

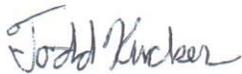
March 15, 2012

VICE CHANCELLOR MILLER

Subject: Final Audit Report No. M12A004
Parking Services Audit

Attached is the final report for Audit No. M12A004: Parking Services Audit. It includes action plans that were developed by members of your staff. These action plans will be entered into the TeamCentral Database and monitored until completion. With the issuance of this final report, please destroy any previous draft versions.

I appreciate the assistance provided to me by your staff during the review. If you should have any questions, please feel free to contact me.



Todd Kucker
Internal Audit Director
UC Merced Internal Audit Services

Attachment

cc:

SVP Vacca
Vice Chancellor Miller
Assistant Vice Chancellor Atkins
Assistant Vice Chancellor Ahmed
Director Groth
Director Groesbeck

**UNIVERSITY OF CALIFORNIA, MERCED
INTERNAL AUDIT SERVICES**

**PARKING SERVICES AUDIT
Report No. M12A004**

March 15, 2012

Work Performed by:
Todd Kucker, Internal Audit Director

Purpose and Scope

Internal audit has completed an audit of UC Merced's parking operations, which was part of the fiscal year 2012 audit plan. The primary objective of the audit was to evaluate business processes and internal controls. The specific objectives were:

- To review the handling of cash receipts to ensure that cash receipts are properly safeguarded and that procedures are in compliance with University Business Policy;
- To determine whether operational practices are sufficient to protect parking permits and confidential information; and,
- To determine whether operational practices result in the accurate recording of parking permit sales, parking citations, and other financial information.

The audit focused on transactions that occurred during April through September 2011.

Background

Parking operations are managed by the Transportation and Parking Services (TAPS) department. Parking is an auxiliary enterprise. Auxiliary enterprises support the mission of the university and provide essential services to the campus community for students, faculty, and staff. Parking fees are used to support the costs of the operation of the department.

Transportation and Parking Services is staffed by approximately eight employees. During fiscal year 2011, approximately \$1,052,000 was collected from the sale of parking permits. Also during fiscal year 2011, around 6,500 parking citations were written which resulted in more than \$200,000 in parking fines.

Permit Sales

Different parking permits are sold to students, employees, and visitors. The majority of permits are valid for one year - September through August. Different prices are charged for permits as they enable the purchasers to park in different lots on campus. There are various special permits for students and employees, that include permits for those who participate in carpools or those who drive a low emission fuel efficient vehicle.

Students pay for permits with cash, checks, or credit/debit cards. Employees purchase parking permits via employee payroll deductions. Visitors purchase temporary permits from the parking kiosks around campus or directly from the TAPS cashiering station.

Parking Citations

Parking citations are issued for many different parking offenses. Fines range from \$25 for offenses such as parking without a valid permit, to \$500 for misusing an American Disabilities Act (ADA) permit.

After a citation is issued, the person receiving the citation has 21 days to either pay or appeal the citation. If action isn't taken within the 21 days, the person loses the right to appeal the citation. If the citation remains unpaid 35 days after the citation was issued, a late fee is added.

If the citation is appealed, a TAPS employee reviews the citation information and determines whether to reject the appeal, dismiss the citation with a warning, or void the citation. If the person is dissatisfied with the results of the appeal, the person can request a second level hearing. Very few citations require a second level hearing.

Information Systems Utilized by Parking Operations

There are various information systems used to record payments, keep track of parking permits, and record and monitor parking citations.

To purchase a parking permit online, the University's ePay system is used. ePay assigns and is used to keep track of the numerically controlled parking permits. The ePay system is also used to pay or appeal a citation online.

Parking permits and citations can be paid for in person at the TAPS cashiering station. Only cash and checks are accepted by the cashiers. The payments are recorded in the University's CashNet payment system. Citation payments that are mailed to the university are opened by the cashiers in TAPS and recorded in CashNet.

Parking citations are issued with special handheld computers and uploaded to an online system managed by T2 Systems, Inc.. The citation information is transferred to another system managed by Phoenix Group Information Systems called "Wincite". Phoenix Group Information Systems helps TAPS with the citation collection efforts by collecting payments, sending notices of delinquent payments, and submitting information to the Department of Motor Vehicles. If delinquent citations are not paid, the vehicle owners will be required to pay the Department of Motor Vehicles when they pay their annual vehicle registration.

Conclusion

Based on our review, we concluded that business practices appear to be adequate to provide reasonable assurance that payments are properly handled and parking permits and confidential information are properly safeguarded. However, we did notice some areas for improvement.

Processes where controls appear to be operating effectively include:

- Unissued parking permits are properly protected and accounted for
- Payments handled by TAPS cashiering and payments at the parking kiosks are adequately safeguarded until deposited

- Employee payroll deductions used to pay for parking permits are accurately recorded.

Areas for improvement

- Separation of duties should be improved
- Processes to monitor parking citations and appeals should be strengthened
- The accuracy of TAPS financial information should be improved
- Risks related to returned parking permits could be better mitigated

Observations

1. Separation of duties should be improved

During the audit, Internal Audit reviewed TAPS compliance with the UC Policy for Cash and Cash Equivalents (BUS-49). We noted that two employees with cashiering responsibilities have the ability to clear parking citation balances. One of the cashiers who receives citation payments is also responsible for the citation appeal process. As part of the appeal process, the cashier writes off many citation balances.

BUS-49 requires: "Separation of duties must be maintained when cash is received... Cashiers shall not perform tasks incompatible with cashiering (e.g. collection follow-up of accounts receivable...)"

The risk is that a cashier could receive a citation payment, misappropriate the payment, and then clear the related citation receivable in the T2 and Wincite systems. As a result, citation payments could be misappropriated and the related citation balances written off to cover up the missing payments.

Management Action Plan:

TAPS employees who are not involved in the collection of payments will reconcile all citation payments received by the cashiers. The mail will be opened by an administrative assistant who is not involved in cashiering. A listing of all payments received in the mail will be prepared and forwarded to the TAPS Assistant Director. To mitigate the risk that someone could improperly write off citations and misappropriate payments, on a weekly basis, all citations appeals results and other changes to citation balances will be reviewed by a TAPS employee not involved in the appeals decisions and write-offs.

This action was completed before the report was issued.

2. Processes to monitor parking citations and appeals should be improved

There are different systems used to record and monitor the collection process for parking citations. The use of different systems has complicated the process of tracking unpaid parking citations and reviewing payments. With the current systems, a TAPS employee has to spend a lot of time reconciling the status of unpaid citations on a spreadsheet.

Issue 2a. Systems report different citation balances

The different systems utilized to record and monitor citations show different balances for citations. T2 is used to record citations when they are issued. The next day, the citations are uploaded to the Phoenix Group system (Wincite) which helps with the collection process. If the citation is not paid during the first 35 days, a late fee is added to the citation balance. This late fee is recorded in Wincite but not in T2. The University's ePay system utilizes balances from the T2 system.

As a result, if a person is paying for a citation that has incurred a late fee, the different systems show different balances for the citation. If the person pays Phoenix directly or pays the DMV, the citation amount includes the late charge. If the person logs into ePay to pay the citation, only the original amount of the citation would be paid.

This process results in lost citation revenue for the University. To estimate the amount of lost revenue, we reviewed payments during July through November 2011 for citations outstanding at June 30, 2011. Late fees not paid for these citations totaled \$1,525. Based upon the payments and number of citations which become past due, it is estimated that lost revenue is around \$5,000 per year.

Different citation balances also increases the risk that part of the payment could be misappropriated. When the person pays the citation, a cashier could require the full payment including the late fee, but then only record the lower amount which is showing in T2 and ePay. The difference could be misappropriated.

Management Action Plan:

TAPS is working with Purchasing to streamline the entire citations operation by moving away from a separate collection agency by utilizing just T2 as both the system for citation issuance and the collection agency. This action will be completed by December 31, 2013.

Until this change is completed, a TAPS employee will review that late fees are properly applied to citation balances in T2 and ePay. This action was completed before the report was issued.

Issue 2b. Review and approval of parking citation appeals

There is not an adequate review process related to clearing citations through the appeal process. A TAPS employee reviews first level citation appeals. Based upon the information provided by the person appealing the citation and issuing officer's documentation recorded in the T2 system, the employee rejects the appeal, issues the person a warning and writes off the balance, or voids the citation without a warning. The appeal results are communicated to the person appealing the citation. The only time appeal results are reviewed is when the person decides to further appeal the citation with a second level hearing.

One risk with receivables is that amounts are inappropriately written off. Another employee should periodically review appeals documentation and approve all amounts written off.

Management Action Plan:

On a weekly basis, a TAPS employee who is not involved in processing parking citation appeals will generate a report of all appeals processed in T2. The results of the appeal process will be reviewed and approved to verify that there has been a fair and impartial review. The weekly review process will be properly documented. This action was completed before the report was issued.

Issue 2c. Inadequate review of citation payments

There is not a good review process to verify that payments are properly recorded in the general ledger. We noted that a check from the DMV worth \$6,398 for amounts collected during September 2011 was not deposited in a timely manner. The check was incorrectly sent to the accounting department during October 2011 rather than to TAPS. The check was held in the safe while accounting researched what the payment related to. As there is not an effective reconciliation process to record payments against the citations receivable balance in the general ledger, TAPS did not identify that the payment had not been received and deposited. The check was located and deposited during December 2011.

Management Action Plan:

The DMV check received at Mondo was placed in the safe to identify the appropriate account for deposit. Based on the timeframe that the check was held, the process for handling checks has been changed. All DMV checks are to go

directly to TAPS for processing and most other checks go directly to Main Cashiering for deposit on the day received. Accounting Services works with the Cashier to ensure that all checks are deposited to the appropriate accounts. Checks received at Mondo are sent directly to Cashiering for deposit to a specified account or the cashiers holding account until the appropriate account is identified.

The TAPS employee who reviews the status of unpaid parking citations will review the general ledger accounts for verify that payments have been correctly recorded.

This action was completed before the report was issued.

Issue 2d. Insufficient follow up on citations

Phoenix Group submits parking citations information to the Department of Motor Vehicles. During the testing of citations, we noted that Phoenix Group's system identifies when citation information needs to be corrected before it can be properly submitted. The system identifies problematic citation information by classifying the citation as "Incomplete Citation Data". There is currently not a process to follow up and correct this citation data.

By following up on these citations, the data might be corrected and the chance of collection improved. For citations issued between June 1, 2010 and November 30, 2011, outstanding citations classified as "Incomplete Citation Data" totaled \$2,400 at November 30, 2011.

Management Action Plan:

This issue was caused by a problem with the interface between the Wincite and T2 systems. This issue will be avoided when T2 is the sole vendor in citation processing. This action will be completed by December 31, 2013.

Currently, a TAPS employee will review and fix information in the Wincite system to make sure the correct information is transferred to the DMV. This action was completed before the report was issued.

3. The accuracy of TAPS financial information should be improved

It appears that accounting did not have a sufficient understanding of TAPS daily operations to properly record some accounting transactions.

Issue 3a. The citations receivable and citations revenues were overstated in the financial records

At June 30, 2011, the citations receivable in the general ledger was overstated by around \$176,000. The citations receivable as of June 30, 2011 in the general ledger was \$262,445. During the audit, we recalculated the June 30, 2011 balance based upon citations issued, payments, and successful appeals recorded in T2, Wincite, and e-Pay, and came up with an estimated citations receivable balance of \$86,000.

The overstatement was caused by an erroneous year end journal entry. A report that showed all citations issued during fiscal year 2011 was misunderstood to mean the outstanding balances of fiscal year 2011 issued citations at June 30, 2011. A \$251,907 adjustment to the citations receivable balance was incorrectly recorded.

As a result, TAPS fiscal year 2011 citations income was overstated. Accounting has continued to use a monthly T2 report to incorrectly record citations revenues during fiscal year 2012. The report is overstating monthly revenue as the report does not account for citations written off during the appeal process and citations which will not be collected as they are only warnings issued by the officer.

The improper recording of revenue has resulted in unreliable financial reporting for TAPS.

Management Action Plan:

Accounting Services will obtain a monthly parking citation report from TAPS that will exclude parking citation warnings and appealed cases. This new report will enable Accounting Services to process correcting journal entries for incorrect citation receivable amounts that have been recorded in the online financial system for fiscal year 2011-2012, as well as record citations receivables monthly. Some underlying issues that still exist with the accuracy of the information that is being provided in this report are that the outstanding citation receivables amounts are subject to change due to citations being appealed and/or voided. Accounting Services has discussed these issues with TAPS and it has been decided that TAPS will conduct a quarterly review to determine what citations have been appealed and/or voided. Accounting Services will process a correcting journal entry to update the citations receivable amount reflected to account for these changes.

Despite Accounting Services efforts to improve the accuracy of TAPS citations receivable and citation revenues in the online financial system, the exclusion of parking citation late fees will continue to have an impact on the accuracy of these amounts. Accounting Services will coordinate with TAPS to discuss possible

solutions on how to properly account for late fees until the interface issues that exist between T2 and Wincite are resolved and/or a new system is acquired.

It has been determined that the overstatement of revenue reflected in the online financial system will not have an impact on TAPS debt service because revenues from fines and forfeitures are not included in this calculation. According to the Accounting Manual, Plant Accounting, Bond Financing, P-415-14, "Gross revenues include all income derived from the ownership and operation of a project to include rents, rates, fees, charges, insurance proceeds, and other monies derived by the Regents from ownership or operation, but excludes and refundable deposits or fines and forfeitures."

This action was completed before the report was issued.

The citations receivable balance will be corrected before the end of the current fiscal year.

Issue 3b. Improper recording of transactions

During the testing of payments, we noted some transactions improperly recorded in the general ledger. Phoenix Group and the Department of Motor Vehicles collect citation payments on behalf of TAPS. Both parties deduct their agreed upon fees from the amounts before they forward the net amount to TAPS. The net amount is deposited by TAPS without properly recording the fees as expenses.

With the manner in which the citations receivable is currently recorded in the general ledger, the citations receivable cannot be properly offset with the gross amount of the citation payments and expenses are understated. Also, the real cost of having Phoenix Group and the DMV collect payments is not quickly evident by reviewing information in the general ledger.

The same issue was noted with credit card fees related to payments for student parking permits and parking citations. The net amount received by TAPS is recorded in the general ledger and fees are not recorded as an expense.

The improper recording of these transactions resulted because accounting was not properly consulted about these fees.

Management Action Plan:

TAPS will provide Accounting Services with a monthly breakdown of gross citation payments collected by DMV and Phoenix (Wincite), as well as their service fees. Accounting Services will utilize this information to process a monthly journal entry to properly record this information in the online financial system.

Accounting Services and Administrative Computing & Services (ACS) have discussed how the application of the 2% convenience credit card fee affects the accuracy of TAPS revenues and expenses in the online financial system. To resolve this issue, ACS will generate a monthly report that will reflect the convenience fees that have been charged for parking citations and permits. Accounting Services will utilize this report to process a journal entry to properly record this information in the online financial system. Accounting Services also discussed potential solutions to address the issue of parking citation late fees not being reflected in ePay. It was determined that creating an interface between Wincite and ePay to upload late fee data would not be a feasible solution due to the existing interface issues that exist between T2 and Wincite.

This action was completed before the report was issued.

4. Risks related to returned parking permits could be better mitigated

There are many reasons why parking permits are returned by university departments, employees, and students. For example, when an employee separates from the university, permits are supposed to be obtained by the former employee's department and returned to TAPS. Also, employees and students often exchange their permits for permits to other parking lots. TAPS does not reuse the previously issued permits but "revokes" the permit in the ePay system and attempts to keep track of the permits to keep them from being misused.

Issue 4a. Returned parking permits not adequately reconciled and defaced to keep them from being reused.

During the review of returned parking permits, I noted the following:

- Ten employee permits from the parking year September 2010 through August 2011 which were returned to TAPS and revoked in the system could not be physically located.
- Two permits were returned to TAPS but had not been recorded in the ePay system as revoked. As the permits were not recorded as revoked in ePay, other TAPS employees would not be aware that the permits were returned. This increases the risk that the permit could be misused as another employee doesn't know that the permit should be accounted for.
- Revoked permits were attached to backup documentation and maintained by a TAPS employee. As the permits were not defaced or made unusable, there was a risk that the permits could be misused by anyone with access to the documentation.

To mitigate the risk, parking permits should be reconciled by a person who does not keep custody of the permits and the permits should be defaced (for example, cut in half).

Management Action Plan:

Weekly reconciliation of returned parking permits will be completed by TAPS administrative staff to ensure permits revoked in the ePay system are defaced by recording "Void" on each permit and include the initials of the respective staff member completing the reconciliation. This weekly reconciliation will include reviewing the returned permits on hand to verify that they have been properly revoked in the ePay system. The action was completed before the report was issued.

Issue 4b. Permits not properly returned to TAPS

During the reconciliation of parking permits and the review of employee payroll deductions, many instances were noted where employees separate from the University and the parking permit is not returned to TAPS. Often, the first notice TAPS receives that a former employee with a parking permit has separated is when the former employee's payroll parking deductions is rejected in the payroll system.

When an employee separates from the University, the former employee's parking permit is supposed to be obtained by the department. Termination checklists utilized by the departments remind employees to obtain the parking permits. The department forwards the former employee's permit to TAPS who revokes the parking permit in the ePay inventory system and verifies that the parking payroll deduction is properly discontinued.

If permits are not returned to TAPS, it is difficult to determine whether the former employee still has the permit or whether the permit is being held by someone in the department. The risk is that another person could use the permit without paying for it.

Management Action Plan:

TAPS will remind departments of their responsibilities to obtain parking permits from separating employees and to return the permits to TAPS. This will be completed by notifying MSO's and Administrative Directors during their monthly meeting. This action will be completed by June 30, 2012.

During their monthly review of payroll deductions, TAPS employees will identify rejected parking payroll deductions and follow up with the respective departments to identify separated employees with parking permits. TAPS will revoke these

permits in the ePay system. This action was completed before the report was issued.

A bar code scanning system will be implemented so a parking officer can more quickly scan parking permits around campus. This will increase the chances of identifying instances of misusing revoked parking permits. This action will be completed by June 30, 2013.