

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



Traffic Department

Canal Street and Victory Garages

Eight Months Ended February 28, 2002

Prepared by

City of Manchester, NH – Finance Department

Internal Audit Division

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
TRAFFIC DEPARTMENT
CANAL STREET AND VICTORY GARAGES
16 MONTHS ENDED OCTOBER 31, 2001
TABLE OF CONTENTS**

	<u>PAGE</u>
INTRODUCTION.....	1
AUDIT SUMMARY	4
INTERNAL AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING	7
REPORTABLE CONDITIONS	
OBSERVATION 1: EMPLOYEE BENEFIT REIMBURSEMENTS	9
OBSERVATION 2: SECURITY DEPOSIT BALANCES	10
INTERNAL AUDITOR’S REPORT ON MANAGEMENT ISSUES	12
MANAGEMENT ISSUES	
OBSERVATION 3: MANAGEMENT REPORTS.....	13
OBSERVATION 4: CIVIC CENTER EVENT PAYROLL COSTS.....	14
INTERNAL AUDITOR’S REPORT	16
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL - CANAL STREET GARAGE FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2002.....	18
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL - VICTORY GARAGE FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2002	19
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL – CANAL STREET AND VICTORY GARAGES FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2002 ..	20
NOTES TO THE FINANCIAL STATEMENTS.....	21
EXHIBIT A – CENTRAL PARKING RESPONSE	29

**CITY OF MANCHESTER, NH
TRAFFIC DEPARTMENT
CANAL STREET AND VICTORY GARAGES
EIGHT MONTHS ENDED FEBRUARY 28, 2002**

INTRODUCTION

Audited Organization

Our audit was limited to the two City of Manchester NH (the City) garages that are under the management of National Garages, Inc. (Company). The Company is a private management company that oversees the operations of many parking facilities nationwide as well as parking operations at the City of Manchester Airport. The Company has been operating without a contract for several years. The two garages included in the audit were the Canal Street and Victory Garages.

Canal Street Garage

The six level Canal Street Garage is located at the corner of Spring and Canal Streets and was built in 1971 at a cost of \$1,493,642. A top-level addition was constructed in 1987 at a cost of \$2,717,957. A complete replacement of the lower decks was completed in 1994 at a cost of \$1,539,276. The garage contains 582 spaces, which includes eleven handicapped spaces. The garage rates are set by the Traffic Committee and approved by the Board of Mayor and Alderman (BMA). Rates in force during the audit period were:

TYPE	RATE	HOURS	DAYS
Day Parking	\$.50 per hour	6am to 7pm	Monday through Friday
Monthly Parking, Days	\$56 per month	6am to 7pm	Monday through Friday
Monthly Parking, 24 Hrs	\$75 per month	24 hours	All week
Civic Center Event, Early	\$3 per event	4pm to 6pm	Event nights
Civic Center Events	\$5 per event	After 6pm	Event nights

The garage allows free parking to City employees. At February 28, 2002 the City had 122 City employees using the garage and 405 monthly lessees. Per a recent study the garage had an average maximum usage rate of 79% during the day. After 6:00pm the usage dropped to between 3% and 14%.

Victory Garage

The five level Victory Garage is located at the corner of Vine and Amherst Streets and was built in 1977 at a cost of \$3,082,709. The garage has 846 spaces, sixteen of which are handicapped spaces. Rates in force during the audit period were:

TYPE	RATE	HOURS	DAYS
Day Parking	\$.50 per hour	6am to 7pm	Monday through Friday
Monthly Parking, Days	\$56 per month	6am to 7pm	Monday through Friday
Monthly Parking, 24 Hrs	\$75 per month	24 hours	All week
Monthly 889 Elm Street	\$52.50 per month	6am to 7pm	Monday through Friday
Civic Center Event, Early	\$3 per event	4pm to 6pm	Event nights
Civic Center Events	\$5 per event	After 6pm	Event nights

The garage allows free parking to City employees. At February 28, 2002 the City had 70 employees using the garage, 560 monthly day lessees, 61 889 Elm Street monthly lessees and 5 24-hour monthly lessees. Per a recent study the garage had an average maximum usage rate of 68% during the day. After 6:00pm the usage dropped to between 2% and 12%.

Responsibilities

Chapter 70 of the City of Manchester Code of Ordinances (the City Code) defines the duties of the Traffic Department (The Department) to include responsibility for all parking operations, including garages and parking lots and the administration of parking leases. The Department rules, regulations and policy relative to the management and operation of the City parking system is the responsibility of a five member Aldermanic subcommittee, the Committee on Traffic, subject to the Board of Mayor and Aldermen as established by the City Code Chapter 70.15. The Department oversees the use and management of five surface parking lots and three parking garages. The City also leases 66 spaces in a fourth garage at Wall Street Towers.

The day to day operation of the two garages under audit is the responsibility of the Company. The Company is responsible for the maintenance, administration and revenue collection for the two garages.

Funding

The Garages are funded entirely from appropriations in the City's General Fund. Budgeted expenditures for FY 2002 at the Canal and Victory Garages were \$183,639 and \$215,936 respectively. Actual Expenditures for the Eight months ended February 28, 2002 for the Canal and Victory Garages were \$171,482 and \$193,228 respectively. Revenues collected for parking fees are deposited into the City's General fund. Parking fees are set by the Traffic Committee and approved by the Board of Mayor and Alderman. Budgeted revenue for the Canal and Victory Garages for FY 2002 were \$521,000 and \$755,250 respectively with actual revenues for the eight months ended February 28, 2002 of \$282,629 and \$392,575 respectively. Included in the

actual revenues are Civic Center revenues of \$3,270 and \$10,229 for the Canal and Victory Garages respectively. Revenue for Civic Center events is budgeted separately at a FY 2002 amount of \$1,968,250 for all City parking areas and Garages. The amount of budgeted revenue attributed to the two garages cannot be determined.

Audit Objectives and Scope

The primary objective of the audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free from misstatement, Internal Audit (IA) considered the effectiveness of internal controls for the Garages and tested The Department's and The Company's compliance with certain provisions of applicable City Code, State law, rules, regulations and contracts applicable to the Garages. Major accounts or areas subject to IA's examination included, but were not limited to, the following:

- Internal Controls
- Revenues
- Appropriations
- Expenditures
- State, City and Contract Compliance

IA's reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, the independent auditor's report, and the financial statements of the Garages are contained in the report that follows.

AUDIT SUMMARY

Civic Center Events

In November 2001 the Civic Center opened and the revenues from event parking was designated to help pay for costs associated with the Civic Center. The Garages were required to be open during the hours that events were scheduled and the Traffic Committee with approval of the BMA approved a fee structure for parking. Cars arriving between 4pm to 6pm are charged \$3.00 per event and \$5 per event after 6pm. Weekend events were charged \$5.00 per event. Prior to the opening of the Civic Center the Garages did not charge for weekends or after 10:00pm on weekdays and did not staff the Garages at those times. Currently at every event each garage is staffed with three people for 2.5 to 3 hours. Employees working an event are paid a premium rate of \$15 per hour. Garage employees are paid bi-weekly. The following table shows expenditures and revenues by pay period for the Garages during the audit period for Civic Center Events.

VICTORY GARAGE					
Pay Period	Hours Worked	# of Events	Payroll Expenses	Revenues	Excess of Revenues/ Expenditures
11/12/01-11/25/01	57.50	6	\$ 1,053.03	\$ 2,022.00	\$ 968.97
11/26/01-12/09/01	57.50	6	1,063.46	2,023.00	959.54
12/10/01-12/23/01	58.50	6	1,217.71	1,447.00	229.29
12/24/01-01/06/02	54.25	4	1,008.24	713.00	(295.24)
01/07/02-01/20/02	97.50	7	1,822.80	1,507.00	(315.80)
01/21/02-02/03/02	36.00	6	665.01	1,053.00	387.99
02/04/02-02/17/02	37.00	2	682.93	243.00	(439.93)
Total	398.25	37	\$ 7,513.17	\$ 9,008.00	\$ 1,494.82

CANAL STREET GARAGE					
Pay Period	Hours Worked	# of Events	Payroll Expenses	Revenues	Excess of Revenues/ Expenditures
11/12/01-11/25/01	51.00	6	\$ 934.60	\$ 928.00	\$ (6.60)
11/26/01-12/09/01	43.50	6	860.78	559.00	(301.78)
12/10/01-12/23/01	39.00	6	749.37	532.00	(217.37)
12/24/01-01/06/02	17.50	4	324.11	195.00	(129.11)
01/07/02-01/20/02	26.50	7	492.62	243.00	(249.62)
01/21/02-02/03/02	61.00	6	1,168.02	407.00	(761.02)
02/04/02-02/17/02	21.25	2	392.99	66.00	(326.99)
Total	259.75	37	\$ 4,992.50	\$ 2,930.00	\$ (1,992.49)

Revenues

In addition to the revenues for Civic Center event parking, the Garages collect revenue for the following services:

Daily Parking Customers entering for the day are charged \$.50 per hour for parking. Revenue is collected when the customer leaves the garage. If a daily parker is in the garage after the cashiers go home the plate number is recorded and an envelope is left on the windshield to mail in the required fee.

Monthly Leases Rates for monthly parking are \$56 for access Monday through Friday 6am to 7pm and \$75 for 24 hour per day, 7 day a week service. In addition the Victory Garage has a contract with the tenants of 889 Elm Street to provide parking Monday through Friday 6am to 7pm for \$52.50 per month. Fees are billed and collected in advance and access is limited by the use of a card access system. There is a \$20 deposit collected for each card issued. The Garages are limited in leases only by the amount of spaces available. As of February 28, 2002 the Garages had 527 and 696 active leases for the Canal and Victory Garages respectively.

Coupons and Validations

The Garages have validation programs where certain businesses will validate by stamping the back of a daily ticket. When presented to the cashier in the garage the amount owed is entered to the computer system, which will print a monthly invoice to the business. These businesses are charged the usual daily rate of \$.50 per hour. Businesses may also purchase stamps and attach them to their customer's daily ticket to pay for parking. The stamps cost \$.25 each and are good for one hour of parking.

Other Issues

IA's evaluation of internal controls over revenues determined that sufficient controls are in place and working as designed to ensure that all revenues are collected; charges are in the correct amount, deposited timely and posted to the correct account. Our test of revenues did not reveal any errors.

IA has included in this report four observations, three that relate to the management and reporting of expenditures and one relating to incorrect balance of security deposits being reported in the balance sheet account. As further discussed in Observation No. 1 it appears that The Company has been using estimated benefit rates to charge the City for reimbursements. In the eight months ended February 28, 2002 it appears that the City was charged \$11,581 more than actual costs for benefits. As further discussed in Observation No. 2 the deposits payable balance reported in the HTE General Ledger at February 28, 2002 was understated by \$4,740.

Observations No. 3 & No. 4 relate to management issues at the Department. IA feels that the Department could be more closely monitoring the expenditures and operation of the Garages by requesting more detailed expenditure reports and other management reports that would give the Department a better feel of operations. It is felt that greater involvement may have detected the condition noted in Observation No. 1 as well as the excessive payroll expenditures noted in Observation No. 4.

These observations, IA's recommendations and the auditee responses of the Traffic Department and National Garages, Inc. are included in the report that follows.

Internal Auditor's Report on Compliance and on Internal Control over Financial Reporting

To The Committee on Accounts, Enrollment & Revenue Administration:

Internal Audit (IA) has audited the Statements Of Revenues And Expenditures – Budget And Actual – General Fund of the City of Manchester NH Traffic Department, Canal and Victory Garages for the eight months ended February 28, 2002, and has issued its report thereon dated April 26, 2002, which was qualified with respect to the lack of presentation of the financial position of the Traffic Department (the Department) in the General Fund. Except as discussed in the preceding sentence, IA conducted its audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements for the Canal and Victory Garages (the Garages) are free of material misstatement, IA performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of IA's audit, and accordingly, IA does not express such an opinion. The results of IA's tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing IA's audit, IA considered the Department's and the Garage's internal control over financial reporting in order to determine IA's auditing procedures for the purpose of expressing IA's opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, IA noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to IA's attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in IA's judgment, could adversely affect the Department's and the Garage's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Observations No. 1 and No. 2 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. IA's consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However none of the reportable conditions noted above are considered to be material weaknesses.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the Traffic Department and the Board of Mayor and Aldermen through the Committee on Accounts, Enrollment, & Revenue Administration and is not intended to be and should not be used by anyone other than these specified parties.

Kevin M Buckley, CPA
Internal Audit Manager

April 26, 2002

Internal Control Comments

Observation No. 1 –Employee Benefit Reimbursements

Observation:

The operating agreement (expired) between the City of Manchester (the City) and National Garages, Inc. (the Company) states that the City shall reimburse the Company for all ordinary direct expenses of operating the parking facilities. In consideration for their services the Company will be paid a management fee. Monthly the Company provides to the City budget reports showing the expenses that the Company paid on behalf of the City. The budget reports also include the management fee owed for the month as an expense item.

Our test of expenditures from the budget reports has shown the following:

The Company charged the City 12.16% for worker's compensation insurance in our sample of payroll expenditures. Based on NH Insurance regulations and industry sources the worker's compensation rate for garage keepers with an experience modification rating of .38 would be approximately 5.162%. The rate was calculated as follows: Base rate for class 8392 of 6.19% times the Loss Cost Multiplier for American Home Assurance Company of 1.345 times the 62% discount rate based on the Company's experience Mod of .38 equals a rate of 5.162%. If the company used the actual rate for worker's compensation insurance the City would have paid \$11,825 less than the invoiced amount.

The Company charges the City for the Company's share of employee 401K contributions. Employees may elect to contribute a percent of their wages each week to contribute to a 401K retirement plan. The employee payment is matched 80% by the Company. During the audit period we have determined that only three employees were contributing to the plan. Employees contribute 5% of their wages to the plan. We have recalculated the amount of employer payments for the audit period to be \$1,284. The Company reported and was subsequently reimbursed for \$3,297 of retirement benefits. It appears that the City paid the Company \$2,013 more than actual retirement benefits for employees during the audit period.

DIFFERENCE BETWEEN INVOICED AND ACTUAL BENEFITS: \$11,581

Recommendation:

The Department should institute procedures to ensure that it pays only actual expenses incurred on the City's behalf. While IA understands the Company's position on the invoicing of benefits, it is felt that the City agreement is specific as to allowing only reimbursement of actual costs.

Auditee Response:

National Garages, Inc.

Workers Compensation Insurance - In most states, the pertinent category for parking employees is “Parking Garage Attendant” (Class 8392). The most recent information we have for the “manual rate” for this category of employees in New Hampshire is 12.16%. The Manager’s practice has been to charge the straight manual rate for the state in which the payroll is earned without application of any additional factors applied to that rate as a result of the Manager’s claims experience. Such ratings would be a function of the Manager’s claims experience throughout the US and may work to increase or decrease the application of the manual rate to the Manager’s payroll. In order to insulate our clients from the vagaries of the Manager’s claims experience in New Hampshire and elsewhere in the US, the Manager charges the unadjusted rate for the state in which the employees work.

Retirement – The Manager charges a flat rate of 2.5% of payroll in connection with its retirement/401K matching benefit. This charge is applied to all wages on a company-wide basis. It approximates the percentage amount paid by the company in connection with such matching benefit, and it provides a ready mechanism to compute the amount of such expense on a location-by-location basis. The labor involved in tracking the contribution associated with each and every employee and parceling that payment out to the various locations to which an employee may be assigned in the course of a year will quickly put the manager in a position of being subject to the law of diminishing returns.

Observation No. 2 – Security Deposit Balances

Observation:

Customers leasing parking spaces and City employees assigned parking in the Garages must pay a \$20 refundable deposit on the card that allows them access to the garage. At one time the number of leased spaces at each garage was fixed. At that time all available spaces were leased and there was a waiting list to get in the garages. The amount of people leaving or entering leases was small in a given year. Very few people gave up their leased space and when they did it was immediately filled from the waiting list. The amount the City held for deposits was very stable. To simplify accounting the City booked an estimated liability for card deposits that did not change, posted returns of deposits as expenditures and posted receipt of deposits as revenue. Because the number of leases was constant and the collection and return of deposits very small this was an acceptable method of accounting for these transactions.

Currently there is no longer a cap on the number of leased spaces in either garage. The amount of active cards and the associated liability have increased by approximately 25% at the Canal Street Garage and 15% at the Victory Garage. In addition, because there is no longer a waiting list, customers leave and enter into leases at a more frequent pace. Each time this occurs the City overstates revenues or expenditure when it returns or accepts a deposit. In the eight months ended February 28, 2002 refunds of deposits for the Canal and Victory Garages were \$640 and \$1,180 respectively. Revenues from deposits were of similar amounts. Generally Accepted Accounting Principles require that the deposits be accounted for as increases and decreases in liabilities, not increases in revenue and expenditures. At February 28, 2002 the balance in the liability accounts for the Canal and Victory Garages were \$7,960 and \$11,760 respectively. The actual liability was calculated to be \$10,540 and 13,920 for the Canal and Victory Garages respectively.

Recommendation:

Prior to year-end the Department should request from the Company a report showing the number of active cards in circulation. From this list The Department can propose an adjustment to the liability accounts so they will be correct on the City's audited financial statements. Going forward the City should decide whether or not they want to post directly to the liability accounts.

Auditee Response:

Traffic Department

We Concur. The Traffic Department has requested a report showing the active cards in circulation and will propose an adjustment to the liability accounts to the Finance Department prior to year-end.

Internal Auditor's Report on Management Issues

To The Committee on Accounts, Enrollment & Revenue Administration:

We have audited the Statements Of Revenues And Expenditures – Budget And Actual – General Fund of the City of Manchester New Hampshire Traffic Department, Canal and Victory Garages for the eight months ended February 28, 2002, and have issued our report thereon dated April 26, 2002, which was qualified with respect to the lack of presentation of the financial position of the Traffic Department (the Department) in the General Fund.

Except as discussed in the preceding sentence, Internal Audit (IA) conducted its audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

In planning and performing its audit of the financial statements of the City of Manchester New Hampshire Traffic Department, Canal and Victory Garages for the eight months ended February 28, 2002, IA noted certain issues related to the operation of the Department that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations, or contracts.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included in Observations No. 3 and No. 4 of this report.

This internal auditor's report on management issues is intended solely for the information and use of the management of the Department and the Board of Mayor and Alderman through the Committee on Accounts, Enrollment & Revenue Administration and is not intended to be and should not be used by anyone other than these specified parties.

Kevin M Buckley, CPA
Internal Audit Manager

April 26, 2002

Management Issues

Observation No. 3 – Management Reports

Observation:

The Department is assigned the oversight function of the Garages. The Department monitors the activities of the garages through management reports sent by the garages. Management at the Department receives only two reports on a regular basis, The City of Manchester Budget Report that shows expenditures for the month broken down into functional categories and daily revenue reports showing the amount of collections for the day by type of revenue. The budget report is used to reimburse the Company for the prior month's activities and the revenue reports are used to post revenues to the proper accounts in HTE. IA notes the following areas where these management reports could be improved to provide more useful information.

The City of Manchester Budget Report

The categories used in this report are useful for posting to HTE by functional category but do not show enough detail to determine that the City is reimbursing for only contractually allowable expenditures. This is particularly true with the "Contract Manpower" category. Contract Manpower includes all wages and benefits used at each garage. This is the major expenditure category accounting for approximately 70% of garage expenditures. The report fails to provide such useful information as number of hours worked at each garage including the number of overtime hours charged to each garage or the number of employees working at each garage at any one time, both of which are important measures of efficiency of operations. The reports do not show how benefits are allocated to the Garages. As noted in Observation No. 4 the overtime hours have a large effect on the profitability of collecting parking fees at Civic Center events. Observation No. 1 notes that the rates used to charge certain benefits appear to be excessive.

Daily Revenue Reports

These reports show the amount of revenue collected by type, which is important for posting to HTE. The report however, does not show accounts receivable outstanding for such things as monthly leases, validated tickets, and back charges. At February 28, 2002 the Garages had \$3,681 of monthly lease payments overdue by more than 30 days. One account had charges going back several months. In addition, when the Garages raised rates in July 2001 many accounts continued to pay at the old rate for two or three months. At February 28, 2002 the Garages were owed approximately \$1,440 of back charges. Back charges are from people with vehicles still in the garage when the cashiers' shifts are over. They are given an envelope to pay the parking fee owed and the garage records the car make and license number in their computer system. Periodically some of these are written off, although they appear to have a very good collection rate. All write-offs of receivables should be reported to and approved by management at the Department.

Gate Information

The Garages have software that collects useful information on traffic flowing through the gate. The system tracks when vehicles enter and leave the garage, how many monthly lease vehicles enter and leave over a certain time period versus how many hourly vehicles enter and leave over the same period, the number of active leases versus number of active cards in the system and paying leases versus nonpaying leases. Card and lease information is important to determine if any active cards are being used that are not being charged a monthly lease rate. The Garages should be performing annual card inventories to account for all cards and their status. The system can also be used to create reports that determine usage of the garages and cost per space versus revenues per space.

Recommendation:

The Department should be receiving more information from the Company in order to manage the activities of the Garages. Even though the garages have a management company, it does not relieve the Department from its oversight responsibility. Information gathered from the garages can then be used when evaluating the Company's performance during contract negotiations.

Auditee Response:

Traffic Department

We Concur. The Traffic Department is currently receiving weekly reports in order to evaluate the company's performance.

Observation No. 4 – Civic Center Event Payroll Costs

Observation:

The Company is allowed to pay their employees a premium rate to work during Civic Center events. Normally most employees are paid between \$8.25 and \$11.25 per hour. The rate of pay on event nights is \$15.00 per hour, which is approximately 1.5 times their hourly rate. When an employee works a forty-hour week they are entitled by Federal law to be paid time and one half for the hours over forty. IA's payroll testing revealed several instances during December where full time employees worked an event and received the \$15 rate for the event at time and one half for the overtime. For example: Employee A worked 74 hours in the two-week pay period. In addition, Employee A worked 11.5 hours during the pay period on Civic Center events. He was paid 74 hours at his regular pay of \$8.50 per hour, 6 hours at the event premium rate of \$15 per hour and 5.5 hours at the premium rate and one half or \$22.5 per hour.

There were 27 hours worked at \$22.50 per hour for a cost of \$675.00 during the audit period. If the employees were paid at \$15 per hour the total amount paid would have been \$405.00 for a savings to the City of \$270.00.

Recommendation:

The Department should review the practice of paying a premium rate to employees who work a Civic Center event or limit it to only part-time employees.

Auditee Response:

Traffic Department

We Concur. The Traffic Department is going to limit civic center activities operational hours and limit the employment to part time employees.

National Garages, Inc.

The first payroll was calculated at \$22.50 per hour by mistake. Other than that they should all be at \$15 per hour.

Internal Auditor's Report

To the Committee on Accounts, Enrollment & Revenue Administration:

Internal Audit (IA) has audited the Statements of Revenues and Expenditures – Budget and Actual – General Fund of the City of Manchester NH Traffic Department, Canal and Victory Garages for the eight months ended February 28, 2002. The financial statements are the responsibility of the Traffic Department's (Department) management. IA's responsibility is to express an opinion on the financial statements based on its audit.

Except as discussed in the fourth paragraph, IA conducted its audit in accordance with audit standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that IA plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. IA believes that its audit provides a reasonable basis for its opinion.

As more fully discussed in NOTE 1, the financial statements referred to above are not intended to present the financial position of the Traffic Department, Canal and Victory Garages in the General Fund.

In IA's opinion, except for the matter discussed in the third paragraph, the financial statements referred to above presents fairly, in all material respects, certain financial activity of the Traffic Department, Canal Street and Victory Garages for the eight months ended February 28, 2002, in conformity with accounting principles generally accepted in the United State of America.

IA's audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, IA has also issued a report dated April 26, 2002 on its consideration of the Traffic Department's internal control over financial reporting and on its tests of compliance with certain provisions of laws, rules, regulations, and contracts.

Kevin M Buckley, CPA
Internal Audit Manager

April 26, 2002

**CITY OF MANCHESTER NH
TRAFFIC DEPARTMENT
CANAL STREET GARAGE**

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2002**

	<u>8 Month Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Revenues			
Monthly Leases	\$ 193,333	\$ 179,195	\$ (14,138)
Day Transient	154,000	100,164	(53,836)
Civic Center Events	-0-	3,270	3,270
Total Revenues	<u>\$ 347,333</u>	<u>\$ 282,629</u>	<u>\$ (64,704)</u>
Expenditures			
Contract Manpower	\$ 128,304	\$ 112,427	\$ 15,877
Utilities	22,568	24,440	(1,872)
Contract Work	12,823	16,625	(3,802)
Management Services	4,000	4,000	-0-
Maintenance and Repairs	9,867	5,287	4,580
Service Agreements	1,667	1,517	150
Printing and Duplicating	1,667	4,425	(2,758)
Other Expenditures	2,743	2,761	(18)
Total Expenditures	<u>\$ 183,639</u>	<u>\$ 171,482</u>	<u>\$ 12,157</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 163,694</u>	<u>\$ 111,147</u>	<u>\$ (52,547)</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF MANCHESTER NH
TRAFFIC DEPARTMENT
VICTORY GARAGE**

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2002**

	<u>8 Month Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Revenues			
Monthly Leases	\$ 308,833	\$ 269,856	\$ (38,977)
Day Transient	194,667	112,490	(82,177)
Civic Center Events	-0-	10,229	10,229
Total Revenues	\$ 503,500	\$ 392,575	\$ (110,925)
Expenditures			
Contract Manpower	\$ 166,625	\$ 136,988	\$ 29,637
Utilities	21,035	22,388	(1,353)
Contract Work	2,000	2,258	(258)
Management Services	8,360	8,360	-0-
Maintenance and Repairs	10,030	7,918	2,112
Service Agreements	3,467	5,414	(1,947)
Printing and Duplicating	1,000	3,597	(2,597)
Other Expenditures	3,447	6,305	(2,858)
Total Expenditures	\$ 215,964	\$ 193,228	\$ 22,736
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 287,536	\$ 199,347	\$ (88,189)

The accompanying notes are an integral part of this financial statement.

**CITY OF MANCHESTER NH
TRAFFIC DEPARTMENT
COMBINED CANAL STREET AND VICTORY GARAGES**

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2002**

	<u>8 Month Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Revenues			
Monthly Leases	\$ 502,166	\$ 449,051	\$ (53,115)
Day Transient	348,667	212,654	(136,013)
Civic Center Events	-0-	13,499	13,499
Total Revenues	\$ 850,833	\$ 675,204	\$ (175,629)
Expenditures			
Contract Manpower	\$ 294,929	\$ 249,415	\$ 45,514
Utilities	43,603	46,828	(3,225)
Contract Work	14,823	18,883	(4,060)
Management Services	12,360	12,360	-0-
Maintenance and Repairs	19,897	13,205	6,692
Service Agreements	5,134	6,931	(1,797)
Printing and Duplicating	2,667	8,022	(5,355)
Other Expenditures	6,190	9,066	(2,876)
Total Expenditures	\$ 399,603	\$ 364,710	\$ 34,893
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 451,230	\$ 310,494	\$ (140,736)

The accompanying notes are an integral part of this financial statement.

**CITY OF MANCHESTER NEW HAMPSHIRE
TRAFFIC DEPARTMENT
CANAL STREET AND VICTORY GARAGES**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Canal Street and Victory Garages (the Garages) are under control of the City of Manchester Traffic Department (the Department). The financial statements of the Garages have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Garages are an organization of the primary government of the City of Manchester, NH (the City). The accompanying financial statement reports certain financial activity of the Garages. The financial activity of the Garages is accounted for in the General Fund in the City's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the City as a whole in the CAFR. The Garages, as an organization of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Garages cannot be determined. Accordingly, the accompanying financial statement is not intended to show the financial position of the Garages in the General Fund and the change in the fund balance is not reported on the accompanying financial statement.

B. Basis of Presentation – Fund Accounting

The City uses funds and account groups to report on financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation – Fund Accounting (Continued)

Governmental Fund Types

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. All revenues, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Account Groups

General Fixed Assets

General fixed assets acquired for use by the Garages for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of February 28, 2002, the Garages had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records of \$9,684,992. Donated fixed assets are recorded at fair market value at the time donated.

C. Measurement Focus And Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the City accounts for its financial transactions relating to the General Fund on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

D. Budgets and Budgetary Accounting

Pursuant to the City's Charter, Section 6.01, the City adopts an annual budget for all General Fund functions. The legal level of budgetary control is the department level.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting (Continued)

All portions of the annual City budget are prepared under the direction of the Mayor. The Mayor establishes the procedures applicable to the preparation and adoption of the annual budget. Budgets include all proposed expenditures and the proposed use of all anticipated revenues. All departments, agencies, and officers submit detailed statements of departmental budget requests to the Mayor per established procedures.

The Mayor develops budget recommendations on appropriations and revenues and submits the recommendations to the Board of Mayor and Aldermen (BMA) on or before the last day of March of each year. Departmental appropriations are made on a bottom-line basis. Benefits and non-departmental items are appropriated apart from the departmental budgets.

The Finance Committee of the BMA reviews the proposed budget recommendations presented by the Mayor. The BMA may increase, reduce or reject any item in the budget submitted by the Mayor. A public hearing is required to be conducted. A majority vote of the BMA is required to adopt the budget appropriation resolutions and is to be completed not later than the second Tuesday in June. The Mayor has line item veto authority.

If the BMA fail to adopt appropriation resolutions, the budget, as originally submitted by the Mayor, shall become the budget.

If during the fiscal year the Mayor certifies, after consultation with and verification by the Finance Officer, that there are available for appropriation revenues in excess of those estimated in the budget, the BMA may make supplemental appropriations for the year up to the amount of such excess, after observing the budget procedures set forth in section 6.04 of the City Charter. There were no additional appropriations during the audit period.

If at any time during the fiscal year it appears probable to the Mayor, after consultation with and verification by the Finance Officer, that the revenues or fund balances available will be insufficient to finance the expenditures for which appropriations have been authorized, the Mayor shall report to the BMA without delay, indicating the estimated amount of the deficit, any remedial action taken by the Mayor and recommendations as to any other steps to be taken. The BMA shall then take such further action as it deems necessary to prevent or reduce any deficit and for that purpose it may reduce one or more appropriations.

The legal level of budgetary control is established by object categories within the departmental budgets. The Finance Officer prior to approval of the BMA must approve departmental budget transfers from one object category to another. The Finance Officer is responsible for establishing controls related to the management and monitoring of the budget to prevent expenditures from exceeding budgeted appropriations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting (Continued)

Encumbrance accounting is employed in governmental funds. On the GAAP basis, encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

The City employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statements of Revenues and Expenditures - Budgetary Basis, presents the “actual” results to provide a comparison with the budgets.

The major differences between the budgetary basis and the GAAP basis are:

- (a) Tax revenues are recorded when invoiced (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no firm liability exists.

Variance – Favorable/(Unfavorable)

The variance column on the Statement of Revenues and Expenditures – General Fund highlights differences between budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget generating a favorable variance or actual revenue being less than budget generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

When statements are presented at an interim date other than a June 30 fiscal year end, the variance reflects the difference between the prorated budget period amount, eight months in the case of these General Fund statements, and a partial years actual revenue and expenditures. Thus, for the eight month financial statement dated February 28, 2002, the budget amount reflects eight twelfths of the appropriated annual budget. Some expenditures and revenues take place during a specific period of time during the course of a fiscal year. This could cause temporary large negative or positive variances that would not occur had an entire year been presented or show a small variance where had an entire year been presented a large variance would have shown.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting (Continued)

The budgeted amount for Civic Center Events is for all parking areas across the City and the amount attributable to a specific garage cannot be accurately determined.

Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services the encumbrance is liquidated and the expenditure or liability are recorded. The Department did not record any unliquidated encumbrance for the Garages at June 30, 2001 or February 28, 2002.

NOTE 2 - FIXED ASSETS – GENERAL

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Interest costs incurred during construction are not capitalized. Assets in the General Fixed Assets Account Group are not depreciated. The following is a schedule of equipment balances and activity reported by the Traffic Department that are attributable to the Garages for the 8 months ended February 28, 2002.

	LAND	BUILDINGS	EQUIPMENT	TOTAL
Canal Street Garage				
Balance at July 1, 2001	\$ 675,223	\$ 5,750,875	\$ 18,185	\$ 6,444,283
Additions	-0-	-0-	-0-	-0-
Deletions	-0-	-0-	-0-	-0-
Balance at February 28, 2002	\$ 675,223	\$ 5,750,875	\$ 18,185	\$ 6,444,283
Victory Garage				
Balance at July 1, 2001	\$ 106,250	\$ 3,082,709	\$ 51,414	\$ 3,240,709
Additions	-0-	-0-	-0-	-0-
Deletions	-0-	-0-	-0-	-0-
Balance at February 28, 2002	\$ 106,250	\$ 3,082,709	\$ 51,414	\$ 3,240,709

NOTE 3 - EMPLOYEE BENEFIT PLANS

All full-time employees of the City participate in one of the City's pension plans or the New Hampshire Retirement System ("NHRS").

City Plans

The vast majority of employees of the City participate in the City's pension plan known as the New System. Certain employees of the City participate in a prior pension plan known as the Old System. In addition, a limited number of former police and fire department employees covered by the NHRS also qualify for supplementary benefits that are administered and paid for by the City.

New System

In 1974, the City established a single-employer public employee retirement system (the "New System") to provide pension benefits to employees other than firefighters, police officers, teachers and employees previously covered under the "Old System" described below. Manchester School District administration employees are covered under this plan.

All covered employees hired after January 1, 1974 are required to participate in the New System as a condition of employment. Employees are 100% vested after five years of service. The retirement benefit is calculated at 1-1/2% of average total compensation during the highest three years of service in the last ten years of service (hereafter average compensation), multiplied by the years of service prior to January 1, 1999 plus 2% after January 1, 1999 of average compensation multiplied by the years of service after January 1, 1999. There is a minimum benefit of 50% of average compensation for employees hired prior to January 1, 1974 who complete 20 years of service and attain age 62 before retirement or have combined age and years of service over specified amounts. All eligible employees are required to contribute 2-1/2% of their salaries to the New System prior to January 1, 1999 and 3-3/4% of their salaries after January 1, 1999. If an employee leaves covered employment or dies before five years of service, accumulated employee contributions and earnings thereon at rates determined annually by the New System Board of Trustees (5%, for the periods ended June 30, 2001 and 2000) are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefit provisions and contribution requirements are established by the City and may be amended only by the BMA, subject to approval of the voters of the City through referendum.

The City's plans, by policy, (i) require annual actuarial valuations, with yearly updates, and (ii) require annual City contributions based on actuarial determinations. During the year of actuarial valuation, the City has historically contributed the annual required contribution ("ARC") of the pension plan. Any difference between the ARC and the actual contribution made has been settled by the next actuarial valuation date, and thus the City has never actually had, or had need to report, a net pension obligation ("NPO").

NOTE 3 - EMPLOYEE BENEFIT PLANS (Continued)

Investments are reported at fair value based on quoted market rates. Investment income is recognized as earned. Gains and losses on sales and exchange of investments are recognized on the transaction date.

Old System

Prior to January 1, 1974, all eligible City employees participated in the Old System, a single employer contributory public employee retirement system (PERS). All employees hired before January 1, 1974 were given the option to remain in the Old System or participate in the New System. The Old System was replaced by the New System and only operates to cover the remaining participants. All employees covered under the Old System are fully vested. Benefits under the Old System are limited to retirement benefits without death benefits to survivors.

NHRS Related Supplementary Benefits Plan

The City pays supplementary benefits of up to 50% of the last annual wage for any City employee, who participates in the NHRS, was hired before June 30, 1972, and does not receive a pension benefit from the NHRS equal to at least 50% of the last annual wage. These costs are accounted for on a pay-as-you-go basis in the general fund.

NOTE 4 – LIABILITY FOR LEASE DEPOSITS

The Garages lease space to customers on a monthly basis and certain City employees are allowed parking privileges by issuing a pass card to use at the gates. Every person who is issued a card is required to pay a refundable \$20 security deposit on the pass. The collection of the fee is accounted for as revenue and its subsequent reimbursement as expenditures in the HTE system. The City recognizes the liability in its balance sheet for security deposits held based on an estimate of the number of pass cards outstanding at year-end. The balances on the City's books for security deposits held at the Canal and Victory Garages at February 28, 2002 were \$7,960 and \$11,760 respectively.

NOTE 5 – GENERAL LONG-TERM DEBT

The debt service requirements of the City's outstanding general obligation bonds payable relating to construction of the Canal Street Garage and the 1994 addition to the Canal Street Garage at February 28, 2002 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ -0-	\$ 7,238	\$ 7,238
2003	266,169	84,107	350,276
2004	246,787	64,670	311,457
2005	249,031	52,829	301,860
2006	87,759	44,754	132,513
2007	90,517	41,299	131,816
Thereafter to Maturity	\$ 987,284	\$ 197,515	\$ 1,184,799
Total General Long-Term Debt	\$ 1,927,547	\$ 492,412	\$ 2,419,959

The full faith credit and revenue raising powers of the City have been pledged to secure these bonds.

EXHIBIT A

CENTRAL PARKING RESPONSE TO REPORT