

**NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL**

**REVIEW OF THE
KING STREET STATION
PARKING GARAGE**

Report #OIG-04-07 December 8, 2004



**Herbert S. Yolles
Inspector General**

Released By:

**William A. DeSarno
Deputy Inspector General for Audits**

Auditor-in-Charge:

**Charles E. Funderburk, CPA
Senior Auditor**

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	1
BACKGROUND	3
REVIEW PROCEDURES	4
Purpose and Objectives	4
Scope and Methodology	4
REVIEW RESULTS	6
Parking Garage Net Income has Steadily Declined	6
Internal Controls Over Parking Garage Income and Expenses Are Weak	6
NCUA Appears to be Receiving Its Appropriate Share of Reported Parking Garage Net Income	11
Parking Garage Contract Terms Appear Reasonable but Clarification and Additional Terms Are Needed to Protect NCUA's Interests	13
Agency and Contractor Comments	14
APPENDIX	
Management Advisory Report, September 25, 2003	

EXECUTIVE SUMMARY

The King Street Station complex consists of four office buildings, a hotel and retail/restaurant building. In 1996, the five owners of building space in the King Street Station complex, including the National Credit Union Administration (NCUA), by and through Carr Real Estate Services, Inc. (CRES), as the owner's representative, entered into a Parking Management Agreement (PMA) with Colonial Parking, Inc. (Colonial) for Colonial to serve as the garage operator. Each of the five owners is entitled to one vote on matters pertaining to the parking garage operation.

Net income resulting from parking garage revenue is divided among the five complex owners according to the percentage of parking garage space owned by each. These interests range from a low of 3.54 percent to a high of 32.72 percent, the latter representing NCUA's share. As the party with the largest ownership interest in the parking garage, NCUA has a greater financial incentive to assume a leadership role in negotiating any changes to or improvements of the parking garage operations. In tandem with assuming an enhanced leadership role, NCUA should more actively and persistently monitor the parking garage operations and the parties' overall compliance with the contracts governing garage management and operations.

In 2002, the NCUA Chief Financial Officer expressed concern to the Inspector General that revenue reports for the parking garage, for the previous five years, had shown a declining net income trend. In response to this concern and because the Office of Inspector General (OIG) had never reviewed or audited the parking garage operations, we decided to conduct this audit. Our four main objectives were to (1) determine whether the Office of the Chief Financial Officer's (OCFO) identification of a declining income trend for parking garage revenue was valid; (2) assess internal controls over the parking garage income and expenses; (3) determine whether NCUA received its correct share of parking garage net income during the period covered by the audit; and (4) review the reasonableness and current applicability of the parking garage contracts and agreements.

Our review encompassed the years 1998 through 2002. We reviewed the PMA, the Parking Operations Agreement, and interviewed personnel from NCUA, Colonial, and CRES. We also performed an extensive review of the documents provided by NCUA, Colonial, and CRES. (See page 4 for additional information on our scope and methodology.)

Early in this engagement, OCFO performed and provided to us some basic analyses suggesting an alarming decline in parking garage net income since 1998. Our review and analysis supported a declining trend, but demonstrated a flatter, less dramatic decline in garage net income than reported by OCFO. (See page 6.)

Overall, we found that weak NCUA internal controls and inadequate oversight of Colonial's financial reporting unnecessarily exposed the NCUA to potential fraud, waste, and abuse. Because of Colonial's inconsistent and incomplete reporting, it was not possible to identify the dollar amount of revenue, if any, that went either uncollected or was not properly remitted to the NCUA. (See page 6.)

Our review of the income and expense reports provided during the course of this audit indicated that NCUA has been receiving its correct share of reported parking garage income. However, we are unable to conclude that this determination is reliable because of the internal control weaknesses noted in the report. Specifically, the documentation we acquired and reviewed was incomplete or inadequate with regard to: (1) free or discounted parking permits which the owners had not approved; (2) documentation to verify that the owners are receiving their appropriate share of interest income; and (3) third party documentation to support some of Colonial's reported expenses. (See page 11.)

The contract terms we reviewed relating to the King Street Station Parking Garage appear reasonable. However, there are some contractual areas which should be addressed to clarify garage operating practices and/or to reduce risk exposure to NCUA and the other parking garage owners. Unclear contract terms could lead to increased risk exposure to NCUA and the other parking garage owners and may impact NCUA's ability to hold Colonial accountable for parking discrepancies, initiate monetary recoveries, and negotiate contract adjustments. (See page 13.)

The report includes 13 recommendations to assist NCUA in its oversight and monitoring of parking garage operations. In general, NCUA needs to view and treat the parking garage operation as a financial business entity, exercising the same due diligence and management oversight as it does over its other financial entities. The key recommendation presented in this report is for NCUA to officially designate a qualified contracting officer's technical representative (COTR), with the appropriate financial expertise, to administer and monitor the parking garage contract. In responding to a draft of this report, NCUA's Chief Financial Officer informed us that he has already appointed the Deputy Financial Officer in OCFO's Division of Financial Control as the COTR for this contract.

BACKGROUND

The below grade parking garage facility located at King Street Station, Alexandria, Virginia, services the NCUA (1775 Duke Street) as well as the following properties: 1900 Diagonal Road, 1800 Diagonal Road, 225 Reineker's Lane, 1725 Duke Street, and 1755 Duke Street (the King Street Station complex). The King Street Station complex consists of four office buildings, a hotel and retail/restaurant space. A below grade parking garage was included in the construction of the new complex, consisting of three levels, 1,186 parking spaces, and spanning the entire complex. In September 1993, the NCUA Central Office and Region II regional office relocated to the new office building.

On May 28, 1996, the five owners of building space in the King Street Station Complex, including NCUA, by and through Carr Real Estate Services, Inc. (CRES) as the Owner's Representative, entered into a Parking Management Agreement (PMA) with Colonial Parking, Inc. (Colonial) for Colonial to serve as the garage operator. The PMA incorporated by reference an earlier agreement concerning the parking garage—the Parking Operations Agreement (POA), dated February 28, 1990.¹ Colonial continues to serve as the operator of the King Street Station complex's parking garage.

In general, the PMA requires Colonial to do the following:

- Operate, manage, and maintain the parking garage facility in accordance with the terms of the POA;
- Bill and collect all revenues due with regard to the operation of the garage facility and promptly deposit them in an interest bearing account;
- Maintain an accurate and efficient accounting system, and keep complete and accurate records of all receipts and disbursements;
- Pay to each owner, each month, its proportionate share of the net distributable income; and
- Submit to the Owners a proposed annual operating budget.

The initial term of the PMA was for 36 months, after which the agreement was to remain in effect from month-to-month unless terminated by either party. The agreement currently continues on a month-to-month basis.

Ownership interest is divided among the five building owners according to the number of parking garage spaces owned and ranges from a low of 3.54 percent to 32.72 percent for NCUA. Therefore, while NCUA is only one of five owners, it has the largest financial interest in the parking garage.

Effective October 8, 2003, the owners agreed to empower a board of directors, consisting of one representative for each of the five owners, to act on their behalf on all matters.

¹ Although NCUA was not an original party to the POA, because it was incorporated into the PMA its terms apply to NCUA.

REVIEW PROCEDURES

Purpose and Objectives

In 2002, the NCUA Chief Financial Officer expressed concern to the Inspector General that revenue reports for the parking garage, for the previous five years, had shown a declining net income trend. Partially in response to this concern, but also because the Office of Inspector General (OIG) had never reviewed or audited the parking garage operations, we decided to conduct this audit. Our four main objectives were to:

- I. Determine whether the Office of the Chief Financial Officer's (OCFO) identification of a declining income trend for parking garage revenue was valid;
- II. Assess internal controls over the parking garage income and expenses;
- III. Determine whether NCUA received its correct share of parking garage net income during the period covered by the audit; and
- IV. Review the reasonableness and current applicability of the parking garage contracts and agreements.

Scope and Methodology

Our review encompassed the years 1998 through 2002. We reviewed the contracts mentioned above and interviewed personnel from NCUA, Colonial, and CRES. We also performed an extensive review of the documents provided by NCUA, Colonial, and CRES.

We compared and analyzed NCUA's and Colonial's reporting of garage net distributable income due to NCUA. We reviewed NCUA's reporting of garage income for agreement with Colonial's reporting of Net Distributable income and for proper and consistent reporting of garage income and expenses.

We gained an understanding of the garage financial work processes and, to some extent, the internal controls in place related to those work processes. We limited our internal control testing to NCUA, Colonial and CRES interviews, and reviews of supporting documentation (primarily garage reports and expense supporting documentation) for irregularities.

With regard to NCUA's share of parking garage net income, we reviewed income and expense reports and supporting documentation. We traced reported garage income and expenses to supporting documentation; performed trend, comparative, relationship, variance and reasonableness analyses on such supporting documentation; and recalculated and traced net distributable income due to NCUA.

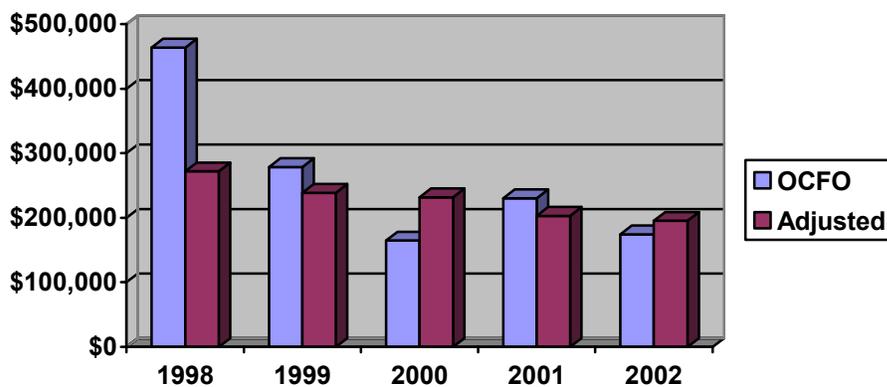
Our review of the contracts and agreements governing the parking garage operations focused on the parties' compliance with and reasonableness of the contract terms and the potential for conflicts of interest.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards, except for the limited testing performed on internal controls as discussed above.

REVIEW RESULTS

I. Parking Garage Net Income has Steadily Declined

Early in this engagement, OCFO performed and provided to us some basic analyses suggesting an alarming decline in parking garage net income since 1998. Our review and analysis supported a declining trend, but demonstrated a flatter, less dramatic decline in garage net income than reported by OCFO. The chart below reflects the difference between OCFO's garage net income analysis and our adjustments to that analysis:



The basis for the differences noted in the chart above, were due to NCUA recordkeeping inconsistencies. For instance:

- Parking income and expenses were not consistently reported in the cost elements prior to 1999.
- The 1998 garage general ledger account did not include NCUA monthly permit expenses, a significant portion of NCUA garage expenses included in subsequent years.
- Postings of year end garage net income accruals were inconsistently applied in each year.

Moreover, we found that the primary cause for the drop in net income in 1999 was the loss of a major tenant in the office complex, resulting in the loss of monthly permit revenue.

II. Internal Controls over Parking Garage Income and Expenses are Weak

Overall, we found that weak NCUA internal controls and inadequate oversight of Colonial's financial reporting unnecessarily exposed the NCUA to potential fraud, waste, and abuse. Because of Colonial's inconsistent and incomplete reporting, it was not possible to identify the dollar amount of revenue, if any, that went either uncollected or was not properly remitted to the NCUA.

A. NCUA Internal Controls

1. Contracting Officer's Technical Representative (COTR)

The Director, Division of Procurement and Facilities Management (DPFM) serves as NCUA's primary contracting officer (CO).² The CO is responsible for the general management and implementation of the NCUA procurement program. The NCUA Procurement Manual (March 2003) provides that the CO may designate an individual to serve as his or her COTR. According to the manual, the COTR "administers the technical components of the contract and is authorized to inspect supplies and services for sufficiency . . ."

The interviews and document reviews we conducted indicated that NCUA has never designated a COTR to administer and monitor the parking garage contract. In recent years, a DPFM administrative staff employee has acted as a COTR to this contract in an unofficial capacity.

Until 2003, NCUA had not been receiving any garage reports, other than the monthly Distributable Net Income statement and a wire transfer copy showing the monthly distributable net income paid to each owner. NCUA personnel did not review these two reports. Rather, DPFM administrative staff told us that NCUA relied upon CRES to monitor the financial operations of the garage. CRES confirmed that it acts not only as the owners' representative but also as reviewer of garage operations. For this reason, CRES stated that it saw no need to distribute other garage reports to NCUA. However, as discussed below, we noted irregularities in the garage reports, questionable reimbursed operating expenses, and a lack of documented owner approval for parking programs and rates charged.

We realize that NCUA is only one of five owners and consequently receives only one vote regarding the operation of the parking garage. Contract terms and conditions are worked out as part of the agreement with all of the owners, not just NCUA. However, by not officially assigning a contract COTR and outlining his or her duties and responsibilities, NCUA increases the risk that the garage contract will not be monitored properly.

Recommendation 1: *The NCUA CO should officially designate a qualified COTR, with the appropriate financial expertise, to administer and monitor the parking garage contract.*

2. Colonial Budget

The PMA requires Colonial to submit to the owners and CRES a proposed annual operating budget on or before September 1 of each year. Our review indicated that while Colonial submits annual budgets to CRES, it does not distribute them to the owners. CRES subsequently reviews and discusses this budget with Colonial. During the period from 1999 to 2002, NCUA neither received nor reviewed Colonial's annual budget.

Consequently, in order for NCUA to plan for its own annual budget for these years, it relied on budget information it received from CarrAmerica, the contractor with responsibility for NCUA's overall building and facilities management. In its annual budget, CarrAmerica routinely

² DPFM is a constituent office within OCFO.

included a single line item of budgeted net profit or loss for garage distributable net income. Our review of both budgets for the years 1999 to 2003 revealed that CarrAmerica's projected annual budgets for this line item differed from Colonial's annual projections for the same years. CRES explained that this difference is attributable to CarrAmerica's earlier submission of its budget projections.

By not receiving an annual detailed budget from Colonial, NCUA is unable to assess the reasonableness of projected garage financial operations.

Recommendation 2: *NCUA should insist on receipt, by September 1 of each year, of Colonial's annual budget. NCUA should also review both Colonial's budget and the facilities management budget for reasonableness and amend the facilities management budget for any material differences.*

B. NCUA's Oversight of Colonial Financial Reporting

While we did not conduct a complete audit of Colonial's internal controls, our review unavoidably encompassed numerous financial reporting issues that directly affected NCUA's overall ability to monitor the parking garage contract.

1. Generally Accepted Accounting Principles

Colonial revenue and expense transactions are identified in the accounting system by garage location code. The accounting method used by Colonial is cash basis for revenue and modified accrual basis for expenses. This is an inconsistent application of the matching (revenue and expense) principle of accounting.

Recommendation 3: *NCUA should request that the garage operator adhere to generally accepted accounting principles in recording and reporting garage revenues and expenses.*

2. Revenue Reporting

Overall, we noted frequent hand written adjustments to Colonial computer generated reports, discrepancies between related reports, and outright errors in others.

For example, we noted differences between Colonial and CRES' respective Monthly Client Listing report, which lists monthly permit holders, the number of permits issued, and amounts charged.

We also noted unaccounted for handwritten adjustments to, errors in, and/or differences between Colonial and CRES's respective versions of the following reports:

- Unpaid Monthly Account report, which lists all monthly permit clients who are past due on their accounts;
- Managers Monthly Activity report, which shows daily ticket and cash receipt activity for daily/transient clients, validation and preferred parker program;

- Posted Daily Income report, which records monthly the number of tickets and dollar sales for daily transient parkers;
- Validation Income report, which lists the monthly validation sticker sales by client; and
- Preferred Parker report, which records by client the monthly preferred parker income.

Therefore, it appears as though garage reporting internal controls are weak, calling into question the accuracy and reliability of such reports.

Recommendation 4: *NCUA should review all reports for sufficiency, completeness, and consistency, and notify CRES of any discrepancies for prompt correction.*

3. Monthly permit information

Because ninety percent of garage revenue is derived from monthly permits, we reviewed in detail the monthly permit process. Colonial initially accepts monthly permit customer applications (from owners, tenants, and non-tenants) either on-site at the garage or through Colonial’s website. Colonial garage on-site staff or Colonial headquarters staff subsequently mail permits and keycards to customers. Colonial produces and distributes to CRES a Monthly Client Listing, which lists the monthly permit holder account billings.

We obtained copies of the Monthly Client Listing reports which were provided to CRES for the period of our audit. We subsequently obtained copies of the Monthly Client Listing reports directly from Colonial for the same period. Our review found that neither of the reports accounted for all the sequentially numbered accounts which had been assigned. We also found that the number of monthly permits identified on the Monthly Client Listing reports differed between the reports CRES and Colonial provided. Additionally, the number of permits charged under the Monthly Bills and Tickets expense did not agree with either of the Monthly Client Listing reports provided by Colonial or CRES.

Because all the sequentially numbered accounts were not listed and, further, because there were discrepancies between various Colonial reports with regard to the number of monthly permits issued for any given month, we were unable to determine the total amount of billed monthly permit revenue.

Recommendation 5: *NCUA should require that Colonial provide a monthly report which lists all the permit billings for that month as well as all sequentially numbered account holders.*

4. Parking rates

With regard to parking rate increases, the contract requires that at least four of the five owners must approve the monthly parking rates at the time Colonial’s annual budget is approved. NCUA officials told us that while Colonial notified OCFO of scheduled parking rate increases, neither Colonial nor CRES sought NCUA’s prior approval. CRES indicated that, upon receiving the budget, CRES discussed the proposed rate increases with as many owners as possible and made the final approval decision itself based upon any input the owners offered.

Recommendation 6: *NCUA should seek advance notice of proposed parking rate increases prior to receipt of Colonial's annual budget and require documentation as to owner approval of parking rates.*

5. Daily traffic logs

Besides monthly parking, the parking garage accommodates visitors seeking daily parking or hourly parking at a prorated fee. Colonial is responsible for issuing hourly/daily parking tickets and tracking incoming and outgoing traffic for each booth in a daily traffic log.

By scanning the traffic log for the period of October 1, 1998, through December 31, 2002, we noted at least 71 errors. We found gates and shifts where the traffic counters were reset. The closing traffic count by gate in most cases did not agree to the opening traffic count for the next day. This may be due in part because the garage is not staffed 24 hours a day.

With regard to the daily fee collection, Colonial provided only one daily ticket account report dated December 31, 2002. This report had one booth/shift report missing and we were unable to trace miscellaneous tickets to any report. Additionally, Colonial does not provide a monthly report listing the total number of tickets used.

Due to the irregularities noted in the traffic log and sampled daily shift report, along with the absence of a monthly total ticket report, we were unable to assess the reasonableness of ticket parking activity.

Recommendation 7: *NCUA should require Colonial to provide a monthly summary ticket report accounting for all tickets used by type (daily, validated, preferred parker, void etc.).*

6. Validation program and Preferred parker program

Colonial sells validation stickers to building owners or tenants which can be used to provide free parking for their customers or clients. In addition to stickers, Colonial has also provided two restaurants in the King Street Station with a rubber stamp for validations good for three hours of free parking. Colonial's preferred parker program consists of a card Colonial provides to its preferred parker clients which can be used to park at any Colonial garage. Clients are billed, at a discounted rate, by Colonial for the parking charges on the card.

While the rates charged for parking validation stickers are the same as the hourly parking rates, the separate King Street Station complex owners had different and at times inconsistent validation issuance policies. There was no documented evidence that the owners had approved any validation programs. In addition, some tenants had unauthorized validation programs whereby visitors did not pay for parking at all.

With regard to the preferred parker program, it appears that Colonial instituted this program without the approval or participation of the complex owners.

Recommendation 8: *NCUA should consult with the other complex owners regarding approving a validation program with consistent terms and conditions and, subject to the approval of the owners, a preferred parker program. In the meantime, NCUA should consult with CRES regarding the cessation of the preferred parker program.*

III. NCUA Appears to be Receiving its Appropriate Share of Reported Parking Garage Net Income

Our review of the income and expense reports provided during the course of this audit indicated that NCUA has been receiving its correct share of reported parking garage income. However, we are unable to conclude that this determination is reliable because of the internal control weaknesses noted above. Specifically, the documentation we acquired and reviewed was incomplete or inadequate with regard to the following:

- Colonial and/or CRES may be disbursing or retaining free or discounted parking permits which the owners have not approved;
- The owners are not receiving their appropriate share of interest income based on actual garage gross receipts because Colonial is not depositing garage receipts in an interest bearing account; and
- We found a lack of third party documentation to support some of Colonial’s reported expenses. Moreover, other expenses may not be allowable under the garage agreements.

A. Unsupported Free Parking—Colonial and CRES

According to the POA, Colonial can issue additional parking permits after the owners receive their allocation of monthly parking permits. There is no provision for CRES to have free parking spaces. Colonial and CRES staff informed us that Colonial receives five free parking spaces, while CRES reserves for its free use nine spaces.

During our review, we requested that Colonial and CRES provide us with documentation supporting these free parking arrangements. Documents from Colonial show that its free parking spaces appear on the Monthly Client Listing reports it generates. CRES, on the other hand, indicated that there is no agreement or report to support and document its self-allotment of spaces. Rather, CRES informed us, it was the industry practice for owners’ representatives to claim free parking.

Recommendation 9: *NCUA needs to formally clarify with the other owners and with Colonial and CRES how many parking spaces should be provided to Colonial and/or CRES and whether any of these spaces should be at no charge.*

B. Hotel Parking Revenue

Our review indicated that, while the hotel is entitled under the contract to 150 reserved parking spaces, it must pay the monthly reserved parking rate for them. We determined that the hotel has paid less than the monthly reserved parking rate for the years under our review. We were unable

to find any documented owner approval to support this discounted parking rate. We estimated that the lost income to NCUA from July 1999 to December 2002 was \$53,833. We calculated the difference between the tenant reserved space charges and the actual amounts paid by the Hotel for the 42 month period stated above. We then multiplied this figure by the number of allocated spaces for the Hotel. The resulting figure of \$164,527 was then factored by NCUA's ownership interest percentage to arrive at \$53,833 in lost income.

Recommendation 10: NCUA should consider whether to pursue recovery of its prorated share of the income lost on the hotel's arrangements, in the amount of \$53,833 as well as rectify this situation.

C. Interest Income

According to the PMA, Colonial is required to deposit gross receipts into an interest bearing account with the interest accruing to the owners. We found that Colonial is not depositing garage receipts in an interest bearing account. Colonial informed us that this is because banks do not want to set up interest bearing accounts.

A calculation based upon the garage average monthly income times the estimated prevailing market interest rates indicates that the garage lost approximately \$12,032 in interest income for the years 1998 through 2002. NCUA's estimated share of this amount is \$3,940. The total estimated lost interest income was calculated by using the average monthly gross receipts times the prevailing average savings account interest rate.

With regard to the accounts the revenue is deposited into, we found that Colonial uses several bank accounts for parking garage receipts and disbursements. All but one of these accounts has commingled receipts and/or disbursements with Colonial garage operations located elsewhere.

Recommendation 11: NCUA should require Colonial, pursuant to the PMA, to deposit all garage gross receipts in an interest bearing account, disburse the interest accruing to the owners, and ensure that no future commingling occurs.

D. Expenses Incurred by Colonial

Overall, Colonial provided inadequate records with regard to employee non-productive wages, benefits, taxes, and insurance, for us to determine whether these expenses were being properly incurred. For example, non-productive wages, benefits and taxes, and insurance expenses are charged as a percentage of wages, as opposed to their actual cost. Moreover, we disagreed with Colonial that the following should be considered legitimate and allowable operating expenses:

- Accounting expenses – The monthly charges from 1999 to 2002 for daily deposit costs; statement preparation and wire transfers; totaling \$12,012 for the garage (\$3,930 NCUA portion) could be interpreted as disallowed by the PMA as administrative and overhead expenses;
- Trash and Janitorial expenses – Monthly Colonial billings from April 2000 to December 2002 exceeded the cleaning subcontractor charges by \$4,613 (\$1,509 NCUA portion);

- Supplies – Water and water cooler rental (monthly from February 1999 to December 2002 totaling \$4,462), courier services (monthly from February 2000 to December 2002 totaling \$455), Colonial billing processing fees (beginning in December 2001 totaling \$164), refreshments (four instances totaling \$64), and unsupported supply expense documentation (14 charges totaling \$9,033) could be interpreted as disallowed expenses according to the PMA; and
- Modem and fax charges – These charges, averaging \$40 per month, are not listed as allowed telephone operating expenses according to the PMA.

Recommendation 12: NCUA should require that Colonial maintain accurate and up to date records of employee wages, non-productive wages, benefits, taxes, and insurance. Further, NCUA should decide, in conjunction with the other owners, which expenses constitute valid garage operating expenses and whether to seek reimbursement for charges it considers disallowed.

IV. Parking Garage Contract Terms Appear Reasonable But Clarification and Additional Terms Are Needed to Protect NCUA’s Interests

The contract terms we reviewed relating to the King Street Station Parking Garage appear reasonable. However, there are some contractual areas which should be addressed to clarify garage operating practices and/or to reduce risk exposure to NCUA and the other parking garage owners. During our audit we issued a Management Advisory Report (MAR) (see Appendix), Report #OIG-03-09, on September 25, 2003, discussing the terms of both the POA and the PMA, and that report is incorporated herein.

In general, while we concluded in our MAR that the overall terms of the contract were reasonable, we found that it lacked completely or did not contain sufficiently clear contract terms on numerous issues, including but not limited to the following:

- Termination dates
- Conflict of interest clause
- CRES compensation
- CRES’ authority
- Revenue report distribution to owners
- Validation programs
- Late payment penalties
- IG access clauses

Unclear contract terms could lead to increased risk exposure to NCUA and the other parking garage owners and may impact NCUA’s ability to hold Colonial accountable for parking discrepancies, initiate monetary recoveries, and negotiate contract adjustments.

Recommendation 13: NCUA should review the PMA and the POA to decide, in consultation with the other owners, whether the contracts should be updated, clarified, or revised.

Agency and Contractor Comments

We provided a draft of our report to NCUA's Office of the Chief Financial Officer (OCFO); Carr Real Estate Services (subsidiary of CarrAmerica); and Colonial Parking (Colonial).

We received detailed and constructive comments from OCFO and have made appropriate changes throughout the report to address their comments. With respect to our main recommendation (#1) that the Chief Financial Officer (CFO) designate a qualified Contracting Officer's Technical Representative (COTR) to administer and monitor the parking garage contract, the CFO has already appointed the Deputy Financial Officer/NCUA in OCFO's Division of Financial Control, or his designated representative to be the COTR.

In responding to our draft report, CarrAmerica sought to clarify an observation made in our Management Advisory Report (MAR), dated September 25, 2003, and attached as an appendix to the draft "Review of the King Street Station Parking Garage" report (Report #OIG-04-05). Specifically, CarrAmerica stated that "neither CarrAmerica, Carr Real Estate Services (an affiliate of CarrAmerica) or any of its affiliates, has any ownership interest in any of the properties that comprise King Street Station." CarrAmerica was responding to the following observation in our MAR: "[i]t is our understanding that the Carr Company and /or related entities have an interest in three of the six owners currently receiving garage distributable income." At the time we issued the MAR, we relied upon information that we had obtained during our then-ongoing review from CarrAmerica, Colonial, and the NCUA, that appeared to provide contrary or incomplete descriptions of the different Carr entities and affiliates. We recognized at that time that further information and documents were forthcoming and, consequently, we intended the MAR as preliminary in nature. Indeed, for that reason we intentionally did not state that CarrAmerica, Carr Real Estate Services, or any of CarrAmerica's affiliates had an "ownership" interest in the properties with ownership interests in the parking garage.

In Colonial's response, they emphasized their position that the tacit approval of all budgets, and their adherence to them represent good faith actions conforming to fair industry standards and practices for allocating payroll related and other expenses. Colonial specifically mentioned that Preferred Parker programs are conducted solely at Colonial's risk, crediting the garage account as income whether Colonial is able to collect the fees from the customer or not. Finally, Colonial stated that it reported income on a cash basis at the request of the Owners. Colonial also stated that this is not their normal reporting methodology. Colonial said it considers its expense reporting to be "accrual" rather than "modified accrual."

**NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL**

**MANAGEMENT ADVISORY REPORT -
KING STREET PARKING GARAGE**

Report #OIG-03-09 September 25, 2003



**Herbert S. Yolles
Inspector General**

Released By:

**William A. DeSarno
Deputy Inspector General for Audits**

Auditor-in-Charge:

**Charles Funderburk, CPA
Senior Auditor**

TO: Dennis Winans, Chief Financial Officer

FROM: Herb Yolles, Inspector General
(OIG-03-09)

SUBJ: Parking Garage Management Advisory Report

DATE: September 25, 2003

PURPOSE

The Office of Inspector General is reviewing the NCUA Parking Garage to (1) assess the internal controls over the parking garage income and expenses; (2) determine whether NCUA is receiving its correct parking garage net income; and (3) assess the reasonableness of revenue variances and trends. In performing this review, we have a number of preliminary observations regarding the Parking Operations Agreement (POA) and the Parking Management Agreement (PMA). Since we understand that NCUA and the other Parking Garage owners have scheduled a meeting to discuss, among other things, these two agreements, we are providing our preliminary observations now, in the form of a Management Advisory Report, in order to provide timely information for your use at the scheduled owners' meeting. We will issue a final report on the results of our review at the conclusion of our detailed audit.

OBSERVATIONS

Parking Operations Agreement

1. The current agreement does not contain a termination date regarding the designation of the owners' representative. Section 14 states that "...the Carr Company shall continue to act in such capacity (owners' representative) as long as it is the Managing Partner of at least three of the Owners. The Owners shall select an Owners' Representative by a majority vote of three or more of the Owners." It is our understanding that the Carr Company and/or related entities have an interest in three of the six "owners" currently receiving garage distributable income.
2. The current agreement lacks a conflict of interest clause regarding the owners' representative. It is our understanding that a Carr company related entity manages some of the building properties, manages the common areas and manages some of the retail leases.
3. The current agreement does not state how or if the owners' representative will be compensated. However, the NCUA Facilities Management Contract lists the garage

owner's (NCUA only) representation as part of the Statement of Work. This contract is not in perpetuity, but is a five year contract.

4. There is no specific provision in the current agreement under what authority the owners' representative can bind the owners' to contracts and/or agreements. Section 14 states, "The Owners' Representative is authorized to communicate the approval and decision of the Owners and to submit to the Owners for their approval proposals of the Operator and proposals mutually agreed upon by the Operator and Owners' Representative." However, the agreement does not state if a majority of owners or all owners must agree to proposals. In addition, the agreement does not state that these proposals are to be put to writing.
5. There is no provision in the current agreement, that the owners' representative should maintain a list of current owners.
6. King Street Station Retail is currently receiving monthly parking garage distributable net income. This entity is not listed as an owner of the parking garage. If this entity is an owner, the number of parking garage owners would be six, not five as discussed in the agreement.
7. There is no provision in the agreement discussing the sale of ownership interest in the garage.
8. The current agreement (Section 7iii) lists the NCUA with an ownership interest, and hence distributable income percentage of 35.75%. The NCUA currently receives a 32.72% distributable income percentage.
9. The current agreement does not discuss when or how often owners' meetings will be conducted or whether owners' meeting minutes will be kept, put to writing and distributed to the owners. It is our understanding that scheduling of owners' meetings is ad hoc and that not all meeting minutes have been distributed to the owners.
10. The current agreement does not require that all owner agreements (i.e. validation programs) be put to writing, dated and reflect owners' votes via owner signatures. It is our understanding that the current validation programs' terms have not been put to writing.
11. The current agreement does not require all owners' representative and garage operator policies and procedures be documented and provided to the owners.
12. Section 7B of the POA states that garage reports are due by the 15th of the month to the owners. Section 5U of the PMA states that garage reports are due to the owners' representative by the 15th of the month. It is our understanding, that until recently, NCUA has not received all of the garage reports.

13. Per the current agreement, hotel monthly contract provisions and validation programs differ from the other owners. These programs are to be instituted directly by the hotel and garage operator. There is no provision that the other owners agree to such programs, even though these programs may impact all of the owners' distributable net income.
14. There is no provision in the current agreement of a due date for payment of monthly parking contract billings or penalty for late payments.
15. Section 7B states that the garage operator must distribute the net operating receipts and garage reports to the owners by the 15th of the succeeding month. However, there is no penalty provision for late payment of net operating receipts or late submission of reports.
16. The number of owner allocated parking contract/reserved spots appears to exceed the limit of the garage calculated spaces. Per section 7iii, there are 1,186 owned spaces. The number of contracts etc is as follows:

<u>Owner</u>	<u>number of contracts</u>	<u>Agreement section #</u>
King I	265	3B
King II	226	3B
King III	252	3B
King IV	300	3B
Hotel	150	4A
Retail	72	5
TOTAL	1265	
17. All NCUA procurement contracts should include a blanket provision that the Inspector General, in the event of an audit, shall have access to any and all documents pertinent to the contract and the work performed thereunder.

Parking Management Agreement

1. The current agreement is between the owners' representative and the garage operator per the Introductory Paragraph. There is no mention of the owners in the agreement.
2. Section 3C and 5Si seem to be in conflict as to late charges and penalty payments incurred by the garage operator and whether the garage operator is to pay these or whether these charges can be passed on to the owners for payment.
3. There is no provision in the current contract for the reporting of interest accrued and paid to the owners on the deposited receipts. See section 5R. It is also our understanding that the owners have not received any interest from the garage operator for deposited receipts.

4. Similar to comment #17 above, all NCUA procurement contracts should include a blanket provision that the Inspector General, in the event of an audit, shall have access to any and all documents pertinent to the contract and the work performed thereunder.

cc: Executive Director, J. Leonard Skiles
General Counsel, Robert M. Fenner