

CITY OF LONG BEACH, CALIFORNIA

Preferential Residential Parking Program

January 21, 2005

Audit Team

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GARY L. BURROUGHS, CPA
City Auditor

January 21, 2005

Christine F. Andersen, Director of Public Works
Michael A. Killebrew, Director of Financial Management

We have reviewed the system of internal controls over the Preferential Residential Parking (PRP) program, including establishment and monitoring of parking districts and the collection and deposit of revenues. The purpose of the review was to evaluate the adequacy of existing policies and procedures and internal controls to ensure that all revenues due are collected and properly deposited to the City's treasury.

The scope of our review was fiscal year 2003. Our procedures include:

- Reviewing applicable sections of the City's municipal code to ensure current procedures are compliant;
- Interviewing Financial Management staff regarding revenue collection and deposit policies and procedures;
- Interviewing Public Works staff regarding PRP district establishment and monitoring procedures;
- Observing the revenue collection and permit issuance process;
- Analyzing the PRP permit database to determine participation per district; and
- Agreeing deposit receipts to supporting documentation on a sample basis.

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Based upon the results of the procedures performed, we have identified certain weaknesses in the current system of internal controls. Details on all issues and corresponding recommendations are attached.

We would like to thank you and your staff for the cooperation and prompt response to our requests.

Sincerely,

GARY L. BURROUGHS, CPA
CITY AUDITOR

By

A handwritten signature in cursive script, appearing to read "J. C. Squires".

J. C. Squires, CPA
Assistant City Auditor

Preferential Residential Parking

Background

In 1979, the City of Long Beach implemented its Preferential Residential Parking (PRP) program. The purpose of the program is to alleviate parking issues for residents in impacted parking areas by exempting residents with valid permits from legally restricted parking zones.

During fiscal year 2003, there were 24 PRP districts. In fiscal year 2004, the City consolidated two PRP districts and added three new districts, bringing the total number of PRP districts to 26. Establishment (or expansion) of a PRP district is accomplished through the following steps:

1. Residents request a new (or expanded) PRP district.
2. The Traffic and Transportation Bureau (Bureau) of the Department of Public Works (PW) surveys the site to determine if the following municipal code criteria are met:
 - More than 75% of street spaces are occupied during the period proposed for parking restriction or prohibition.
 - More than 50% of vehicles parked at curbside during the period proposed for restriction are owned by nonresidents of the district, if the district is proposed solely for daytime PRP.
3. The Bureau prepares a petition form for all the residences of the proposed district and forwards the form to the residents.
4. After obtaining the signatures of 2/3 of the residents, the petition is returned to the Bureau.
5. The Bureau determines a reasonably self-contained area of parking demand and supply that includes the petitioned area.
6. The Bureau commissions an environmental study.
7. A formal public hearing before the City Council is held.
8. The City Council approves the establishment of a new PRP district and instructs the City Attorney to draft the new City ordinance.
9. The new ordinance becomes effective approximately six to eight weeks after City Council approval.

After the City establishes the PRP district, residents may apply for up to three permanent PRP permits and one guest PRP permit per household per year for a fee. The residents may also apply for temporary permits that are valid for up to one week.

When the PRP districts were established in 1979, the initial cost of permanent and guest permits was \$30. In 1997, the fee was reduced to \$15. In fiscal year 2004, a study indicated that the then-current fee did not cover the costs of City expenses related to

PRP, and the fee was returned to \$30 per permit. There is no charge for temporary permits.

Issue # 1

The current PRP permit fee of \$30 is not sufficient to cover the expenses associated with the PRP program. The City's rough internal estimation of annual expenses associated with each permit issued is approximately \$36. Additionally, that estimate assumes each participating residence purchases 2 permits; per our calculations, each residence purchases an average of only 1.5 permits, which results in a per permit cost of approximately \$47.

Recommendation

Perform a detailed analysis of costs associated with establishing and maintaining PRP districts, as well as processing PRP permits. Increase the annual permit fee to an amount sufficient to cover all expenses associated with the program.

Alternatively, as suggested by Public Works, consider establishing a dual payment structure consisting of a district initiation fee followed by annual permit fees. The concept is to first implement a PRP district initiation fee sufficient to cover the relatively fixed costs associated with establishing a PRP district: site surveys, petition preparation and processing, environmental studies, equipment, and labor costs for all departments involved. Payment of this fee or a portion of this fee may be required before the City incurs any expenses associated with establishing the requested PRP district. Also, in addition to the initiation fee, establish annual permit fees at an amount sufficient to cover annual permit processing and district maintenance fees. This payment structure not only allows the City to recover its costs, but will discourage establishment of districts for the benefit of only a few residents (see Issues #5 and #7) and reduce City expenses associated with such underutilized PRP districts.

Management's Response

Financial Management and Public Works is performing a joint analysis of the actual costs associated with establishing and maintaining preferential parking districts, as well as processing the permits. While the fee charged for preferential parking permits may not completely cover expenses, there is some general public benefit derived from preferential parking districts that the City Council may deem worthy of some subsidy. In addition, a fee increase less than two years from doubling the permit fee would increase the amount of staff time and expense to administer the program and may also reduce participation. Upon completion, staff will bring the results of the current cost analysis back to City Council for further discussion.

PRP Permit Processing

When a resident wishes to obtain a PRP permit for the first time, he must complete an application and provide appropriate documentation of residence and vehicle registration. He may mail or bring the documents and payment to City Hall, where they are forwarded to the Customer Service Supervisor (CSS) in the Parking Citations Section (Section). The CSS enters the client information into the computer system, which performs file maintenance overnight and produces a PRP Renewal Notice (Notice). The CSS retrieves the Notice in the morning and matches it to the application and check received; she then forwards the Notice and check to Cashiering for deposit. After processing the deposit, Cashiering gives the deposit receipt to the CSS, who attaches it to the remittance stub.

Once the payment is processed, the billing and collections system prints a PRP Annual Permit notice overnight on perforated paper. This document includes the customer's name and license number or "guest" (for guest permits rather than permanent permits). After retrieving this document, the CSS or other Section staff create and manually log the permits. The manual log includes the permit number, customer name and address, PRP district, and, for non-guest permits, license plate number. After logging the information, the permit is folded inside the stub portion of the PRP Annual Permit notice and mailed to the customer.

Issue # 2

There is inadequate segregation of duties related to PRP permit processing. One individual receives the applications and the checks, enters the PRP data into the computer, and maintains the PRP permit inventory. Lack of segregation of duties fails to ensure that procedures are being properly followed and that revenues are being properly recorded and deposited. Further, there is no periodic reconciliation performed by independent personnel of revenues recorded to permits issued; this reconciliation would identify discrepancies in deposit amounts.

Recommendation

Revise responsibilities within the office to ensure duties are adequately segregated. Alternatively, institute mitigating procedures, such as periodic physical inventories of the permit stock and corresponding revenue reconciliations by independent personnel.

Management's Response

A position that was created in FY 2000 for processing Preferential Parking Permits (PPP) was eliminated in the Parking Citation Section staff reduction in FY 04, the Section Supervisor assumed responsibility for processing the permits. Since separation of duties with the reduced staff is difficult, periodic reconciliation in the form of an independent physical inventory of the permit stock and corresponding revenue will be performed and documented.

Issue # 3

Maintaining the PRP permit information in a manual log is inefficient and prohibits management from analyzing the data to the fullest extent possible.

Recommendation

Consider recording PRP sales information in an electronic format, rather than in a manual log. In this manner, statistical information, such as number of PRP permits issued per district, percentage of residences in a district participating in the PRP program, and total sales year-to-date would be readily available as a management tool, in addition to facilitating the permit reconciliation and review process.

Management's Response

In December 2000, Financial Management implemented PPP as a module on the City's Billing & Collection System. This implementation had the dual purpose of automating PPP billing and removing the database from the supervisor's personal computer. The database is now accessible on the Mainframe for all customer service representatives. A limitation of the 18-year old Billing & Collection System is the ability to analyze data. We have the same data analysis problems with Business Licenses and Ambulance Billing, which are billed on the Billing & Collection System.

The City is presently evaluating proposals for Billing & Collection System replacement, where analysis of management information is a top priority for the new system. Once the Billing & Collection System is replaced with a modern system, management will be able to fully analyze PPP data more readily.

Inventory

The CSS maintains the backup stock of PRP permits. She distributes a small portion of the permits to the two other Citation Division employees who process the permits.

Issue # 4

We noted the following issues with regards to inventory procedures:

- The backup stock of PRP permits is not adequately safeguarded. The inventory is kept in a box in the CSS' open cubicle, where all area personnel have access.
- There is no documentation of transfer of accountability when the CSS issues permit inventory to other Citations Division employees.
- There is no periodic physical inventory of PRP permits by independent personnel.

Recommendation

To strengthen internal controls over inventory and decrease the risk of misappropriation, implement the following:

- Maintain the backup stock of PRP permits in a secure location, whose access is limited to the minimum number of people necessary.
- Complete adequate documentation of the transfer of accountability when issuing permits to other employees, thereby ensuring the location of all inventory is known at all times.
- Conduct independent physical inventories of the PRP permits on a periodic basis, as discussed in Recommendation 2.

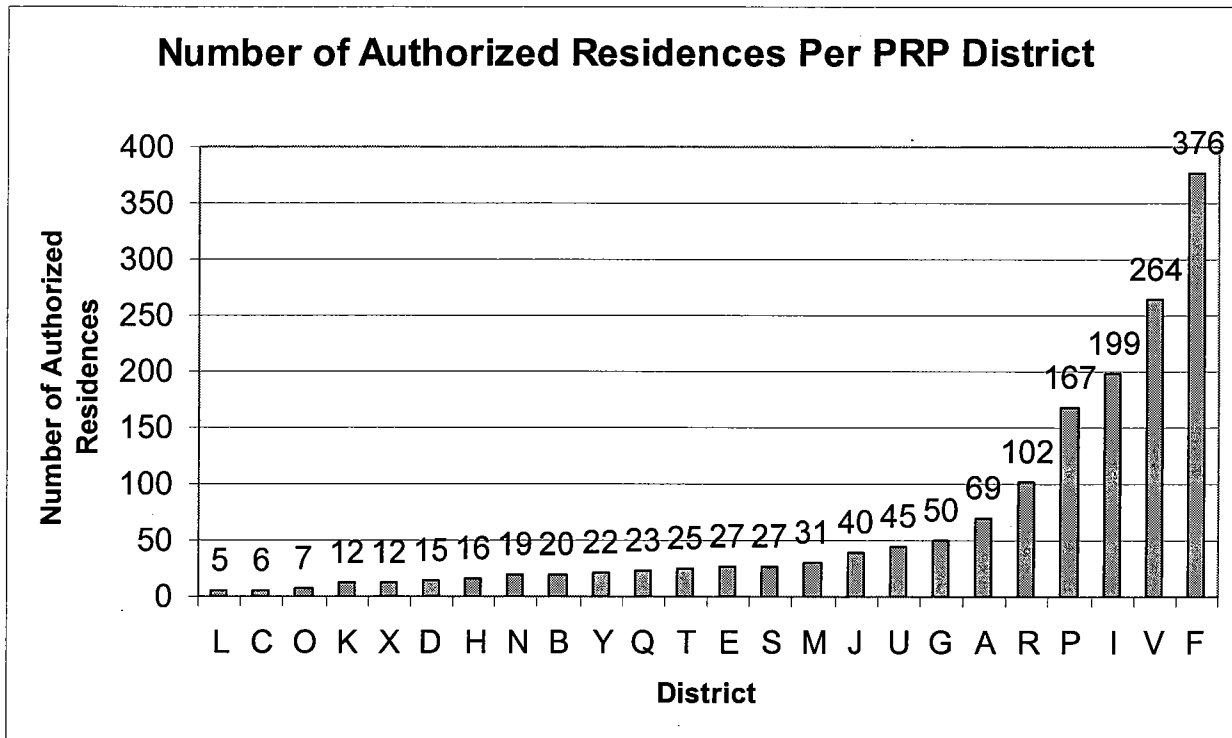
Management's Response

Preferential Parking Stock will be maintained in a secure area, with documented inventory controls established. Periodic reconciliation in the form of an independent physical inventory of the permit stock and corresponding revenue will be performed and documented (see Issue #2). We have assigned a professional accountant to conduct periodic inventory reviews.

PRP District Monitoring

The City municipal code stipulates that the PRP district be a reasonably self-contained area of demand and supply. As such, the City must analyze the entire residential area as a potential PRP district, rather than merely the requested addresses.

Below is a summation of the number of authorized residences per district for fiscal year 2003, sorted from low to high.



Issue # 5

We were informed that prior to last year, the City established PRP districts for only the addresses requested, rather than analyzing the entire area as a potential PRP district as required by the city municipal code. Therefore, some districts have as few as 5 authorized residences. Eight of 24 (33%) PRP districts have fewer than 20 authorized residences. Additionally, certain PRP districts have been expanded. The costs associated with expanding a district are the same as those for establishing a new district. Had the area been properly analyzed when first creating the district, these secondary costs could have been avoided.

As City initial survey and investigation costs vary minimally based on the size of the of the proposed district, there is a fixed minimum cost to establishing a PRP district. Therefore, the City bears a greater burden of the expense when establishing a small district rather than a larger one, where more residents are able to purchase permits and offset the City's costs. However, the City has not established a threshold for a minimum number of residences to establish a PRP district.

Recommendation

Continue with the current practice of analyzing the entire area as a potential PRP district, rather than merely the requested addresses. Further, analyze the costs associated with establishing a PRP district to determine the minimum number of residences needed in a PRP district to enable the City to recover its expenses at the current permit rate. Alternatively, as mentioned in Issue #1, implement a PRP district initiation fee that covers all costs associated with establishing a PRP

district. The nature of this fee will discourage applications for districts with few residences.

Management's Response

As recommended, the City Traffic Engineer will continue with the practice of recommending larger preferential districts to City Council based on a determination of the entire self-contained area of parking demand and supply. This practice significantly reduces the chance that small sized districts would be recommended for approval to City Council in the future. Since it is difficult to predict the number of permits that will be purchased by residents of a proposed district, sizing districts to maximize cost recovery through permit fees is not practical.

The City municipal code also requires the City Traffic Engineer to annually review the status of each PRP district. If a substantial number of eligible persons within the district failed to apply for and receive PRP permits, the engineer may recommend termination of the district designation to the City Council.

Issue # 6

The City Traffic Engineer does not annually evaluate PRP districts for termination. In fact, one district was approved for expansion in fiscal year 2004, although only 14% of the authorized residences obtained PRP permits in 2003. Lack of annual usage review of PRP districts violates the City municipal code, and increases the risk that parking is unnecessarily restricted (see Issue #7).

Recommendation

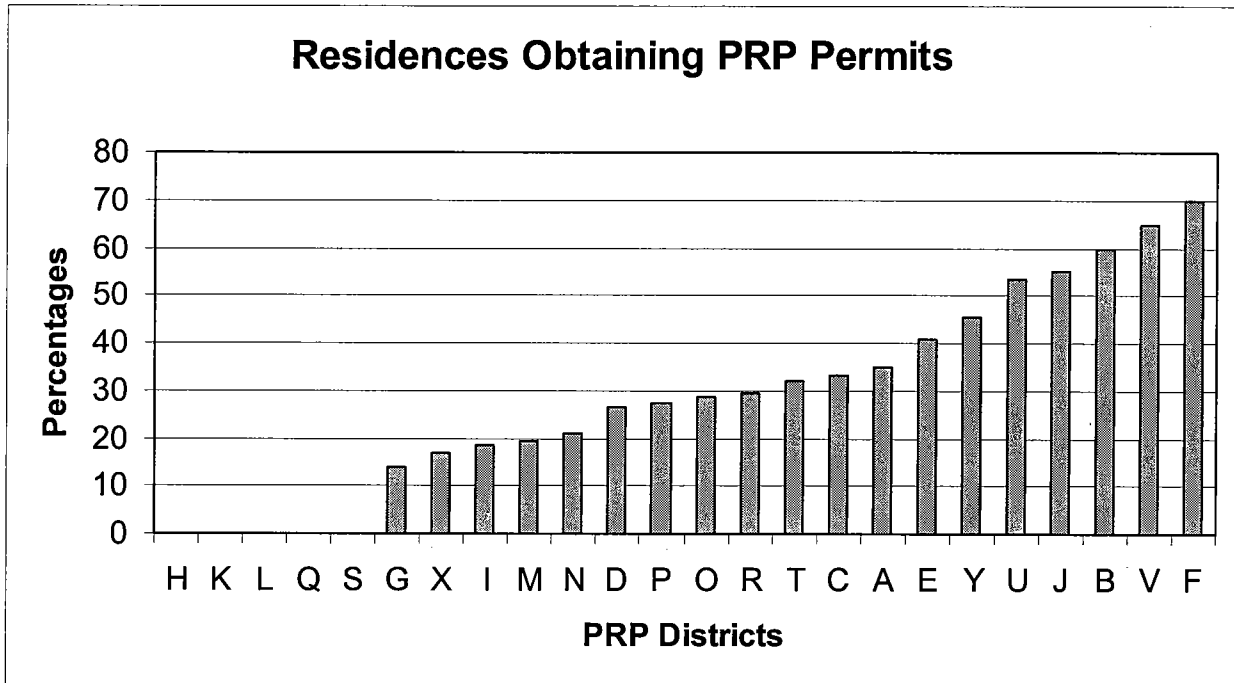
The City Traffic Engineer should comply with the municipal code by reviewing participation of residences in all PRP districts on at least an annual basis. Further, this data should also be analyzed before expanding a PRP district, to ensure there is adequate need for the expansion.

Management's Response

In the fall of 2004, the City Traffic Engineer reviewed permit activity and neighborhood parking conditions for District S and District L. As a result of those two reviews, the City Traffic Engineer will be recommending the repeal of both District S and District L to City Council in early 2005. Residents of districts with low permit issuance rates as identified in the report have not registered complaints relating to unnecessary or overburdening parking restrictions. The maintenance of such districts also generates very little cost to the City, while conducting a comprehensive district review, notifying potentially affected properties, and ultimately recommending a repeal action to City Council requires significant staff effort. The City Traffic Engineer will continue to comprehensively review approximately two districts each year for possible repeal or boundary modifications. In addition, the Municipal Code establishes that the justification for preferential parking on a street segment is to be based on the results of a parking

study not on the number of residential permits issued to residents of other streets.

Below is a graph depicting the percentages of eligible residences per district that obtained PRP permits in 2003.



As seen above, five districts had 0% participation in the program during 2003, and 14 of the 24 districts had less than 30% participation. One reason for the lack of participation may be that the petition process is driven by a small group of interested parties that circulate the petition. There is no financial accountability associated with signing the petition, because only individuals who purchase a permit have a financial responsibility. As such, residents may sign a petition as a favor to their neighbors without ever intending to participate in the program.

Issue # 7

The City has incurred expenses to establish PRP districts that are underutilized.

Recommendation

Consider specifying on the petition that upon establishment of the PRP district, the City will bill all petitioners for the first year's fees to help alleviate the costs associated with establishing the PRP district. Alternatively, implement a PRP district initiation fee as detailed in Issue #1. In this manner, only serious petitioners will participate. Further, consider terminating PRP districts with substantial residential non-participation in the program.

Management's Response

A low participation, or permit issuance, rate in a district does not necessarily imply that preferential parking is an ineffective solution to a neighborhood parking problem. The primary reason that many preferential parking districts have low participation rates is that the parking restrictions adopted in those districts do not negatively impact the majority of the residents. Many of the parking restrictions in the low participation districts were implemented to address parking impacts related to a neighborhood school or business. In such cases the neighborhood parking problem can be simply addressed with a mid day two-hour parking restriction which creates sufficient parking turn-over in the afternoon and evening hours when residential parking demand is at its highest. Since the majority of residents in such districts are not at home during the mid part of the day, they have no need to obtain permits. Although the participation rate may be low in such a scenario, preferential parking is the best available neighborhood solution to address the parking problem with out impacting those residents that are regularly home during the day or have a need to park a vehicle on the street all day. Conversely, in District F where a morning to evening parking prohibition is implemented, most residents are negatively impacted and thus the permit issuance rate is very high. Other factors such as the number of vehicles at a household, the availability of off-street parking, and enforcement presence also contribute to varying participation rates. The task force described in response to Issue / Recommendation #1 will determine the most appropriate strategy to seek full cost recovery for the preferential parking program.