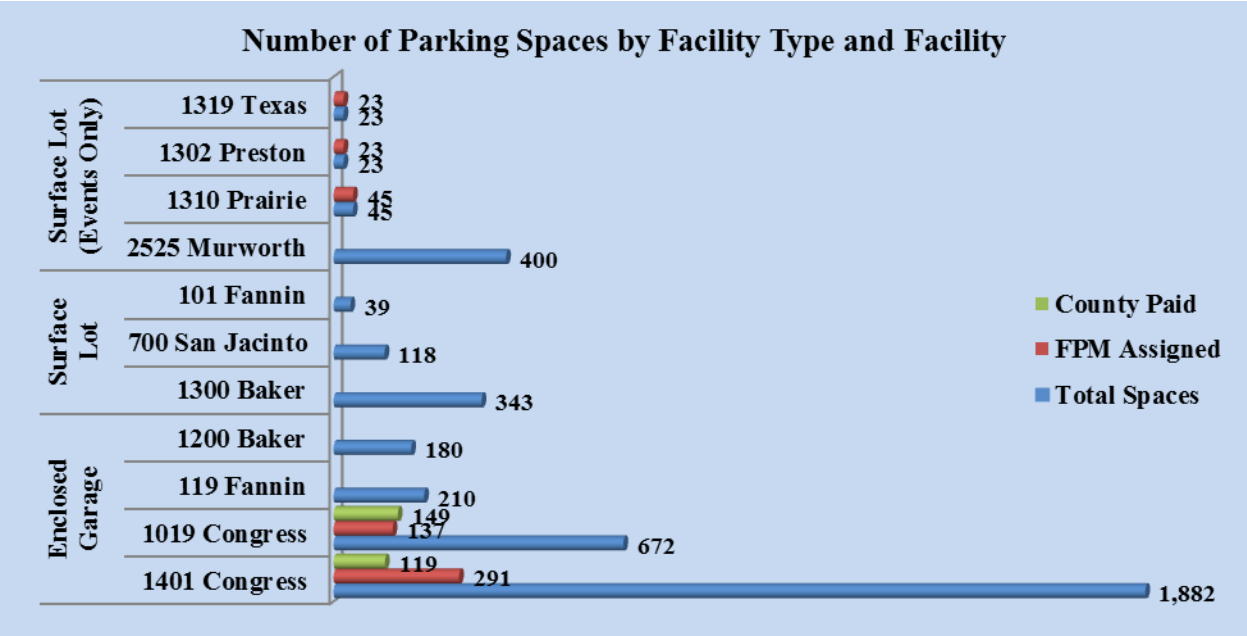
Commissioners Court approved the initial one-year Agreement for the contracted parking services (Services) on August 10, 2010, with performance commencing September 1, 2010. Services under the Agreement encompass LAZ's providing of parking facility management, which includes, but is not limited to, operations management, maintenance, revenue collection and control, parking enforcement, and staffing for the covered County parking facilities. In exchange for these Services, the County agreed to compensate LAZ an annual base fee and reimbursement of certain operating and maintenance expenses related to the parking facilities. FPM's responsibilities under the Agreement include monitoring LAZ's performance and compliance, which covers areas such as services provided, facility maintenance, approval and enforcement of the parking operations annual budget, results of operations, review and approval of non-budgeted additional expenses, and review and approval of compensation reimbursement requests. The Agreement contains an annual renewal option of up to four years, of which it has been renewed once during the engagement period reviewed.

Parking Facilities

Eleven parking facilities were covered by the Agreement during the engagement period. The covered facilities may be classified as either an enclosed parking facility (garage) or a surface parking facility (lot). The facility type classification with its corresponding address is reflected in the below table.

Enclosed Garage	Surface Lot	Surface Lot (Events Only)
1401 Congress	1300 Baker	2525 Murworth
1019 Congress	700 San Jacinto	1310 Prairie
119 Fannin	101 Fannin	1302 Preston
1200 Baker		1319 Texas

As illustrated above, surface lots are subdivided into parking facilities where transient daily and/or monthly billing operations occur and parking facilities where event only operations occur. In addition to providing parking accommodations to the public, several of the facilities are used to provide parking to County employees. The graph on the following page shows the total number of parking spaces by facility type and facility as well as the number of parking spaces paid for by County departments as part of their budgeted expenditures or spaces assigned to County departments through FPM.



The four enclosed garages account for 2,944 of the total 3,935 parking spaces (74.8%) among all facilities. The enclosed garages originally generated revenues through a combination of transient, monthly contract, and event parking activities. However, two of the enclosed garages (1200 Baker and 1019 Congress) have subsequently been converted to monthly contract parking only. Parkers wishing to obtain a monthly parking contract complete an application with LAZ and submit the monthly parking fee, which may be prorated for the first month, depending on when the contract begins.

Entry and exit access to the enclosed garages is controlled in one of several ways. Except for the 119 Fannin location, the automated Amano McGann (Amano) revenue control system and equipment with an in vehicle access badge device is used for the enclosed lots. The access badge may be a standalone device issued to the parker or an electronic link established to the vehicle's Harris County EZ Tag. The 119 Fannin location uses a "hangtag" issued by LAZ for placement on the vehicle's rearview mirror. LAZ staff inspects the hangtag upon entrance and exit of the lot.

Payment for parking privileges occurs in one of several manners depending on the type of parker. Monthly contract parkers submit payment in person by cash, check, or debit/credit card; through the mail by check; or by using the online payment feature of the Parker Accounts Receivable Information System (PARIS).

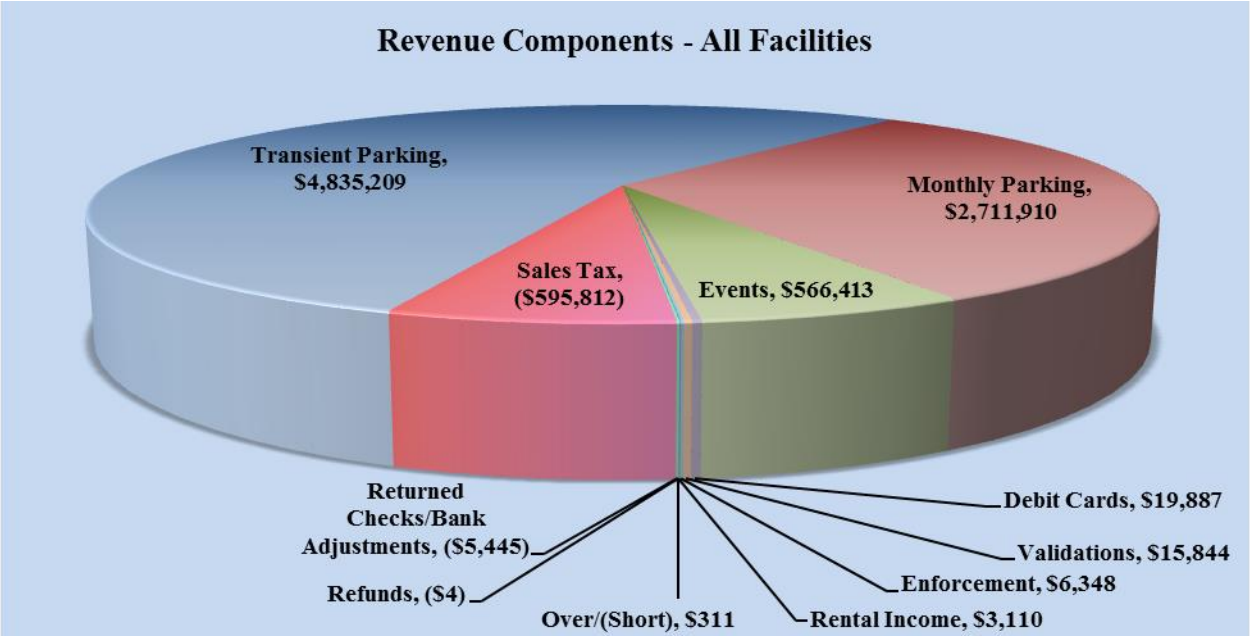
Daily transient parkers pay for parking in a variety of ways depending on the facility. Transient parkers at 1401 Congress obtain a time-stamped ticket upon entry of the facility and pay cash at one of the two exit booths or pay with cash or debit/credit card at a kiosk located in the lobby of the facility or the jury assembly area. The ticket used to enter the facility is time-stamped, encoded, and returned for use to exit the facility. The three non-events only surface lots (500 spaces) and enclosed 119 Fannin location that allow daily transient parking accept cash or credit/debit cards through an automated multi-space parking pay station known as a Luke

machine. A flat daily parking fee is collected, and a receipt is dispensed for display in a conspicuous place within the vehicle (i.e., dashboard).

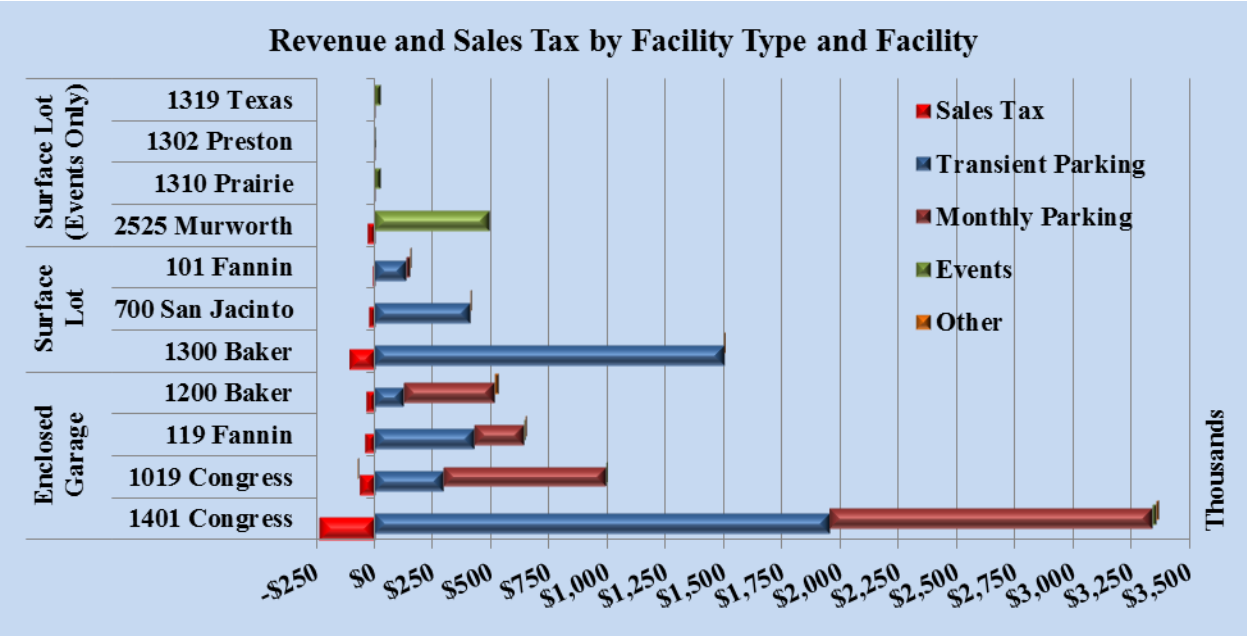
Event parking currently occurs at the enclosed garage at 1401 Congress and the event only surface lots (combined spaces of 491 total) at 2525 Murworth, 1310 Prairie, 1302 Preston, and 1319 Texas. The events parking normally revolve around activities downtown near Minute Maid Park such as the baseball season or activities near Reliant Park such as the Houston Livestock Show and Rodeo or football season. Payment for event parking is on a cash only basis where a uniformed LAZ parking attendant issues a preprinted ticket to the parker.

Operating Revenues

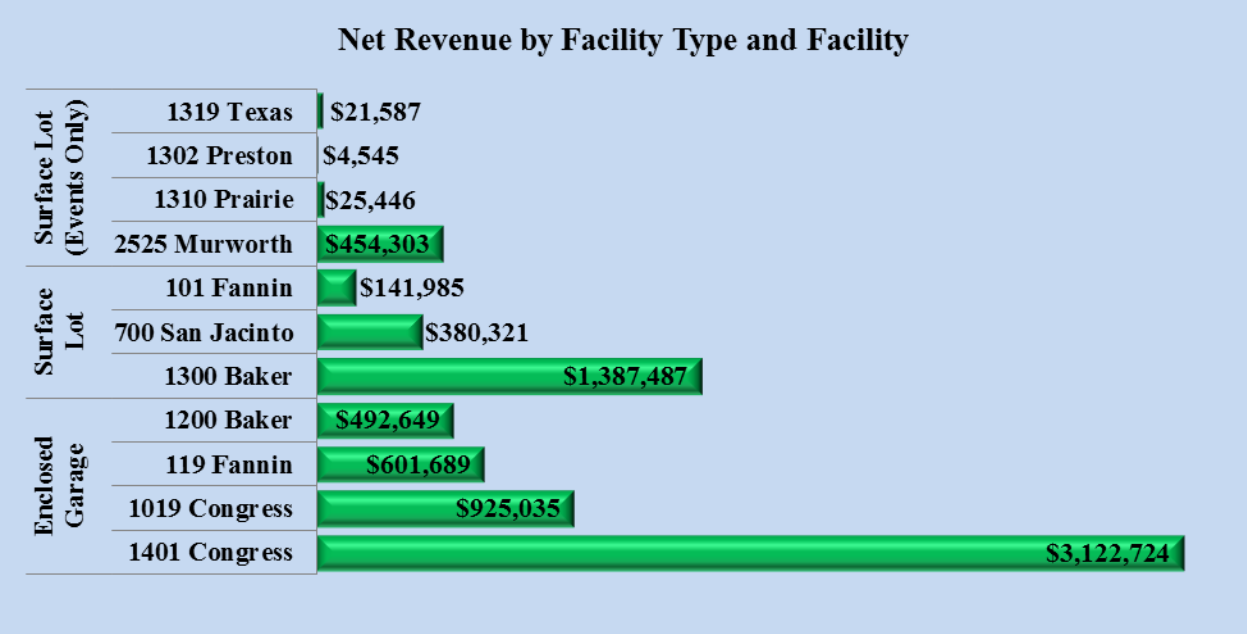
LAZ collects all revenues and remits the "Net Revenue" to the County monthly. There are four main components of revenue associated with operations under the agreement. Three of the four components (Transient Parking – daily parkers not under contract, Monthly Parking – daily parkers under contract, and Events – parkers electing to use the lot due to an event in the area) contribute directly to the determination of the results of facility operations. The fourth main component, Sales Tax, is included in the amounts collected, but is collected on behalf of the applicable taxing entity and represents a liability until remitted to the appropriate entity. The remaining revenue components relate to miscellaneous revenue activity. The below pie chart reflects the revenue components for all facilities during the engagement period.



Presented by facility type and facility, the graph on the following page shows the revenue components by major groupings.



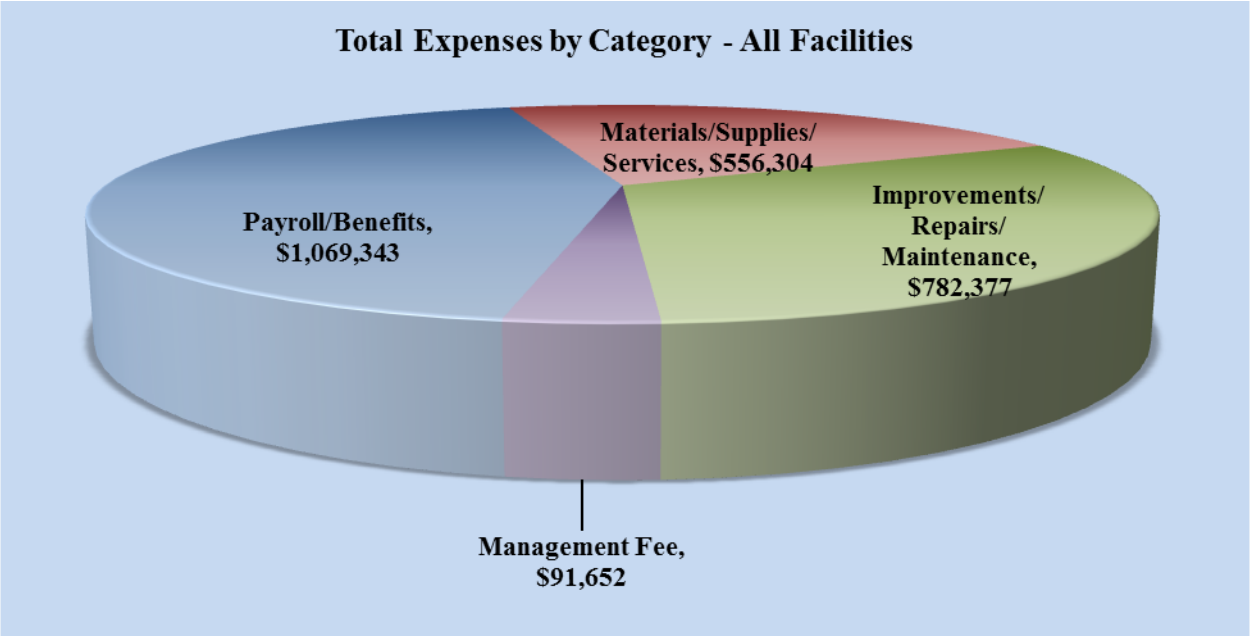
The combined results of these revenue components produced Net Revenues during the engagement period of $7,557,771.00, which is illustrated by facility type and facility in the below graph.



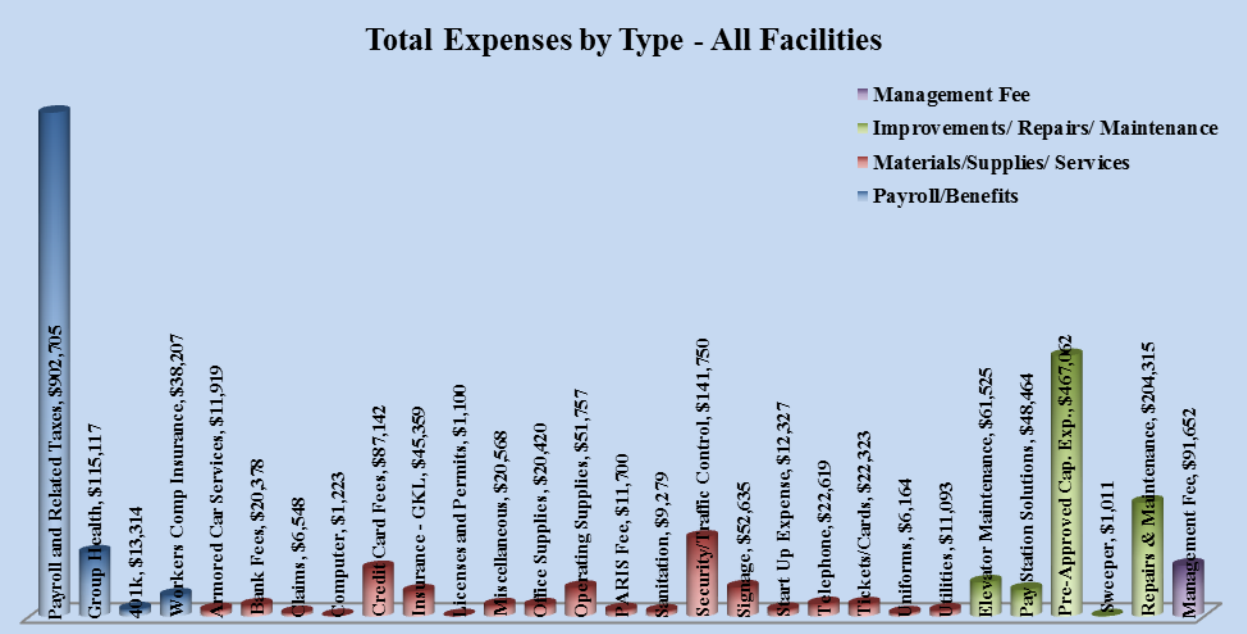
Operating Expenses

For the performance of the Services, the Agreement provides for the County to reimburse LAZ for various expenses as submitted by LAZ in an annual operating budget. The reimbursement provisions of the Agreement require the monthly submission of an invoice with supporting documentation to the County Auditor for processing similar to other vendor claims. Reimbursement of such expenses is made from the Net Revenues remitted to the County. These

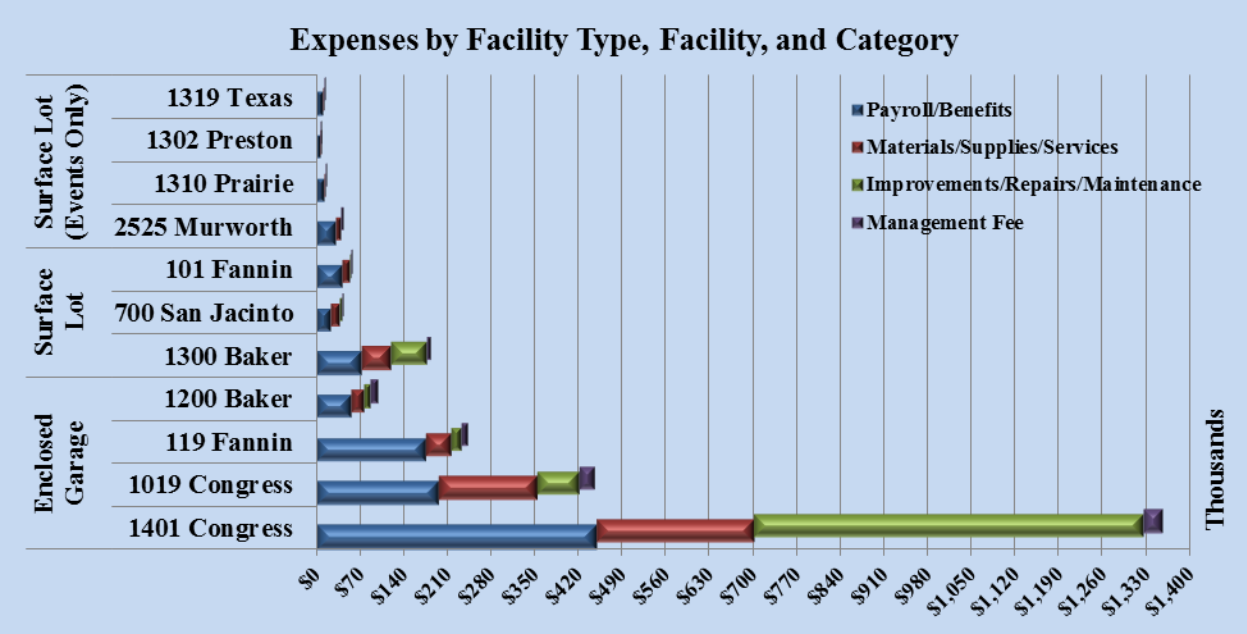
expenses may be grouped into three main categories: Payroll and Benefits; Materials, Supplies, and Services; and Improvements, Repairs, and Maintenance. In addition to the reimbursement of expenses, LAZ is paid a fee for the management of the facilities. Expenses during the engagement period totaled $2,499,676.00. The pie chart below presents the operating expenses by main category groups and the management fee for all LAZ managed County facilities.



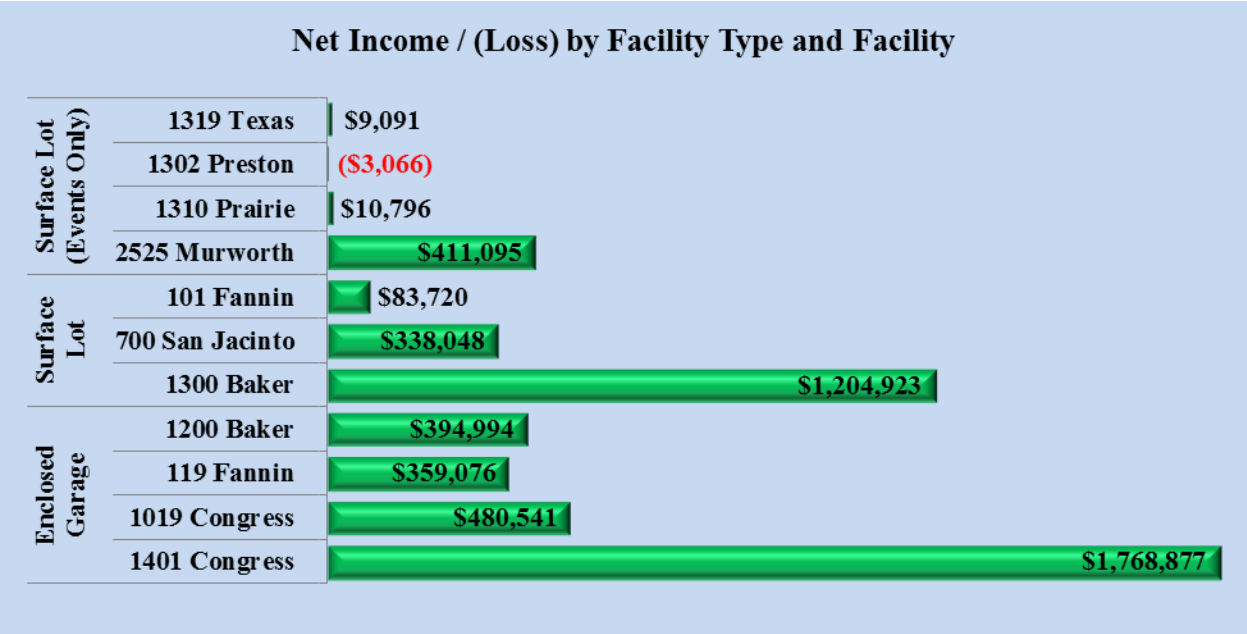
The individual components and the respected amounts spent during the engagement period for each expense category along with the management fee is presented in the below graph.



These expense categories and management fee presented by facility type and facility is illustrated in the below graph.



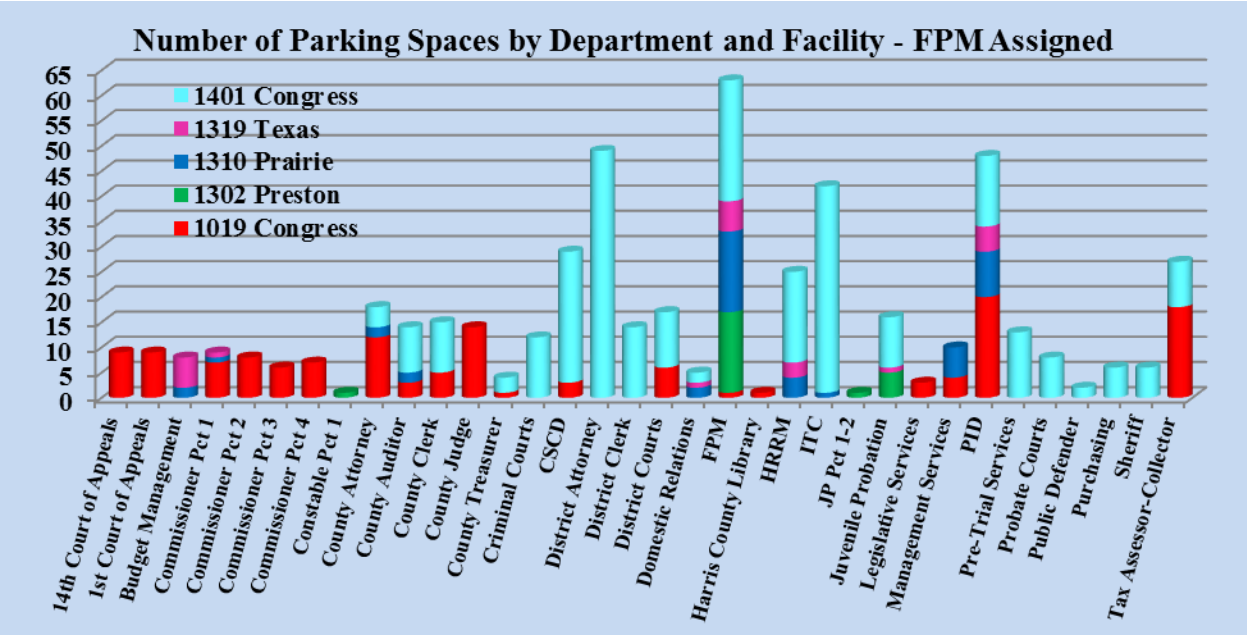
The combined Net Revenues ($7,557,771.00), expenses ($2,408,024.00), and management fee ($91,652.00) resulted in a net income of $5,058,095.00 during the engagement period. Net income/(loss) by facility type and facility is presented in the graph below.



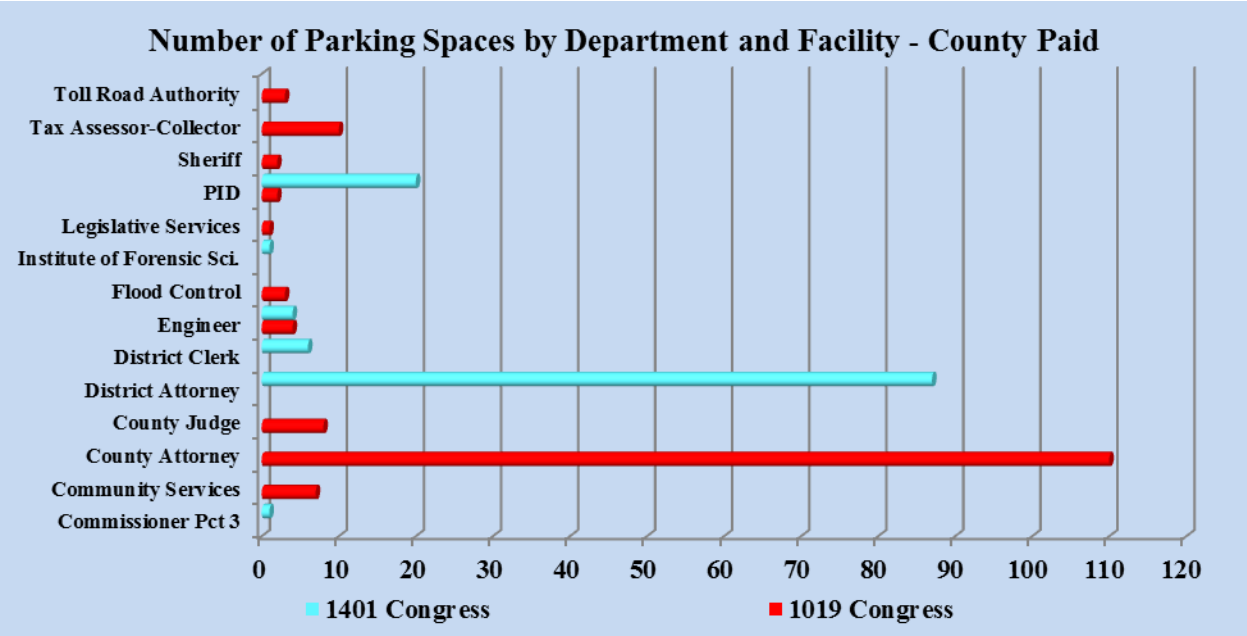
Harris County Department and Employee Parking

At a department's discretion, certain County employees are provided parking at the various parking facilities covered by the Agreement. The employee parking is provided through

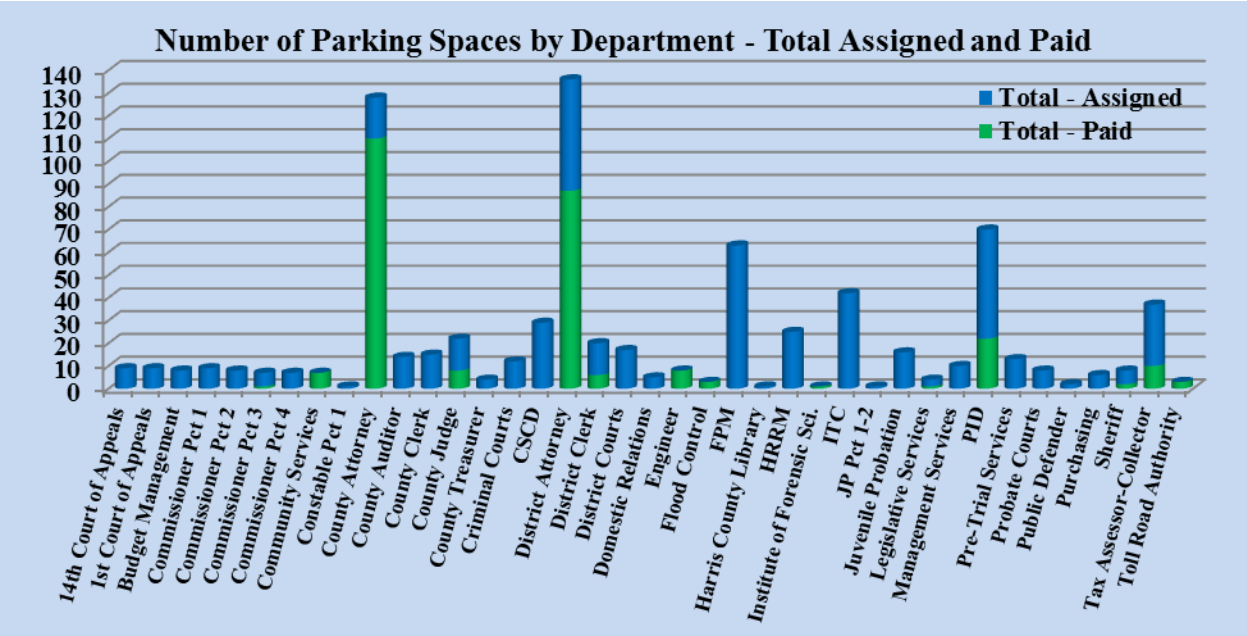
Commissioners Court approval of the assignment of previously allocated spaces to a department or the department paying for the space as part of its budgeted expenditures. Typically, County provided parking is for elected and appointed officials or authorized and allocated to County departments for internally determined assignment. The record of individuals assigned a parking space is maintained by FPM. As of July 31, 2012, there were 519 assigned and 269 County paid parking spaces allocated among five parking facilities covered by the Agreement. Requests for assignment, reassignment, or termination of parking spaces are submitted by departmental parking coordinators to FPM for review, approval, and submission to Commissioners Court for action. FPM communicates the approved changes to LAZ for updating of the active parker list and granting and/or terminating parking access. The graph below illustrates by department and parking facility the 519 allocated parking spaces assigned to County employees as of July 31, 2012.



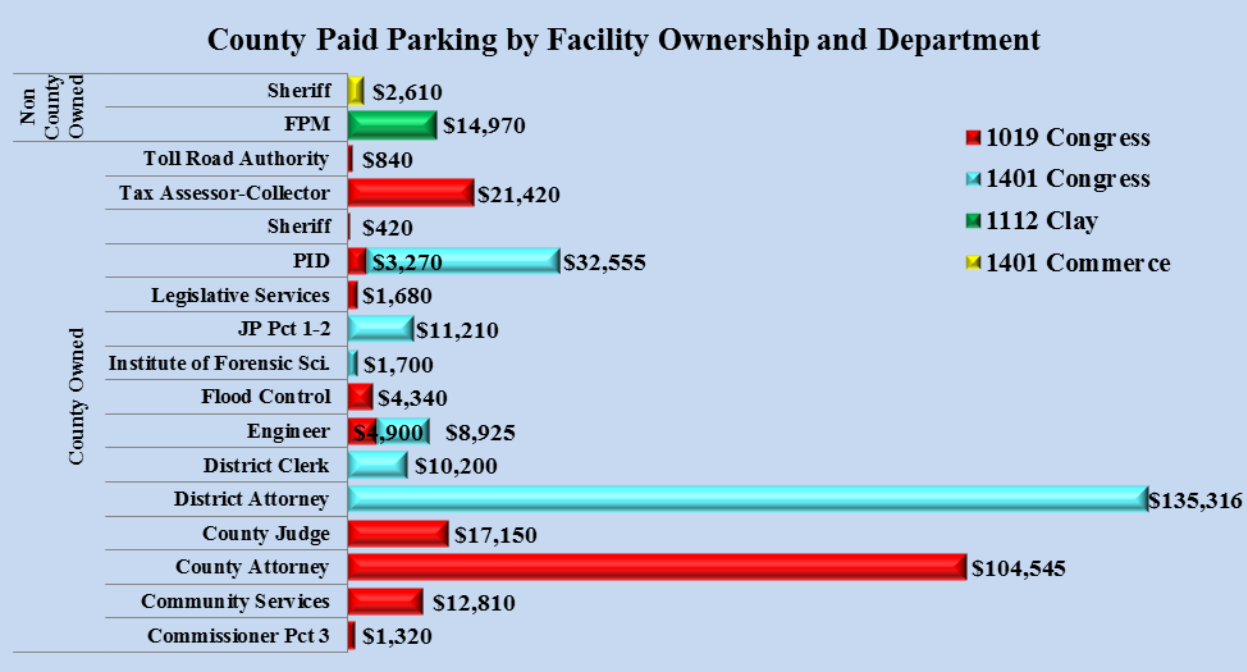
In addition to the assignment of allocated parking spaces, County departments may elect to pay for employee parking from its budgeted expenditures. Departments submit requests for the payment of parking access to Commissioners Court for approval. Payment for the parking is handled either through the department's request for the issuance of a purchase order or by the submission of a request for payment. Departments are responsible for tracking and maintaining a listing of employee paid parking and coordinating directly with LAZ for the granting and termination of parking access. The graph on the following page reflects the 269 parking spaces paid by department and facility as of July 31, 2012.



The 788 total assigned and paid parking spaces by department as of July 31 2012, is shown in the below graph.



County departments paid $390,181.00 to LAZ for employee parking during the engagement period. Of this amount, $372,601.00 related to facilities owned by the County and managed by LAZ under the Agreement and $17,580.00 related to non-County owned facilities managed by LAZ. The graph on the following page presents by facility ownership and department the amount the County paid for employee parking during the engagement period.


County Paid Parking by Facility Ownership and Department
Non County Owned
County Owned
Sheriff $2,610
FPM $14,970
Toll Road Authority $840
Tax Assessor-Collector $21,420
Sheriff $420
PID $3,270 $32,555
Legislative Services $1,680
JP Pct 1-2 $11,210
Institute of Forensic Sci. $1,700
Flood Control $4,340
Engineer $4,900 $8,925
District Clerk $10,200
District Attorney $135,316
County Judge $17,150
County Attorney $104,545
Community Services $12,810
Commissioner Pct 3 $1,320
1019 Congress
1401 Congress
1112 Clay
1401 Commerce

RESULTS

Based on the procedures performed covering the 23 months ended July 31, 2012, several significant issues were identified relating to internal controls and Agreement compliance affecting parking operations and the manner in which such activities are monitored, recorded, and reported. Significant internal control issues identified related to the following:

- Monthly revenues and expenses were netted by LAZ prior to reporting and remitting the balance to FPM. Although agreed to by County and LAZ personnel, this practice resulted in noncompliance with state statutes, County Auditor prescribed procedures, and the Agreement. The effect of this practice caused revenues and expenses to be understated in the County's financial records by approximately $2.5 million.
- FPM did not formally approve the annual operating budgets for the periods covered by the engagement, representing noncompliance with the Agreement and not providing an operating budget agreed upon between LAZ and FPM.
- FPM did not properly review and evaluate LAZ's monthly compensation reimbursement requests for budgetary compliance. Our procedures identified approximately $242,100.00 in expenses that exceeded the unapproved annual operating budgets.
- FPM did not properly review the documentation submitted by LAZ as support for the monthly compensation reimbursement request to determine that it was sufficient, and that it was valid, mathematically accurate, a proper budget item, and that any budget overages were properly approved. Our procedures identified approximately $345,500.00 in insufficiently supported or unsupported expenses.
- The monthly amounts remitted to FPM and subsequently deposited by FPM into a County bank account were not performed timely. Our procedures identified 5 instances out of the 23 months tested in which LAZ did not meet the 10 day requirement for remittance to FPM and 11 instances in which FPM did not meet the 5 day (7 day pre September 1, 2011) requirements established in state statute and County Auditor prescribed procedures.
- LAZ did not retain or maintain all financial records related to parking facility operations in Harris County as required by the Agreement. Our procedures identified records that were not retained for three years as required and that certain records were only available from LAZ's corporate office located outside of Texas.

These and other issues related to Agreement compliance or areas for improvement in internal controls are discussed in detail in the "Issues and Recommendations" section of this report, including management's response to the recommendations.

ISSUES AND RECOMMENDATIONS

Netting of Revenue and Expenses

Background: The compensation of LAZ for the Services provided is addressed in various areas of the Agreement, primarily section 6 of the contract (Terms of Payment) and sections of the RFP (Method of Compensation, Monthly Compensation for the Operation and Management, Monthly Compensation Deductions, and Schedule of Payment and Operating Budget – Attachment l). These sections require the monthly compensation of LAZ for the fixed management fee and the reimbursement of direct budgeted operating expenses based on the submission to the County Auditor of an invoice and supporting documentation itemizing at a sufficient level to clearly justify the compensation requested.

Issue: The process for compensating LAZ for Services provided during the engagement period included LAZ's netting of Net Revenues (gross revenues less adjustments and sales tax) against Expenses and remitting the difference to FPM. The submission of the netted amount included a monthly report summarizing the activity in total and by facility along with copies of certain supporting documentation. Based on discussions with County and LAZ personnel, this practice was discussed and agreed to at the initiation of the contract with representatives of FPM, LAZ, and the County Auditor. As a result, the following has occurred:

- Noncompliance with the Agreement's compensation provisions,
- Noncompliance with state statutes relating to the County Treasurer's maintenance of the claims register (LGC §113.061),
- Noncompliance with state statutes relating to the County Auditor's examination and approval of claims prior to submission to Commissioners Court (LGC §113.064),
- Noncompliance with state statutes relating to Commissioners Court audit, settlement, directing of payments, and examination of accounts and reports for comparison to vouchers (LGC §115.021 and §115.022),
- Noncompliance with County Auditor Procedure D.1, *"Processing and Contesting Invoices"*,
- Misapplication of generally accepted accounting principles, as the netting of revenues and expenses is not allowed as an acceptable recognition standard,
- Understatement of revenues and expenses by $2,499,676.00 in the County's financial records (comprised of netted expenses of $2,408,024.00 and the management fee of $91,652.00),
- Detailed records relating to payments made to LAZ under the Agreement do not exist in the County's financial system, and
- The ability to adjust the monthly compensation for any penalties as allowed by the Monthly Compensation Deductions section of the Agreement does not exist.

Recommendation: Because of the nature and results of this issue, it was communicated to County and LAZ personnel during the engagement in order for corrective actions to be implemented. Such corrective actions included:

- Implementation of procedures by the County Auditor's Accounts Payable section, FPM, and LAZ for the submission of future invoices and supporting documentation to address noncompliance with the Agreement's compensation for Services provisions, state statute, and County Auditor procedures,
- Implementation by the County Auditor's Accounts Receivable section, FPM, and LAZ for the submission of future Net Revenues (gross revenues less adjustments and sales tax) exclusive of the effects of the netting of expenses,
- Recording of transactions in the County's financial system by the County Auditor's Accounts Receivable section to correct the effects of the netting practice in order to recognize the understated revenues and expenses, and
- Recording of parking operation transactions in the County's financial system by the County Auditor's Financial Accounting section and the reporting of such in an enterprise fund to include, in addition to parking facilities financed by debt and for which bond covenants require a pledge of parking revenues, operations related to facilities for which such restrictions do not exist.

In order to satisfy the statutory requirements of the County Treasurer, County Auditor, and Commissioners Court relating to the $2,499,676.00 expenses netted against revenues, FPM should:

- Obtain the appropriate supporting documentation to address the items identified in the issue "Unsupported Expenses" on page 22.
- Evaluate all compensation reimbursement requests and supporting documentation relating to the engagement period for compliance with the terms of the Agreement and obtain any additional supporting documentation identified as being required.
- Review, approve, and submit the monthly compensation reimbursement requests (including all supporting documentation) to the County Auditor's Accounts Payable section.
- Take actions to recover expense items where sufficient documentation is not obtained or for which the County was improperly charged and assess the penalties allowed by the Agreement relating to not providing the documentation during an audit or examination, not providing proper supporting documentation when requested, or noncompliance with the Agreement's terms and conditions.

The County Auditor's Accounts Payable section should:

- Review and evaluate the monthly compensation reimbursement requests (including the supporting documentation) for Agreement compliance and in accordance with established policies and procedures.
- Coordinate with the County Attorney and FPM to submit the monthly compensation reimbursement requests to Commissioners Court for ratification.
- Determine whether Form 1099 associated with the expenses should be issued.

In addition, the County Auditor's Systems and Procedures section should evaluate the need for developing procedures and/or a checklist to assist County departments in reviewing contracts for proper accounting treatment and compliance with state statutes. Such procedures should at a

minimum address the identification of the responsible parties and their responsibilities, timing and deadline requirements, applicable accounting requirements, and references to the applicable sections.

Management Response:

FPM – In order to address the "Netting of Revenue and Expenses" issue, which has been identified in the Draft LAZ Parking Agreement Auditor's Report, FPM has worked with the County Auditor's Office to develop procedures for reviewing and submitting LAZ Reimbursement Requests and supporting documentation. In October of 2012, LAZ began submitting the Reimbursement Requests and supporting documentation to the County Auditor's Accounts Payable section for examination and approval.

This process will include refining existing procedures, as well as, submitting the Reimbursement Requests to the County Auditor's Accounts Payable section for processing and subsequently to Commissioners Court to request ratification of the expenses.

Systems and Procedures – The need for the development of procedures and/or a checklist to assist departments in reviewing contracts will be evaluated.

Parking Operations Annual Budget Submission and Approval

Background: The requirement for the submission and approval of the parking operations annual budget is addressed in the RFP portion of the Agreement in several areas. These areas include RFP sections, Operation Plan and Staffing Plan, Parking Lots and Facilities, Monthly Compensation for the Operation and Management, and Schedule of Payment and Operating Budget – Attachment l. Within these sections are both explicit and implied requirements for LAZ to prepare and submit a parking operations annual budget. The Operation Plan and Staffing Plan section requires a detailed operations budget for parking facilities for the first 12 months while the Parking Lots and Facilities section lists specific line items for inclusion. The Monthly Compensation for the Operations and Management stipulates LAZ's compensation to be based on direct operating expenses in the approved budget and refers to the Schedule of Payment and Operating Budget - Attachment l as a sample of the cost breakdown. Approval of the budget is provided for in the contract's General Scope Of Agreement section where the Director of FPM is identified as being the individual to act on the County's behalf relating to the performance of the Agreement. In addition, payment of additional costs not included in the annual budget requires the written pre-approval by the FPM Director.

Issue: FPM does not have adequate controls in place to comply with the budget submission and approval requirements of the Agreement. Based on discussions with FPM and LAZ personnel, the FPM Director was not presented the annual budget for review and approval. LAZ prepared an annual budget for each period of the contract, but submitted it to the FPM Manager of Contract Administration. Because of the lack of the FPM Director's approval, LAZ's compensation for the direct operating expenses represents noncompliance with the Agreement's provisions, not providing an operating budget agreed upon between LAZ and FPM, as well as not adhering to Commissioners Court intentions of having the FPM Director act on behalf of the County.

Recommendation: FPM should develop and provide LAZ the procedures for submission and approval of parking operations annual budgets as well as the handling of any related budget adjustments during a contract period. The procedures should include the specific line items required per the Agreement, as well as require a sufficient level of detail to properly monitor and report the activities of the parking operations. The level of detail identified in the annual budget should be used by LAZ to report the monthly results of parking operations and by FPM to enforce budgetary compliance and identify required supporting documentation. In addition, LAZ's previously submitted annual budgets should be presented to the FPM Director for review and approval as it will have a bearing on the handling of budget overages discussed in the issue titled "Parking Operations Annual Budget Overages". FPM should use the annual parking operations budget and other information available to develop its departmental budget which is submitted to Commissioners Court for approval during the County's budgeting process.

Management Response: The following steps have been established to implement the recommendations:

- Procedures have been developed and provided to LAZ.
- Obtained and formally approved official budgets.
- Developed and incorporated LAZ budget into the departmental budget.

Parking Operations Annual Budget Overages

Background: The parking operations annual budget is required under the Agreement and is intended to assist FPM in controlling the costs of Services. In addition to the manner of compensating LAZ and the requirement for a parking operations annual budget, the Agreement contains provisions to assist FPM overseeing budgetary compliance and enforcement. The RFP section, Parking Lots and Facilities, identifies specific line items included in the annual budget while RFP sections, Monthly Compensation for the Operation and Management and Schedule of Payment and Operating Budget – Attachment l, and the contract's section, Terms of Payment, contain provisions that the payment for approved budget items may not be exceeded or that additional costs may not be paid without prior written approval from the County.

Issue: FPM does not have adequate controls in place to monitor LAZ's compliance with the budget and reimbursement for parking operating expenses. Based on procedures performed on the unapproved parking operations annual budgets (see above issue, "Parking Operations Annual Budget Submission and Approval"), budget overages totaling $242,163.20 for calendar years 2011 and 2012 (through July 31, 2012) were identified. FPM personnel informed us these budget overages were discussed in weekly meetings with LAZ; however, written approval from the FPM Director was not obtained. Without the FPM Director's written approval, the budget overages represent noncompliance with the Agreement and potential expense amounts recoverable from LAZ. The table below lists the overages by calendar year and line item.

Line Item	Calendar Year 2011	Calendar Year 2012 (Through July 31, 2012)	Total
Armored Car Services	$713.55	0	$ 713.55
Bank Fees	$8,418.60	0	$8,418.60
Claims	$5,540.21	0	$5,540.21
Credit Card Fees	$8,125.61	$15,889.85	$24,015.46
Elevator Maintenance	0	$11,113.57	$11,113.57
Group Health Insurance	$9,087.45	0	$9,087.45
Insurance – GKL	$568.42	$787.68	$1,356.10
Licenses and Permits	$100.00	0	$ 100.00
Miscellaneous	$3,874.90	$7,200.00	$11,074.90
Office Supplies	$11,369.28	$355.19	$11,724.47
Operating Supplies	$15,006.90	$14,081.04	$29,087.94
Payroll and Related Taxes	$40,276.85	0	$40,276.85
Sanitation	$1,458.46	0	$1,458.46
Security and Traffic Control	$19,275.00	0	$19,275.00
Signage	$42,489.02	$4,470.50	$46,959.52
Telephone	$1,311.25	0	$1,311.25
Tickets and Cards	$7,321.12	0	$7,321.12
Uniforms	$1,062.20	0	$1,062.20
Utilities	$7,307.15	0	$7,307.15
Workers Comp Insurance	$4,959.40	0	$4,959.40
Total	**$188,265.37**	**$53,897.83**	**$242,163.20**

Recommendation: The FPM Director and staff should review the above budget overages and determine if such items are justified. This review should be performed in conjunction with the implementation of the recommendations identified in the above issue, "Parking Operations Annual Budget Submission and Approval". For justifiable overages, the FPM Director should indicate written approval of the overages and supply LAZ a copy of such approval for inclusion in FPM and LAZ's Agreement files. For the items deemed not justified, the FPM Director should seek reimbursement from LAZ for the overage. For the months subsequent to July 31, 2012, FPM should review the monthly expense activity to determine additional overages and amounts for which to seek reimbursement.

FPM should implement monitoring controls that require the formal review, investigation, and explanation of budget overages with LAZ prior to FPM's approval of the monthly reimbursement of operating expenses. Such controls should include the obtaining of the FPM Director's written approval for the items in which the overage is justified and the supplying of LAZ a copy of such approval and the disallowance of unjustified overages in the reimbursement of LAZ.

Management Response: The following timeline has been established to implement the recommendations:

- Completed the review and approval of all budget overages during the engagement period.
- Review expense activity for months subsequent to the audit period to determine if additional overages exist and take appropriate action – August 2014.
- Implementation of monitoring controls to review and take actions on budget overages prior to monthly reimbursements – August 2014.
- Provide LAZ written approval for justifiable budget overages – As identified.

Unsupported Expenses

Background: The Agreement in contract section 6, Terms of Payment, requires the submission of an invoice for the Services provided, and RFP sections, Monthly Compensation for the Operation and Management, and Schedule of Payment and Operating Budget – Attachment l, include requirements for a cost breakdown itemizing all direct operating and maintenance expenses. The RFP sections describe the supporting documentation as itemizing at a sufficient level to justify clearly the compensation requested. In addition, RFP section, Monthly Summary of Parking Operations, requires LAZ to provide a Monthly Summary of Parking Operations Report to the County which includes various parking activity reports and appropriate backup documentation substantiating expenses, such as invoices, receipts, payroll logs, logbooks, and other documentation approved or requested by the County.

Issue: During our procedures, we observed numerous instances in which operating expenses included in the Monthly Summary of Parking Operations Report did not include proper documentation or contained an insufficient level of detail substantiating the costs reimbursed through the netting process discussed in the issue on Page 15, "Netting of Revenue and Expenses". Without the proper supporting documentation, FPM and the County Auditor's Accounts Payable section are unable to determine if the items submitted for reimbursement are correctly valued and allowable per the Agreement. Operating expenses for which no documentation was included with the Monthly Summary of Parking Operations Report, but was subsequently obtained for the items selectively tested during our procedures, consisted of items relating to payroll, liability insurance, bank fees, and credit card fees.

Operating expenses for which no documentation was included or considered insufficient and could not be subsequently obtained during our procedures totaled $345,595.62 and consisted of the following:

- Payroll – Amounts reimbursed to LAZ for the payroll transactions tested identified $**12,310.99** in overcharged amounts. The overcharges were comprised of gross wages totaling $9,100.35 and related taxes, processing fees, and benefits of $3,210.64. Of the overcharged gross wages, $259.82 related to non-County related or unsupported amounts, $7,669.18 for employee bonuses (specifically excluded per the RFP), and $1,171.35 for car allowances.
- Payroll taxes – LAZ charged the County the employer's portion of payroll taxes for the employees assigned to County facilities without providing sufficient supporting documentation. Based on the pay periods tested and because of the insufficiency of the support, the amount charged is estimated to be approximately **$92,422.23** and is based on rates ranging from 11.17% to 12.28% determined from the summary information related to the pay periods tested.
- Payroll processing fees - LAZ charged the County a fee for processing the payroll for employees assigned to County facilities. LAZ informed us that the fee calculation used a rate of 1.75% and a 2.00% for the years 2010 to 2011 and 2012, respectively, and was applied to gross wages. Based on the pay periods tested, it was observed that the 1.75% was charged through 1/31/2011 and the 2.00% was charged for the subsequent months.

Because of the insufficiency of supporting documentation, the amount of the unsupported fee is estimated to be approximately $14,569.43 for the engagement period based on the rates and effective periods communicated by LAZ and approximately **$15,362.19** based on the actual information obtained during testing. LAZ did not provide supporting documentation for either the stated rates or the actual rates.

- Retirement benefits – LAZ charged the County **$13,313.80** for benefits related to its employees assigned to County facilities for the 401k plan, which equates to rates ranging from 1.50% to 2.00% of gross wages. LAZ has stated that the information is proprietary and has not provided support for charge.
- Workers compensation – LAZ charged the County **$38,207.32** related to workers compensation insurance coverage required by the Agreement. This charge represented either 4.00% or 5.00% of gross wages for the months in 2010 and 2011 and 5.00% of gross wages for the months in 2012. LAZ did not provide supporting documentation for the percentages used, but did explain that higher percentages are charged in anticipation of the effects of claims on future insurance rates. LAZ did provide information related to the quote for the 7/31/2012 to 7/31/2013 coverage period, which supported a rate of 3.89% of gross wages. Using the 3.89% as being representative of the actual cost, the engagement period reflects a potential overcharge of $7,284.92.
- Group health insurance – LAZ charged the County **$115,116.71** for the group health insurance benefits provided for employees assigned to County facilities. Based on the supporting documentation provided, the rates charged for the coverage as stated by LAZ were 13.5% for the months in 2010 to 2011 and 14.5% for the months in 2012. Applying these stated rates, LAZ appears to have overcharged the County $5,169.21.
- PARIS fee – LAZ charged the County a monthly fee related to the use of software for the PARIS application of $500 and $600 for months in 2010 to 2011 and 2012, respectively. According to LAZ, the fee supports a PARIS administrator, Payment Card Industry Security Standards compliance, web hosting, web development, and server maintenance. The assumptions used in the calculation of the charges could not be validated. A total of **$11,700.00** was charged for the engagement period.
- Sales taxes – LAZ charged the County amounts on invoices and receipts which represented sales tax paid by LAZ. The Agreement states the County's tax-exempt status, that exemption certificates would be provided upon request, and that the County is not liable for nor obligated to reimburse for any such taxes. Transactions tested identified **$1,624.41** in sales taxes that were reimbursed to LAZ by the County. Extrapolating the percentage of sales taxes paid on the expenses tested to the remaining population of expenses not tested results in the potential of an additional $5,665.85 of sales taxes reimbursed to LAZ by the County.
- Credit card fees – LAZ charged the County credit card fees during the 23 months of the engagement period for which the amounts charged exceeded the supporting documentation provided by **$179.04**.
- Liability insurance – LAZ charged the County **$45,358.93** during the engagement period for liability insurance required by the Agreement. As discussed in the issue on Page 27, "Adequacy of Insurance Coverage", LAZ provides the insurance through group policies combining the entities for which it manages parking facilities (County and non-County) and allocates the cost of the policies to the various entities based on an entity specific percentage derived using revenue projections. Supporting documentation provided did

not reflect the amount of the cost directly related to the County and as such, the validity and accuracy of the charges could not be determined.

Recommendation: FPM should work with LAZ to obtain sufficient documentation for the expense items not previously supported. For expense items where documentation is not obtained or for which the County was improperly charged, FPM should take actions to recover the unsupported expenses and assess the penalties allowed by the Agreement relating to not providing the documentation during an audit or examination, not providing proper supporting documentation when requested, or noncompliance with the Agreement's terms and conditions.

FPM Management should continue to work with the County Auditor's Accounts Payable section to implement and refine its procedures relating to the review and approval of all expense items and the related supporting documentation for LAZ's monthly compensation reimbursement requests. Such procedures, at a minimum, should include tracing each expense item to the individual supporting documents and reviewing the supporting documents for sufficiency of support, validity, mathematical accuracy, inclusion in the monthly budget, written approval for budget exceptions and overages, and reasonableness. The following list of review steps and activities may assist during the review of the supporting documents. The list is not intended to be all-inclusive, as the Agreement's provisions or other requirements/circumstances may require additional information.

- Name of the vendor and a Remit to address,
- Vendor invoice number and date,
- Vendor contract contact name and phone number,
- County contact name,
- Name of County department,
- Valid Purchase Order number,
- Written description of goods/services delivered,
- Delivery date or service date,
- Substituted items must have documented approval,
- Quantity and unit price of item,
- Extension on each line item,
- Total amount due,
- Payment due date,
- Payment terms and discount,
- Shipping payment terms,
- Supporting documentation with detailed itemized receipts must be provided for all vendor expenses or reimbursement requests,
- Description of services performed,
- Date, time, and hours worked,
- Hourly rate,
- Name and title of person performing service,
- Total amount due, and
- Other information as required.

Amounts requested for reimbursement not properly supported should be communicated to LAZ and LAZ given a reasonable time to respond. Amounts for which proper supporting documentation is not provided should be removed from the compensation reimbursement request and not reimbursed until support is received. FPM should also impose the penalties as allowed by the Agreement for not providing the proper supporting documentation.

FPM should request the County Attorney to review the Sales Tax requirements of the Agreement to determine if provisions should be added to cover situations where a vendor used by LAZ does not accept the County's exemption certificate. The Agreement should be modified as necessary.

Note: During the report clearing process, LAZ provided additional supporting documentation, explanations, and calculations related to the identified issues. This additional information has not been reviewed in conjunction with the procedures performed for this engagement, but will be provided to FPM and the County Auditor's Accounts Payable section for consideration in the performance of the review and evaluation of the compensation reimbursement requests related to the issue on page 15 titled, "Netting of Revenues and Expenses".

Management Response: The following steps have been established to implement the recommendations:

- The initial steps of working with LAZ to obtain sufficient documentation for unsupported expenses are completed. Additional steps may be required pending the receipt and review of additional supporting documentation, explanations, and calculations.
- Obtain reimbursement for unsupported expenses – As identified.
- Assess penalties for unsupported expenses – As identified.
- Continue working with the Auditor's Office to refine reimbursement procedures – on going.

Parking Revenue Deposits

Background: The Agreement (RFP section, Bank Deposits of Revenues) requires LAZ to deposit gross parking revenue collections within one business day and to remit the monthly payment due the County by the 10th calendar day after month end (RFP section, Monthly Summary of Parking Operations). In addition, County Auditor's Accounting Procedure F.1-2-1, *"Deposits via Treasurer"*, and Procedure F.1-2-2, *"Deposits via Armored Carrier or Field Location"*, documents the process for County departments to deposit collections with the County Treasurer. Both procedures (F.1-2-1 and F.1-2-2) are based on LGC §113.022, which establishes the time period for making deposits with the County Treasurer as on or before the next business day and without exception, on or before the 5th business day (7th business day pre September 1, 2011) after the day the funds are received.

Issue: During our procedures, we identified 5 instances within the 23-month period of the engagement where LAZ did not meet the 10 calendar day requirements for remitting the monthly payment to the County. In addition, we identified 11 instances within the 23 month period where FPM did not meet the requirements of making timely deposits with the County Treasurer as required by the LGC §113.022 and County Auditor Procedures. In addition to not complying with the Agreement, County Auditor procedures, and state statutes, not remitting collections timely increases the risk of loss of funds, lengthens the time period of when the County may use the funds, and decreases the time period the County may invest idle funds.

Recommendation: FPM should discuss the late remittance of monthly payments to the County during the required monthly meetings with LAZ and evaluate the assessment of penalties for non-performance under the Agreement. FPM should consider sending a reminder to LAZ by month end to remit revenues in compliance with contractual requirements. FPM should take the necessary steps to comply with County Auditor Procedures F.1-2-1 or F.1-2-2, as applicable.

Management Response: The following steps have been established to implement the recommendations:

- Discuss LAZ's timing of deposits during monthly meetings when requirements are not met – As identified.
- Assess penalties for noncompliance – As identified.
- Developed procedures and implemented processing changes to comply with County Auditor Procedures.

Record Retention

Background: Section 6, Terms of Payment, of the contract expresses the County Auditor's access to records of gross receipts and costs for all services provided for performing audits and inspections as well as requiring such records to be maintained within Harris County. The RFP section, Parking Operator's Books and Records / Audits and Inspections, describes the access further as allowing the County access for the examination of all books, ledgers, journals and accounting records related to revenues and expenses associated with the operations of the parking facilities. These records are described as including, but not limited to, contracts, invoices, materials, payrolls, records of personnel, conditions of employment, ticket and ticket stubs, monthly parking receipts, logs, validation receipts, bank deposit slips, and other statistical data. Also within this RFP section are the provisions that such records and supporting items should be retained for a period of three years or until the examination of the source documents is completed and a penalty of $10,000.00 and cause for Agreement termination for noncompliance.

Issue: As part of our procedures, we tested payroll transactions and the supporting documentation related to the employees' personnel records. In such testing, we requested access to the pre-employment background check required prior to the commencement of employment as stipulated in the RFP section titled, Staffing Requirements. LAZ was unable to provide the documentation for 18 of the 25 employees selected for testing, as the pre-employment background check documents were destroyed after a period of one year. In addition, other supporting documentation such as that for payroll expenses, insurance expenses, bank statements, and credit card and banking fees are maintained outside of Harris County.

Recommendation: LAZ should review internal policies related to record retention and modify as necessary in order to comply with the Agreement provisions. FPM should evaluate the propriety of assessing the $10,000.00 penalty and Agreement termination due to noncompliance. In addition, the necessity of maintaining supporting documentation in Harris County should be evaluated by FPM in conjunction with the procedures implemented in the issue on Page 15, "Netting of Revenue and Expenses" as these procedures now require the supplying of supporting documentation for all expenses on the compensation reimbursement request.

Management Response: The following steps have been established to implement the recommendations:

- Completed an evaluation of assessing a penalty and agreement cancellation and deemed not necessary or warranted.
- Completed the evaluation of the need for maintaining documentation in Harris County.

Parking Space Counts

Background: LAZ is required to carry several types of liability insurance to mitigate some of the risks associated with facility operations. A provision of the Agreement (RFP) permits LAZ to include the cost for the required liability insurance based on either a percentage of payroll or a dollar amount per parking space when preparing the proposed budget. LAZ utilized a dollar amount per parking space in both budget preparation and the monthly compensation reimbursement request to allocate the insurance costs to the individual County facilities.

Issue: Periodic counts of available parking spaces are not performed and used to calculate charges which are based on the number of spaces. An independent count of parking spaces performed during our procedures resulted in total spaces of 3,935 as of July 31, 2012. The number of spaces included in the RFP's Pricing/Delivery Information section totaled 4,135 while a FPM provided count indicated 4,026 total spaces. LAZ utilized the individual facility parking space counts contained in the RFP when calculating and charging the cost of the insurance by facility to the County. The RFP counts have not been adjusted to consider reconfiguration changes to the facilities and as such, the County appears to have been overcharged for liability insurance. If reconfiguration changes are considered to have occurred at the inception of the Agreement, the potential amount for which the County appears to have been overcharged is between $1,217.20, using FPM's count of 4,026, and $2,214.93, using Audit Services' count of 3,935.

Recommendation: FPM should review reconfiguration changes made to the facilities during the engagement period to determine the actual number of spaces available and the timeframe the spaces were available. Based on these revised number of spaces, FPM should calculate the amount overcharged by LAZ during the engagement period and seek reimbursement of the overpayment. Any overages identified during this review should be considered in conjunction with the budget overages identified in the issue on page 18, "Parking Operations Annual Budget Overages". In addition, FPM should review reconfiguration changes and charges for insurance on the monthly compensation reimbursements subsequent to the engagement period to determine if additional amounts should be recovered from LAZ as an overpayment. FPM should also perform a current count of available parking spaces and use the count to determine if LAZ is charging the proper amount on current compensation reimbursement requests.

FPM should implement procedures for the periodic counting of the number of spaces in order to maintain a current inventory of the spaces available for parking use. FPM should reconcile these counts with LAZ for its use in calculating charges based on the number of spaces and included in LAZ's monthly compensation reimbursement request. At a minimum, the counts should be performed at the beginning of each contract renewal period and after reconfiguration changes (i.e., making spaces unavailable for parking to improve traffic flow or restriping of spaces). Any discrepancies between FPM and LAZ counts should be reconciled and agreed to prior to inclusion on a monthly reimbursement request.

Management Response: The following timeline has been established to implement the recommendations:

- Review configuration changes and determine if actual insurance overcharges exist for the engagement period and subsequent periods – August 2014.
- Obtain reimbursement for identified overcharges – As identified.
- Implemented procedures for performing periodic space counts and reconciliation with LAZ completed.

Adequacy of Insurance Coverage

Background: The Agreement (contract) requires LAZ to carry several types of liability insurance to mitigate some of the risks associated with facility operations. In providing the required insurance, LAZ utilizes insurance policies that cover all of the facilities managed, combining both County and non-County (in excess of 500), as opposed to policies for the individual entities. LAZ allocates the insurance costs to the specific entities managed based on an insurance factor it calculates. The insurance factor is calculated as the sum of the costs of the liability insurance policies covering all managed parking facilities divided by the sum of revenue projections for all managed parking facilities. The insurance factor is applied to the specific entity's revenue projection to determine its share of the costs.

A provision of the Agreement (RFP) permits LAZ to include the cost for the required liability insurance based on either a percentage of payroll or a dollar amount per parking space when preparing the proposed budget. The number of parking spaces per the individual County facility is currently used to allocate the County's share of the insurance cost (based on the above calculation) to the individual County facility.

Issue: The Agreement does not address whether the required liability insurance may be provided through group polices. The primary requirement is that the County be listed as an additional insured. The practice of LAZ to acquire liability insurance under group policies covering all managed facilities and allocating the costs based on revenue projections does not take into consideration the market conditions of the geographic areas in which the specific facilities are located and is not an approved method for allocating costs. As a result, higher insurance costs are allocated to entities in markets where insurance costs are lower and represent a subsidy to the higher market entities. In addition, because of the nature of the group policies and the County being listed as an additional insured (as opposed to the certificate holder), the County's ability to recover fully on claims under the policies is shared with all LAZ managed facilities and therefore reduced.

It was also observed during a review of the invoices and the schedule of insurance for the liability policies relating to the coverage period 7/31/2012 to 7/31/2013 that components of the sum of the costs of the liability insurance policies used in LAZ's calculation of the insurance factor appear to improperly include Commercial Property Liability of $24,999.00 (not required per the Agreement and normally carried on owned property), financing charges of $15,559.00, and a self-insurance fund of $202,699.00. These three items, totaling $243,257.00, would have reduced the allocated costs of $1,736,020.00 to $1,492,763.00, representing a potential overcharge to the County of approximately $4,072.62. The impact for the engagement period could not be determined due to the inability to obtain supporting documentation from LAZ (see the above issue, "Unsupported Expenses").

Recommendation: FPM should request the County Attorney and Human Resources & Risk Management to review the liability insurance requirements of the Agreement to determine if LAZ's practices of acquiring group polices covering all managed facilities is appropriate and whether the County is properly covered for potential risks. The Agreement should be modified as necessary.

LAZ should modify its method of allocating liability insurance costs to exclude components that are not direct costs related to the managed facilities and comply with the Agreement. The allocation method should also be modified to consider the geographic markets of the facility locations to prevent the allocation of higher costs to entities operating in lower cost markets.

FPM should review liability insurance costs included on compensation reimbursement requests received subsequent to the engagement period to determine if the amount charged includes the inappropriate components of the sum of the costs of the liability insurance policies and adjust the reimbursement amount as necessary.

Management Response:

FPM – The following timeline has been established to implement the recommendations:

- Requesting the County Attorney and Human Resources & Risk Management to review insurance requirements and coverage provided completed May 1, 2014, and both deemed coverage adequate.
- Review compensation reimbursement requests received subsequent to the engagement period and determine if appropriate costs are included – August 2014.
- Obtain reimbursement for any inappropriate costs included in the allocation – As identified.

PARIS Software Licenses

Background: As part of the Agreement (BAFO), LAZ committed to invest $6,000 for the purchase of PARIS software licenses for all parking facilities. The PARIS software is a parking facility specific automated application used to bill and track customer invoices and payments, as well as provides various reporting capabilities. Also within the Agreement is a provision that states, "All equipment and software licenses purchased by the Contractor for use in County facilities shall be purchased or acquired in the County's name and become County property upon installation or use".

Issue: Evidence of the PARIS software licenses acquisition in the County's name could not be provided by LAZ. In addition to this being a possible noncompliance issue, without such evidence, the continued use and support for the PARIS software by the County in the event of the Agreement's termination is at risk, as the County's rights are not documented.

Recommendation: FPM should work with LAZ to acquire the applicable documentation to evidence the County's ownership or usage rights of the PARIS software licenses. Documentation which does not originate directly from the software developer / publisher should be reviewed by the County Attorney to determine if the County's rights and interests are protected in the event of Agreement termination. In addition, FPM should evaluate if one of the Agreement's penalty provisions should be assessed because of the proper documentation not being available.

Management Response: The following timeline has been established to implement the recommendations:

- Work with LAZ to acquire the applicable documentation evidencing ownership or usage rights – August 2014.
- Evaluate penalty provisions to determine if applicable and assess based on determination – August 2014.

Performance Evaluation

Background: FPM is required under the Agreement, RFP section, Performance Criteria and Monitoring, to conduct, at a minimum, monthly meetings with LAZ to review the operations indices as specified to be included in the Monthly Summary of Parking Operations Report and any other key operational issues as identified by the County. Operations indices and other key operational issues are identified in the Agreement as covering data related to items such as summaries of revenues and expenses, cashier activity reports, parking utilization reports, non-parking uses and the related revenue, unusual incidents, and damage reports, In addition, this same RFP section requires FPM, at the time of contract renewal, to evaluate LAZ's performance. An annual evaluation result of marginal or unsatisfactory requires FPM to provide a written copy of the final evaluation to LAZ with LAZ being given 14 calendar days to respond.

Issue: During the engagement, we were unable to obtain evidence that FPM received or discussed the operations indices required by the Monthly Summary of Parking Operations Report. FPM did indicate that weekly meetings were held with LAZ, but the discussion items and results of such meetings were not documented. In addition, FPM does not have a formal process to evaluate and document the evaluation of LAZ's performance as required by the Agreement. Without conducting the monthly meetings and discussing the operational items covered by the Monthly Summary of Parking Operations Report, the risk is increased that performance issues will not be timely addressed (i.e., budget overages, disallowed costs, insufficient supporting documentation, etc.), agreed upon actions are not properly documented, and necessary items are not considered in the annual performance evaluation. In addition, the review of cashier activity and parking utilization reports provide support for the amounts reported as revenues and subsequently paid to the County. Performing the annual evaluation and documenting the results help reduce the risk of omitting important evaluation criteria, provide support for the Agreement renewal or termination decision, and assist with Agreement compliance by providing support of performance.

Recommendation: FPM should review the requirements of the Monthly Summary of Parking Operations Report and evaluate the sufficiency of the required information to monitor and evaluate LAZ's compliance and performance. Requests for additional information should be communicated to LAZ for report inclusion. The meetings between FPM and LAZ should include documentation of the key compliance and performance issues and decisions.

FPM should develop a formal process to evaluate and document LAZ's performance under the terms of the Agreement. The process should include the incorporation of the results of the monthly meetings, as well as address the minimum criteria contained in the Agreement:

- Quality of the work product,
- Service performed,
- Timeliness of performance,
- Financial issues, and
- Expertise of personnel assigned.

These criteria should be developed to the necessary detail level to address the specific Services covered by the scope of work and the various requirements, including the performance criteria and monitoring requirements of the Agreement. FPM should provide LAZ a copy of the evaluation.

Management Response: The following timeline has been established to implement the recommendations:

- Review the requirements of the Monthly Summary of Parking Operations Report and evaluate the sufficiency of the required information to monitor and assess LAZ's compliance and performance – August 2014.
- Evaluate the need for additional information and communicate to LAZ for inclusion in the report – August 2014.
- Document key compliance and performance issues and decisions discussed during meetings with LAZ – As identified.
- Development of a formal process to evaluate and document LAZ's performance under the terms of the Agreement – August 2014.
- Provide LAZ a copy of the evaluation – As performed.

Parking Rates

Background: The parking rates and hours of operation are set by the County for each facility and are established by the Agreement in RFP section, Parking Rates and Hours of Operation. For special events, LAZ is allowed under the Agreement to decrease the approved rates in $5.00 increments in order to remain competitive with surrounding lots on the special event days. The automated systems used in the parking facilities require the daily parking rates to be programmed or entered into the revenue control system at each facility. The third party administrator, Associated Time, performs this function.

Issue: During our procedures, two instances were identified where the parking rates were miscalculated by the revenue control equipment at the 1401 Congress facility. The maximum rate at this facility is $8.00 per day. In the first instance, a customer parked from 3/9/11 through 3/11/11, and based on the number of days (two days from the entry to exit time stamps), the fee should have been $16.00. However, LAZ collected $34.00 for the ticket, representing an $18.00 overcharge to the customer. In the second instance, the customer parked from 8/10/11 through 8/15/11, and based on the number of days (six days from the entry to exit time stamps), the fee should have been $48.00. However, LAZ collected $40.00 for the ticket, representing an $8.00 customer undercharge.

LAZ contacted Associated Time during the engagement to determine the cause of the errors, and Associated Time ran a system report for 1401 Congress to determine if other occurrences or similar errors existed. No other errors were identified by Associated Time. Associated Time indicated that based on the date of the first ticket, a software upgrade is suspected as the cause of the error affecting multi-day parking stays. A subsequent software upgrade corrected the rate problem. Associated Time indicated that the second error related to a faulty validation ticket. Validation tickets were reviewed by Associated Time for the specific validation machine to determine whether other errors occurred. No further errors were identified.

Recommendation: Although the number of instances observed were minimal and Associated Time appeared to provide an explanation, FPM should require LAZ to provide documentation related to system upgrades, programming changes, and rate changes and the testing performed to obtain verification that the proper rates are charged, the automated systems calculate the proper fees due, and the proper amounts are remitted to the County. LAZ should perform periodic validations of the rates programmed into each of the parking facilities' automated systems and provide the results of the testing to FPM as support of the proper charging and calculation of fees.

Management Response: LAZ provided parking rate information for all automated locations and performed equipment testing of those locations to verify that proper rates are programmed and charged.

Daily Shift Reports

Background: The Agreement in RFP section, Revenue Control, Collection, and Deposit Procedures, requires LAZ to implement revenue control procedures that address parking fees collected and deposited; vehicles in the facilities; and tickets issued, collected, and lost. As part of its procedures, LAZ requires each parking attendant or cashier to prepare a shift report at the end of a shift summarizing all parking revenues collected during the shift. The parking attendant or cashier summarizes the revenue by rate categories with the corresponding number of tickets or transactions, and indicates report preparation performance by signing the report. A supervisor or manager is required to review the report and provide independent verification of the parking revenue collected. The supervisor or manager's signature on the report indicates the performance of the review and verification.

Issue: During our procedures related to the review of shift reports (73 total days reviewed), we observed that the indication of supervisor or manager review and verification for shift reports was not always present. Seven days tested in March 2011 for the 2525 Murworth event only location identified all seven days as missing the indication. The five days tested in August 2011 for the 1302 Preston, 1310 Prairie, and 1319 Texas event only locations revealed all five days as missing the indication. Examination of the shift reports for enclosed garages identified the 119 Fannin location as missing the indication on four of the five days' reports in March 2011 and the 1401 Congress location as missing the indication in five of the seven days' reports in August 2011. Indication of the supervisor or manager's review and verification supports the compliance with the detection control designed to provide a level of assurance that collected amounts are deposited and subsequently remitted to the County. Because event parking normally is handled through a manual process of issuing paper tickets, it is important that the activity be reviewed as this represents an area with high risks related to loss of funds.

Recommendation: LAZ should review its revenue control procedures and modify as necessary to reduce the possibility of shift reports not being reviewed and verified by the appropriate supervisor or manager. FPM should consider periodically reviewing the shift reports during its required monthly meetings and address noncompliance with revenue control procedures.

Management Response:

FPM – Procedures were developed addressing the review of shift reports.

LAZ – Procedures relating to the review and approval of daily shift reports have been modified.

Contract Parker Access Controls and Monthly Billings

Background: The Agreement in RFP section, Revenue Control, Collection, and Deposit Procedures, requires LAZ to implement revenue control procedures that address parking fees collected and deposited; vehicles in the facilities; and tickets issued, collected, and lost. As part of its procedures, LAZ's Revenue Policy provides that the billing for the upcoming month of parking be produced in PARIS on the 15th day of the current month and thereby allow 20 days' notice for monthly contract parkers to pay by the first Monday following the 5th day of the month of service. LAZ informed us that unpaid monthly bills result in the access card assigned to the parker at the 1200 Baker, 1019 Congress, and 1401 Congress locations being locked in the Amano system, preventing facility access until the account is paid. This represents a manual process, as PARIS and the Amano system are not integrated. LAZ further informed us that as a manual control, a monthly contract parker at the 119 Fannin location is not issued a new hangtag if the bill is not paid. LAZ indicated that the above process excludes parking spaces for governmental and law enforcement entities.

Monthly bills not paid by the end of the month of service result in the amount due added to any previous period's unpaid balances and reported on a PARIS Aged Balance Report in the proper aging as Current, 30, 60, and 90 days format. The monthly billing is halted once the account is terminated by the parker or LAZ for nonpayment. The Parking Manager is responsible for contacting monthly parkers with overdue balances.

Issue: Because PARIS and Amano are not integrated and the monitoring of monthly parkers' payments and access is a manual process, the risks associated with lost revenues due to allowing parking access without proper payment are increased. In addition, the controls related to maintaining a customer's account do not support the timely updating of the billing process upon a customer's termination and therefore increases the risks associated with improper billings, invalid customers, and monitoring of access suspension or termination for nonpayment.

Based on procedures performed for July 2012, on the payment list used to identify delinquent payments, two monthly contract parkers at the 1019 Congress location and four monthly contract parkers at the 119 Fannin location were delinquent in payment and therefore not eligible to park for the month of August 2012. The access cards of the two monthly parkers at the 1019 Congress location were not indicated as locked in the Amano system per the MOD/Delete report or the card access history provided by LAZ. In addition, LAZ could not provide evidence that the four monthly contract parkers at the 119 Fannin location were prevented from parking prior to the receipt of payment.

Also observed during testing were three instances where the customers' accounts were not updated timely to prevent the preparation of a monthly bill subsequent to the customers' termination of parking services.

Recommendation: Although the number of instances observed was minimal, to strengthen controls, FPM should work with LAZ to evaluate the feasibility of having the payment information from PARIS integrated with the Amano system to automate the suspension or

termination of parking access due to nonpayment. FPM and LAZ should evaluate the feasibility of installing an automated access control system (Amano) at all facilities that have monthly contract parkers. LAZ should review its revenue policies and procedures relating to the suspension or termination of parking access in the event of delinquent or nonpayment and modify as needed. Such review should address the timing of making the suspension or termination review and decision, the timing of enforcement implementation, the logging of hangtag issuance, and a monitoring process to verify the completion of the manual process. In addition, LAZ should review its revenue policies and procedures related to customer account maintenance and modify as necessary to provide timely customer account updating. LAZ should consider the use of automated processes with the customers' account maintenance and payment status, which integrates electronic notification such as email and/or text messages of account and payment status.

Management Response: The following timeline has been established to implement the recommendations:

- Work with LAZ to determine the feasibility of automating PARIS payment information with the Amano system – October 2014.
- Work with LAZ to determine the feasibility of installing the Amano system at all facilities having monthly contract parkers – October 2014.

County Employee Provided Parking

Background: County employees, at a department's discretion, are provided parking at the various parking facilities covered by the Agreement. Commissioners Court has approved the assignment of previously allocated spaces to a department or the department paying for the space as part of its budgeted expenditures. Typically, County provided parking is for elected and appointed officials or authorized and allocated to County departments for internally determined assignment. The record of individuals assigned a parking space is maintained by FPM. FPM's Parking Policy states, "if an employee with an assigned parking space is terminated or is no longer employed by the County, FPM must be notified to update its records". The Policy also requires, "requests for a county assigned parking space must be made in writing from a County elected official or County department head to the attention of the Facilities and Property Management". The requests for assignment, reassignment, or termination of parking spaces are submitted by departmental parking coordinators to FPM for review, approval, and submission to Commissioners Court for action. FPM communicates the approved changes to LAZ for updating of the active parker list and granting and/or terminating parking access. As of July 31, 2012, there were 519 assigned and 269 County paid parking spaces allocated among five parking facilities covered by the Agreement.

Issue: FPM does not have adequate controls in place to maintain an accurate inventory of the parking spaces provided to County employees. FPM relies on departmental parking coordinators to provide updates and notifications involving employee transfers, terminations, or replacements. Numerous inconsistencies were observed between the individual names appearing on FPM's departmental parking list when compared to LAZ's Active Parker list for the 1401 Congress and 1019 Congress parking facilities. In addition, a comparison of FPM's departmental parking list to the County's employee database identified numerous inconsistencies, such as department transfers and terminations. An inaccurate inventory of the parking spaces assigned to County employees increases the risk of lost revenues related to allowing parking access to individuals no longer employed by the County, transferred to another County department, or for which departments have changed parking assignments. In addition, because LAZ does not pursue governmental and law enforcement monthly contract parkers the same as other monthly contract parkers for nonpayment (see the above issue, "Contract Parker Access Controls and Monthly Billings"), an inaccurate listing may delay or prevent LAZ from taking the appropriate actions for nonpayment.

Recommendation: FPM should periodically notify County departments of the Parking Policies and work with department coordinators to verify and update its departmental parking list inventory. The inventory should be inclusive of all County provided parking spaces, those allocated by Commissioners Court, as well as those paid for through a department's budget. FPM and LAZ should periodically reconcile their lists of County employee provided parking and any additions or deletions confirmed by FPM with the applicable County department.

Management Response: Procedures addressing the recommendations have been formalized. In addition, the following timeline has been established to implement the recommendations:

- Periodic notification of county departments of Parking Policies and working with

departmental coordinators to verify and update parking list inventory – October 2014.

- Revise the parking list inventory to be inclusive of all county provided parking spaces – October 2014.
- Periodically reconcile the list of County employee provided parking with LAZ – October 2014.