



Audit Subcommittee Members
Sue Himmelrich, Committee Vice Chair
Terry O'Day, Committee Member
Ted Winterer, Committee Member
Elizabeth Van Denburgh, Committee Member
Natalya Zernitskaya, Committee Member

CITY OF SANTA MONICA

**REGULAR MEETING OF THE AUDIT SUBCOMMITTEE
VIA TELECONFERENCE PURSUANT TO
EXECUTIVE ORDER N-29-20 ISSUED BY
GOVERNOR GAVIN NEWSOM**

TUESDAY, AUGUST 18, 2020

MEETING BEGINS AT 6:00 PM

NOTICE IS HEREBY GIVEN that a regular meeting of the Audit Subcommittee will be held at 6:00 PM on Tuesday, August 18 and can be live streamed at <https://primetime.bluejeans.com/a2m/live-event/wpceuezz>. To listen to the Audit Subcommittee meeting through your telephone, the Attendee Dial-In number is: (415) 466-7000 / PIN 4821538

(Please note that Agenda Items may be reordered during the meeting at the discretion of the body.)

1. **Call to order and Roll Call**
2. Public Comment (Public comment is permitted on items not on the agenda that are within the subject matter jurisdiction of the body.)
3. Election of a new Chair and Co-Chair for the Audit Subcommittee
4. Approval of the December 9, 2019 Audit Subcommittee Meeting Minutes
5. Ethics Hotline Update (Lori Gentles, Chief People Officer)
6. Overview of Budget Restructuring and COVID-19 and Impact on Internal Audit Program (Gigi Decavalles-Hughes, Director of Finance)
7. Internal Audit Status Report and Discussion of FY 2020-21 Work Plan (Moss Adams)
8. Presentation of Reports (Moss Adams)
 - a. EDD Property Management and Leasing Review
 - b. Parking Contract Review
9. **Adjournment**

STANDARDS OF BEHAVIOR THAT PROMOTE CIVILITY AT ALL PUBLIC MEETINGS:

- Treat everyone courteously;
- Listen to others respectfully;
- Exercise self-control;
- Give open-minded consideration to all viewpoints;
- Focus on the issues and avoid personalizing debate;
- Embrace respectful disagreement and dissent as democratic rights, inherent components of an inclusive public process, and tools for forging sound decisions

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This agenda is subject to change up to 72 hours prior to the meeting. Please check the agenda prior to the meeting for changes.

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(NOT APPROVED)

CITY OF SANTA MONICA

AUDIT SUBCOMMITTEE MEETING

MINUTES

MONDAY, DECEMBER 9, 2019

A special meeting of the Santa Monica Audit Subcommittee was called to order by Chair Morena, at 6:02 p.m., on Monday, December 9, 2019, at 333 Olympic Drive, 2nd Floor (Plaza Level), Santa Monica, CA 90401

Roll Call: Present: Committee Member Elizabeth Van Denburgh
Committee Member Winterer (*arrived at 6:05 p.m.*)
Committee Member Natalya Zernitskaya
Vice Chair Sue Himmelrich
Chair Greg Morena

Also Present: Director of Finance Gigi Decavalles-Hughes
City Attorney Lane Dilg
Assistant City Clerk Nikima S. Newsome

CONVENE On order of Chair, the Audit Subcommittee convened at 6:02 p.m., with all members present except Committee Member Winterer.

PUBLIC INPUT **2. Public Comment (Public comment is permitted on items not on the agenda that are within the subject matter jurisdiction of the body),** was presented.

There were no members of the public present to speak.

ETHICS HOTLINE **3. Ethics Hotline Update,** (Lori Gentiles, Chief People Officer) was presented.

Committee Member Winterer arrived at 6:05 p.m. There were no members of the public present to speak.

Since May there have been four additional complaints made to the ethics hotline making for a total of 10 complaints received in the past 12-month period as compared to the prior year when 21 complaints were received. Of these 10 complaints, four are new and involved issues of discrimination, harassment or violence in the hiring process, conflict of interest between departments during the hiring process, a complaint that the hotline does not clearly provide a definition of what ethics is, and a complaint that had nothing to do with the City as it pertained to Santa Monica High School. Between November 1, 2017 and November 1, 2018, seven unique complaints were received which does represent a slight increase in unique, non-duplicative complaints. The City provides several other resources other than the Ethics Hotline for voicing concerns including the employee relations and labor group. Since October 2018, 48 employee relations complaints have been

received that lead to investigations. Another avenue to voice concerns throughout the City is Santa Monica Works. In a one-year period 10,000 complaints have been made via Santa Monica Works with only two or three complaints being human resources related. Several initiatives have been implemented to educate the general public and staff of the availability of the Ethics Hotline in a multitude of languages with availability 24/7. Employees and the general public are educated regarding the Ethics Hotline as a reminder during their annual employee evaluation by department managers, posters and flyers distributed throughout city buildings, during new hire orientation, in the HR newsletter, the City Manager's website, and the Administrative Instruction. The hotline will also have a more prominent position on the City website when it relaunches.

The top three complaints received since October 2018 that are non-ethics related include misconduct which entails being rude to customers, bullying, drug and alcohol abuse, etc.; discrimination and harassment based on sex; and discrimination and harassment based on race.

Questions asked and answered included: How are harassment claims handled; is the hotline really necessary; how are anonymous complaints handled; what happens when there is a credible complaint; once a complaint rises to the need to be investigated, how many were truly deemed credible; what is the scope of the hotline; do complaints concerning ethics complaints of non-employees come through this ethics hotline; if not where do these types of complaints get filed; are whistleblowers protected; what languages are used in the flyers; should we call the ethics hotline by a different name to avoid any confusion by the public when making a claim; and are the number of complaints received typical for an organization this size.

Considerable discussion ensued on topics including, but not limited to: the process for properly filing an ethics complaint and ways to expand outreach to the broader community.

Motion by Committee member Winterer, seconded by Committee member Zernitskaya, to receive and file the report. The motion was unanimously approved by voice vote, with all members present.

**INTERNAL AUDIT
UPDATE**

4. Internal Audit Update, (Moss Adams) was presented.

There were no members of the public present to speak.

The following internal audit status report was provided.

Project	Objective	Schedule	Activities This Period	Activities Next Period	Issues
Human Resources Performance Study	Identify opportunities for efficiency and/or effectiveness gains relative to hiring policies, laws, classification, charter, etc.	December 2019 through March 2020	Met with City to define focus and work plan.	Kickoff project and perform fieldwork.	None
Real Estate Assessment	Assess current real estate holdings and leases to optimize cost and value structure	November 2019 through February 2020	Conducted kickoff meeting finalized work plan	Perform fieldwork	None
Parking Operating Contract Review	Perform a review of the City’s parking operations contract for contractor performance and City management	October 2019 through February 2020	Conducted kickoff meeting and submitted document request.	Perform fieldwork	None
Construction Audit	Perform initial, mid-point, and/or closeout audits of major city construction projects to ensure contract compliance.	October 2019 and February 2020 through May 2020	Reviewed contract language for Sustainable Water Infrastructure Construction Project to provide feedback on how to	Initiate construction audit of City Hall campus building	None

			strengthen contract terms		
Grants Management Internal Controls Testing	Test compliance with grants management policies and procedures and compare to best practices	February through April 2020	Revised schedule	None	None

Questions asked and answered included: Is there room for improvement in the SWIP contract; was the design build approach validated; at which point of the contract negotiation for SWIP did the auditor come in; will these be the only projects for the rest of the fiscal year; what’s the objective of the Human Resources Performance Study; and is this type of study being done across all the departments.

Considerable discussion ensued on topics including, but not limited to: recommendations for the metrics to be improved in the Human Resources Performance Study and clarification of some of the objectives to be met and expected outputs; and clarification regarding the real estate assessment.

Motion by Vice Chair Himmelrich, seconded by Committee member Winterer, to receive and file the report. The motion was unanimously approved by voice vote, with all members present.

VALIDATION

5. Validation, (Moss Adams) was presented.

There were no members of the public present to speak.

The following audit validation report was provided:

This quarter nine recommendations for two reports were validated; three for ambulance contract billing and six for internal controls. Findings/observations, recommendations and status was provided for each validated item.

Questions asked and answered included: Are there still other deficiencies in need of validation; is any other validation being done aside from the review of the administrative instruction for the internal controls testing/cash handling; next phase of spot audits; should the transient occupancy tax revenue be evaluated in the audit; and where does the City obtain revenue in the ambulance contract billing process.

Considerable discussion ensued on topics including, clarification of the reports provided; trainings on cash handling and bringing ideas for suggestions of items to be audited.

Motion by Vice Chair Himmelrich, seconded by Committee member Winterer, to

receive and file the report. The motion was unanimously approved by voice vote, with all members present.

**AUDIT FINDINGS
STATUS UPDATE**

6. Audit Findings Status Update (Stephanie Lazicki-Meyer, Principal Administrative Analyst – Finance), was presented.

There were no members of the public present to speak.

It was reported that there are 167 findings and 228 associated recommendations. About 58% are on-going or completed and 36% are in progress.

Questions asked and answered included: How are items handled when management disagrees with the audit findings or recommendations; is accepting the risk of not following an audit finding or recommendation a policy issue or a management issue; and how to streamline the process for handling these conflicts.

Considerable discussion ensued on topics including, reporting the age of pending items, providing clarification on the status summary and which departments have yet to be audited.

Motion by Vice Chair Himmelrich, seconded by Committee member Zernitskaya, to receive and file the report. The motion was unanimously approved by voice vote, with all members present.

**2020 MEETING
DATES**

Past practice has been to schedule Audit Subcommittee meetings quarterly on the third Tuesday of the month. The recommended meeting dates are as follows:

February 18th
May 19th
August 18th
November 17th

Motion by Committee member Zernitskaya, seconded by Committee member Winterer, to approve the recommended meeting dates. The motion was unanimously approved by voice vote, with all members present.

ADJOURNMENT

On order of the Chair, the Santa Monica Audit Subcommittee meeting was adjourned at 7:33 p.m.

ATTEST:

APPROVED:

Nikima S. Newsome
Assistant City Clerk

Greg Morena
Chair



MEMORANDUM

Date: August 18, 2020
To: City of Santa Monica Audit Subcommittee
From: Moss Adams
Subject: Internal Audit Status Report February 16, 2020 through August 15, 2020

Human Resources Performance Study (Human Resources Department)

- Objective: Identify opportunities for efficiency and/or effectiveness gains relative to hiring policies, practices, laws, classification, etc.
- Schedule: December 2019 through July 2020
- Activities for This Period: Reviewed documents, conducted fieldwork, performed analysis, and prepared report.
- Activities for Next Period: Present final report to the Audit Subcommittee.
- Issues: none

Real Estate Assessment (Economic Development Department and Airport)

- Objective: Assess current real estate holdings and leases to optimize cost and value structure for Housing and Economic Development and the Airport.
- Schedule: December 2019 through August 2020
- Activities for This Period: Performed fieldwork and analysis and prepared report.
- Activities for Next Period: TBD
- Issues: none

Parking Operating Contract Review (Finance Department)

- Objective: Perform a review of the City's parking operations contract for contractor performance and City management.
- Schedule: January 2020 through July 2020
- Activities for This Period: Performed analysis and prepared report.
- Activities for Next Period: none
- Issues: none

Construction Audit (Public Works Department)

- Objective: Perform initial, mid-point, and/or closeout audits of major city construction projects to ensure contract compliance
- Schedule: February 2020 through September 2020
- Activities for This Period: Conducted kickoff meeting and gathered preliminary information. Project was then placed on hold due to COVID-19 impacts. Recently, conducted initial analysis and gained approval to proceed.
- Activities for Next Period: Complete analysis and prepare report.
- Issues: Delayed due to COVID-19.

Grants Management Internal Controls Testing (Finance Department)

- Objective: Test compliance with grants management policies and procedures and compare to best practices
- Schedule: February through April 2020
- Activities for This Period: none
- Activities for Next Period: none
- Issues: Project on hold.

Validation (Various Departments)

- Objective: Evaluate City progress implementing internal audit reports by validating management responses to selected findings.
- Schedule: Ongoing
- Activities for This Period: none
- Activities for Next Period: TBD
- Issues: none

CITY OF SANTA MONICA

COMMUNITY DEVELOPMENT DEPARTMENT

DEVELOPMENT REVIEW & PERMITTING EFFICIENCY STUDY

The City of Santa Monica is experiencing unprecedented challenges due to the impacts of COVID-19. Not only has the City been required to adapt to a new work environment due to the health impacts of COVID-19, but it has also been required to operate with fewer resources as a result of the economic impacts of COVID-19.

The City is comprised of internal (support) and external (direct) service departments. One of the key direct service departments is the newly formed Community Development Department. The Community Development Department works with the community to create a better community for Santa Monica's residents, workforce and visitors. With the help of the citizenry, the Department strives to enhance the character of Santa Monica, conserve neighborhoods, expand mobility options and ensure the safety of the built environment.

The goal of this internal audit project is to assess the economy, efficiency, and effectiveness of the Department's development review and permitting function and enhance its ability to meet the needs of the community in a reduced resource environment. The assessment will include, but not be limited to, the following areas of focus:

- Outcomes and associated key performance indicators
- Organization structure and staffing
- Use of cross-training and flexibility to meet demands
- Policies and procedures to guide activities and retain intellectual knowledge
- Interdepartmental coordination and communication
- Process efficiency and use of technology
- Citizen and customer satisfaction

The project will take approximately four to five months to complete. Phases will include project initiation, fact findings, analysis, and reporting.



FINAL REPORT

City of Santa Monica

EDD PROPERTY MANAGEMENT AND LEASING REVIEW

August 11, 2020

Moss Adams LLP
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Seattle, WA 98104
(206) 302-6500



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I. EXECUTIVE SUMMARY

A. BACKGROUND, SCOPE, AND METHODOLOGY

The City of Santa Monica's (the City) Economic Development Division (EDD or the Division) has the mission of promoting a sustainable and vibrant economy across the City. The Division focuses on optimizing the use of City-owned properties, and providing services to support local business and the City's business improvement districts. As part of this work, the EDD is primarily responsible for commercial property management and leasing administrative responsibilities.

The City contracted with Moss Adams LLP (Moss Adams), as the City's Internal Auditor, to perform an analysis of the efficiency of the property management and leasing functions managed by the EDD. The scope of the project included:

- Evaluating the structure and function of EDD personnel who perform property management and leasing roles;
- Identifying opportunities for improvement in service delivery, organization, operations, and process efficiency of the EDD's property management and leasing function;
- Identifying opportunities for enhanced property performance.

The study was conducted between December 2019 and April 2020, and consisted of three major phases: 1) fact finding, 2) analysis, and 3) reporting. The analysis was informed by reviewing relevant documents and data, conducting interviews with leadership and administrative staff in the EDD, and comparing operations with industry best practices.

During the development of this report, several major shifts took place that have impacted this work:

Leadership Turnover

During this review, a primary member of the EDD staff, with significant responsibility for property management and leasing functions, resigned and took a position with another city.

Software Vendor Change

The utilization of technology is a primary topic within our observations. Prior to this review, the EDD had made the decision, in conjunction with the Santa Monica Airport administrative staff, to switch property management software vendors from Yardi Systems to ProDIGIQ. At the time of preparing this report, we have not been able to observe any substantive implementation of ProDIGIQ and how it may address the technology-related observations and recommendations.

COVID-19 Impacts

The majority of the research and analysis for this report took place by March 2020. At that time, the impacts of the COVID-19 crisis were just starting to be experienced by City staff and residents. The continually changing situation—which is still developing at the time this report was issued—has and will continue to affect many areas of the City's operations. Most specifically, the City has created a new Community Development Department that includes Economic Development, along with Building & Safety, City Planning, and Mobility. While most of the recommendations within this report are not necessarily impacted by this change, it is important to note that the ongoing effects of the COVID-19 fallout are still uncertain. Within this context, economic recovery is a top priority of the City, and will be



the primary focus of current operations and strategies—including those related to property management.

B. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

Our observations and recommendations are summarized below, presented in three areas: Roles and Responsibilities, Systems, and Property Management and Leasing.

OBSERVATIONS AND RECOMMENDATIONS		
Roles and Responsibilities		
1.	Observation	Until recently, some aspects of real estate management are decentralized without sufficient centralized oversight, which resulted in a lack of consistent City-wide practices.
	Recommendation	As a result of restructuring, clarify roles and responsibilities of centralized oversight of real estate management activities within EDD.
2.	Observation	Real estate management policies and procedures are not standardized and/or documented, and were until recently performed by various departments.
	Recommendation	Form a small team to inventory and develop critical policies and procedures to ensure consistency.
3.	Observation	Significant administrative functions are dependent upon a single EDD employee.
	Recommendation	Provide back-up support for this position and review the scope of this position's financial responsibilities to ensure that appropriate internal controls are in place.
Systems		
4.	Observation	The EDD's current IT systems are not integrated or fully optimized to effectively support the Division's work.
	Recommendation	Continue efforts to implement ProDIGIQ and work with the Information Systems Department (ISD) to identify opportunities for technology integration, optimization, and streamlining.
5.	Observation	Without accurate and accessible data, the EDD is not able to use data to make proactive, strategic, or analytical decisions to strengthen the City's real estate portfolio.
	Recommendation	Improve the EDD's reporting and analysis processes to move toward a data-driven decision-making model.



OBSERVATIONS AND RECOMMENDATIONS		
Property Management and Leasing		
6.	Observation	The City lacks a streamlined and efficient strategy for property management and leasing, including leasing criteria, use of oversight bodies, cost recovery and subsidy goals, and portfolio management policies.
	Recommendation	Collaborate with City Council to review and establish property management strategy and policy, and create a consistent update cycle, with the goal of achieving the highest and best use of the City's rental portfolio.
7.	Observation	Percentage-based rent is a large component of the City's real estate portfolio income, and tenant financial statements are not reviewed each year to verify the revenue that rent payments are based on.
	Recommendation	Develop a standard audit process to review tenant financial statements on an annual basis.
8.	Observation	The City's lengthy RFP process is a barrier to competitive leasing and attracting high-quality tenants.
	Recommendation	Establish an internal committee to assess the leasing process, identify efficiencies in contract term review and approval, and consider consolidating leasing guidelines.
9.	Observation	Rent levels for license agreements are based upon outdated appraisals.
	Recommendation	Adopt a standard process to commission third-party appraisals for all properties on a two-year cycle.
10.	Observation	The City does not utilize a regular capital planning process to support its real estate portfolio or maintain reserves to invest in capital improvements, which may not be conducive to attracting the City's desired tenants.
	Recommendation	Incorporate leased properties in the City's Capital Improvement Program (CIP) and establish reserve funds to support capital improvements across the City's real estate portfolio.



II. INTRODUCTION

A. BACKGROUND

The City of Santa Monica's (the City) Economic Development Division (EDD or the Division) has the mission of promoting a sustainable and vibrant economy across the City. The Division focuses on optimizing the use of City-owned properties, and providing services to support local business and the City's business improvement districts. As part of this work, the EDD is primarily responsible for commercial property management and leasing administrative responsibilities. It is important to note that the City recently underwent significant restructuring, including the EDD and divisions with property management responsibilities. As a result of restructuring, almost all of the City's property management is now under the purview of EDD, with the exception of some easements managed by Public Works and some properties managed by Human Services. EDD and Airport staff are collaboratively managing leases at the Airport.

In general, the City plays a variety of roles as part of its real estate function, including:

- An owner-user
- An owner that leases to a third party
- A market-rate tenant
- An owner that leases or licenses to tenants or users that fulfill public benefits
- A tenant in third-party owned properties

While we believe there may be some broader efficiencies throughout the City's administrative system relative to these varying roles, this report focuses on the City's role as landlord, a function that is largely filled by the EDD. EDD staff perform a wide variety of tasks as it relates to the management and leasing of City-owned or City-controlled property, including:

- Working with City Council and staff to develop and implement leasing guidelines (Leasing Guidelines) and drive economic development initiatives with a primary focus on supporting and encouraging small, independent businesses
- Providing primary oversight, management, and lease administration services for approximately 804,000 square feet of properties with annual revenue collection by EDD of approximately \$11.2 million. (In addition to the \$11.2 million overseen by EDD, there are significant additional City real estate assets that are managed by other City departments as well; this includes the Santa Monica Airport, Community and Cultural Services, Public Works, and the Big Blue Bus).
- Performing special projects and analysis relative to real estate on behalf of other City departments
- Fulfilling all accounts receivable functions, including rent collection, data input, month-end reconciliation, and deposits
- Leading the Request for Proposal (RFP) process for vacant property under the applicable Leasing Guidelines
- Preparing periodic financial reports and budgets

See the Appendix for an analysis of the real estate assets that are overseen by the EDD.



B. SCOPE AND METHODOLOGY

The City contracted with Moss Adams to perform an analysis of the efficiency of the property management and leasing function performed by EDD, including evaluating the structure, function, and roles of personnel in the Division; identifying opportunities for improvement in service delivery, organization, operations, and process efficiency of the EDD's property management and leasing function; and identifying opportunities for enhanced property performance.

The study was conducted between December 2019 and April 2020, and consisted of three major phases:

1. **Fact Finding:** This phase included interviews, document review, and best practice research. We worked with department staff to obtain the most currently available information and insights.
 - *Interviews:* We conducted interviews with six members of staff and leadership.
 - *Document review:* We reviewed documents including Yardi property management reports, financial reports, a sample of leases, and license agreements.
 - *Best practice research:* Based on the opportunities for improvement identified, we conducted research to ascertain best practices found in other governmental agencies.
2. **Analysis:** This phase served as the assessment portion of the project where, based on information gathered, we evaluated the importance, impact, and scope of our observations in order to develop recommended efficiency and effectiveness changes.
3. **Reporting:** This phase concluded the project by reviewing observations and recommendations with the Director of Housing and Economic Development and other senior staff to validate facts and confirm the practicality of recommendations.

As noted in the Executive Summary, several major shifts took place during the development of this report that have impacted the EDD's work, including 1) the exit of a primary member of the EDD staff, 2) the adoption of the ProDIGIQ property management software, and 3) the ongoing changes to City operations due to the COVID-19 crisis, which have consolidated most leases under EDD. While these events do not substantively impact most of our recommendations, we have noted potential effects in the body of the report.

C. COMMENDATIONS

Based on insights gathered through interviews, responses to questions, and document review, it is evident that the EDD has many commendable business attributes. Examples include:

- **Experienced Staff:** Based on interviews, the EDD staff possess the knowledge and experience to perform their real estate management and leasing duties with a high degree of competence.
- **Customer-Focused Approach:** The EDD staff appear to have strong tenant relations, with most tenants reporting that the staff is responsive and effective.

We would like to thank the City, EDD staff, and leadership for their participation in this study.



III. OBSERVATIONS AND RECOMMENDATIONS

Based on the input gathered from interviews, document review, and comparisons to best practices, we prepared observations and recommendations that are organized into three categories: 1) Roles and Responsibilities, 2) Systems, and 3) Property Management and Leasing Processes. The observations and recommendations for each area are described in detailed below.

A. ROLES AND RESPONSIBILITIES

Functional Structure

1.	Observation	Until recently, some aspects of real estate management are decentralized without sufficient centralized oversight, which resulted in a lack of consistent City-wide practices.
	Recommendation	As a result of restructuring, clarify roles and responsibilities of centralized oversight of real estate management activities within EDD.

With the exception of the Airport Department, EDD staff handle a majority of the real estate management duties of City-owned assets. Currently the property portfolio managed by the EDD contains over 180 leases, license agreements, or easements, with a combined total annual revenue of approximately \$11.2 million. Until recently, despite the EDD’s experience and capability in real estate management, other City departments retained some real estate management responsibilities. This decentralization of the real estate management responsibilities resulted in redundancies and inconsistent processes.

In addition, EDD staff are regularly assigned real estate-related tasks from other City departments that are outside of their primary area of focus. These projects are often passed off to the EDD without clear delegation of duties or clear feedback loops to track effectiveness. For instance, an EDD staff member was asked to administer several easements on behalf of the Public Works department. Without clear lines of responsibility, these types of special projects can lead to confusion, redundant work, and a decrease in employee morale.

As a result of Citywide restructuring, most property management has been consolidated within EDD, with the exception of some easements managed by Public Works and some Human Services properties. The EDD now manages the Pier, beach, and other major City properties, and collaborates with Airport staff to manage Airport leases. This should enable more consistent and effective property management. Within the EDD, roles and responsibilities should be clarified and processes standardized. In combination with clearer policies and procedures (see Recommendation 2), this should enable the City to reduce inconsistencies and streamline workflows.

In addition, the EDD should develop a standard process to triage, prioritize, and when appropriate reject incoming special projects from other departments. In this way, the EDD can stay focused on their top priorities and most strategic work.



Policies and Procedures

2. Observation	Real estate management policies and procedures are not standardized and/or documented, and were until recently performed by various departments.
Recommendation	Form a small team to inventory and develop critical policies and procedures to ensure consistency.

As noted in Recommendation 1, aspects of the real estate management function were until recently performed by staff in a variety of departments. As a result, the related policies and procedures are not standardized (or in some cases documented) between the various groups. This lack of standardized and/or documented policies and procedures has multiple impacts on the City's operations, including contributing to inefficient use of staff time and risks of losing institutional knowledge when staff leave the organization. The lack of consistent processes can also create challenges to providing top-quality, equitable customer service.

The primary result of multi-departmental property management is the lack of standard policies and procedures detailing how to monitor and manage lease compliance. Currently, compliance with lease provisions and tenant occupancy conditions are handled on a case-by-case basis and left to the discretion of the individual EDD staff member involved in the project. This creates significant risks to the City. First, if tenants are not complying with lease provisions, then the City may lose income, properties may be misused, and/or tenant operating standards may be below par. Second, without consistent application of policies and procedures in dealing with tenants, the City may be exposed to claims of unfair or non-equal treatment by tenants.

As part of evaluating procedures and practices post-restructuring, the EDD should establish clear and consistent policies and procedures to improve the efficiency of real estate management. To assess current policies and procedures and identify opportunities for improvement, the EDD should:

- Create a small policies and procedures development team to inventory current documentation (or work with an outside vendor to accomplish this work)
- Determine what additional documentation needs to be created and/or which processes should be streamlined or redesigned to be more efficient, while prioritizing cross-divisional procedures that involve multiple teams and those that have a direct impact on customer service and City revenue
- Establish a prioritized schedule for developing and updating policies
- Communicate and train employees on policies and procedures
- Develop a plan to maintain and update policies and procedures

Once policies and procedures are updated, they should be available in a centralized location, such as an intranet, for employees to easily access and reference. By investing resources to clarify the primary processes used for daily operations, the City has the opportunity to improve internal communication, employee morale, and customer service.



Sole Contributor

3.	Observation	Significant administrative functions are dependent upon a single EDD employee.
	Recommendation	Provide back-up support for this position and review the scope of this position's financial responsibilities to ensure that appropriate internal controls are in place.

Within the EDD, the majority of critical administrative tasks are performed by the executive administrative assistant. These functions include, but are not limited to:

- Rent collection
- Lease data entry and administration
- Financial data entry
- Month-end financial reconciliation
- Tenant relations

This staff member is also the only proficient user of the Yardi property management software.

Currently, this staff member is a sole contributor and no other EDD employees are trained to provide backup support. This creates multiple areas of risk for the EDD. First, there would be significant disruption to the Division's daily operations and a loss of institutional knowledge if this staff member were to leave the organization. Second, sole contributors often face pressure to be constantly available and not take appropriate time off—which can result in employee burnout and turnover. Finally, there may be internal control issues if the breadth of this staff member's finance-related responsibilities are too wide.

The EDD should determine how to provide backup support to this position. At minimum, at least one other member of the EDD staff should be trained on all essential functions of this role. In addition, the EDD should review the scope of this position's financial responsibilities to ensure that appropriate internal controls are in place related to check handling, deposits, payments, and reconciliations.



B. SYSTEMS

IT System Support

4.	Observation	The EDD’s current IT systems are not integrated or fully optimized to effectively support the Division’s work.
	Recommendation	Continue efforts to implement ProDIGIQ and work with the Information Systems Department (ISD) to identify opportunities for technology integration, optimization, and streamlining.

The EDD does not have a centralized repository of City real estate management information. Instead, portfolio data resides in three separate, unintegrated systems: Yardi, Tyler Munis, and Microsoft Excel spreadsheets created by individual staff members.

Yardi Property Management Software

Yardi is a market standard property management software that EDD utilizes on a limited basis to track lease terms. Currently, Yardi is only used for lease administration tasks, including the production of a rent roll and revenue reports. However, Yardi is a relatively robust software platform that is often used as a single-source solution in the real estate industry for full-scale real estate management operations and accounting. Only one member of the EDD staff is fully proficient on the Yardi platform, due to a lack of both licenses and training.

Tyler Munis

Tyler Munis is primarily used for budgeting, financial reporting, and integration into the City’s master financial records. At present, Yardi and Tyler Munis are not integrated.

Microsoft Excel

EDD staff also use Excel extensively to manually track information or generate analytical data outside of both Yardi and Tyler Munis. For example, Excel is used for all performance tracking, budgeting, and forecasting.

This fragmented IT system environment has multiple impacts on the Division’s work, including:

- **Inefficient operations:** The lack of system integration means that EDD staff must duplicate data entry. For instance, the EDD’s Accounts Receivable process and rent collection is manual and check-based with no ability for online and/or ACH payments. Physical checks are collected, scanned into the banking system, and then saved onto a shared drive. EDD staff then enter information into Yardi and confirm the lease terms. Subsequently, staff must then enter the same information into Tyler Munis. Both systems are reconciled at month-end. Overall, the process is highly labor intensive.
- **Data integrity:** Given the multiple areas of data storage and related manual processes, the EDD has understandably struggled with accurate data collection and maintenance.
- **Lack of access to data:** The limited use of Yardi means that the system is not providing valuable information to the broader EDD staff. In addition, the use of Excel and individual tracking



spreadsheets also means that data is frequently inaccessible across the group. The lack of access to this data creates a challenge for strategic decision-making for the City’s real estate portfolio as a whole.

Taken as a whole, the lack of system integration creates significant barriers to maintaining, extracting, and utilizing accurate data for performance tracking, reporting, budgeting, compliance, and forecasting.

Prior to this report, the EDD made the decision to switch from Yardi to a new system called ProDIGIQ. ProDIGIQ is primarily designed for airport property management (and the project was part of a collaboration with the Santa Monica Airport administrative staff), but purports to be highly customizable. EDD staff are hopeful that it will be more robust and user-friendly. However, the system is not ultimately anticipated to integrate with Tyler Munis, and Finance and EDD are working to develop an automated data transfer process between the two systems to be implemented when the AR (accounts receivable) module in Tyler Munis is complete. Given this context, the EDD will need to determine how best to use ProDIGIQ to generate the type of data and reporting necessary to make strategic decisions (see Recommendation 5).

ProDIGIQ is anticipated to be fully implemented by January 2021. The EDD should use the implementation of the ProDIGIQ system as an opportunity to ensure that the new system is fully optimized, streamlined, and accessible to all staff. To make the implementation a success, the EDD should work with the City’s Information Services Department to redesign ProDIGIQ-related processes to reduce redundancy and streamline work.

For any data that cannot be tracked within the system, the EDD should also develop basic processes to ensure data is accessible and shared across the group. This may include straightforward tactics like storing documents on shared drives, maintaining a change log for data, and/or developing internal processes so data is tracked in a consistent format by all staff.

Data Utilization

5.	Observation	Without accurate and accessible data, the EDD is not able to use data to make proactive, strategic, or analytical decisions to strengthen the City’s real estate portfolio.
	Recommendation	Improve the EDD’s reporting and analysis processes to move toward a data-driven decision-making model.

As discussed in Recommendation 4, the EDD’s system environment has created a lack of accurate and accessible data. Within this context, each EDD staff member creates their own separate Excel schedules to inform their decision making. However, the lack of accessible system data and a centralized reporting process has prevented the EDD from effectively using data or reporting dashboards to analyze information and make strategic decisions as a team regarding the City’s real estate portfolio. As a result, EDD staff report that a large part of their work is primarily reactive, rather than proactive.



For example, staff are not able to easily generate standard portfolio performance reports like those included in the Appendix. In looking at the Appendix data, observations can easily be made about which portions of the real estate portfolio generate the most income on both a total revenue basis and also square footage basis. For instance, the Pier generates a high volume of revenue (\$2.4 million), but has a relatively low per square foot revenue (\$10.10) (see Appendix, exhibit 3). In combination with the fact that staff report there is a high workload associated with maintaining the Pier, this data is a good indication that the Pier could be better optimized.

The EDD should work to increase the quality of their reporting and the strength of their decision-making capabilities by establishing a standard set of internal Key Performance Indicators (KPIs) and related dashboard reports that can be tracked by the Division on a monthly and quarterly basis. At minimum, the EDD staff should be able to create reports that show occupancy, rents, total revenue, incremental revenue changes, and expenses, including both current data and comparison to the prior reporting period. In addition, EDD does not maintain long-term forecasts for real estate cash flows. Ideally, the City should have a centralized long-term forecast based on the existing portfolio that would be performed on an annual or bi-annual basis.

In addition to determine which reports to regularly run and analyze, the City must ensure that EDD staff are adequately trained and supported within ProDIGIQ so that data can be easily extracted from the system. By focusing on improvements to the Division’s data integrity and reporting, the EDD can move toward the use of a fully data-driven decision-making model.

C. PROPERTY MANAGEMENT AND LEASING

Strategy

6.	Observation	The City lacks a streamlined and efficient strategy for property management and leasing, including leasing criteria, use of oversight bodies, cost recovery and subsidy goals, and portfolio management policies.
	Recommendation	Collaborate with City Council to review and establish property management strategy and policy, and create a consistent update cycle, with the goal of achieving the highest and best use of the City’s rental portfolio.

There are currently three sets of leasing and licensing guidelines (Airport, Downtown, and Pier/Beach), which all rely on oversight boards. The lack of an established strategy for property management has impacted the City’s ability to maximize its property portfolio. For example, cost recovery varies widely across City properties; while the Pier generates \$2.4M a year in rent, it is one of the lowest per square foot rental rates at \$10.10/sq. ft. Gross annualized rent varies across City properties from \$3 per square foot to more than \$50 per square foot (see Appendix, exhibit 3). Another example is that there are a majority of leases that are currently month-to-month, which presents a risk to the City, especially during an economic downturn (see Appendix, exhibit 9). Finally, an analysis of leases by category shows that while the Retail Lease category comprises only 15% of revenue, it comprises 31% of total square footage, indicating that rents may not be achieving full



potential (see Appendix, exhibit 4). Finally, the role of oversight boards and the Council in reviewing individual leases can delay time sensitive negotiations. All of these examples are areas where Council could establish strategy and policy to guide leasing activities.

The EDD, along with the City Manager’s Office, City Attorney, and Finance Department, should collaborate with the City Council to review leasing strategy options, including cost recovery, establishment of rent rates compared to market rates, maximizing the use of City-owned properties, and establishing criteria and goals for tenants. To ensure that the Council’s goals of maintaining community character and supporting small business and non-profits continue to be met, the City could establish different cost recovery goals for specific types of tenants; for example, other cities may subsidize non-profit organizations’ rent, or establish a lower cost recovery target for targeted community members.

In addition to establishing an overarching strategy, the EDD should review current marketing practices to determine whether there are opportunities to reach new potential tenants who may be unfamiliar with leasing from a municipality. It may be helpful to engage local brokers during this process to get a clearer understanding of the regional conditions.

Rent Revenue

7.	Observation	Percentage-based rent is a large component of the City’s real estate portfolio income, and tenant financial statements are not reviewed each year to verify the revenue that rent payments are based on.
	Recommendation	Develop a standard audit process to review tenant financial statements on an annual basis.

Approximately 42% of the \$11.2 million of rent received by leases under EDD’s management is dictated by percentage rent provisions. Within this context, the amount of rent paid by the tenant is variable and dependent upon the amount of sales the tenant generates. This payment model is aligned with standard industry practices.

However, the tenants are currently responsible for determining their own rent levels based on self-reported sales numbers from financial statements prepared and presented by the tenant. These reports are only audited every several years and EDD staff believes the audits may not be sufficient. As a result, the City may not be collecting appropriate rent from all tenants.

The EDD should develop a standard audit process to review tenants’ financial statements on an annual basis. The audit should be conducted by City staff with accounting expertise or an outside auditor. Because an annual review of all tenants’ financial statements is a large burden of work at a time of reduced staff capacity, the City should consider alternative methods of auditing. The City could establish a multi-year schedule to audit all tenants, or select a representative sample to audit each year. The City could also consider the option, in place in other cities, to require an annual audit in a lease agreement, paid for by the tenant. If the City adopts this model, it should require tenants to use an auditor from a pre-approved list of vendors to ensure independence and objectivity.



Leasing Process

8.	Observation	The City’s lengthy RFP process is a barrier to competitive leasing and attracting high-quality tenants.
	Recommendation	Establish an internal committee to assess the leasing process, identify efficiencies in contract term review and approval, and consider consolidating leasing guidelines.

The City utilizes an RFP process to source and assess all new prospective tenants. The process can take between six to nine months—which is significantly longer than most standard commercial practices—and requires substantial investment of time and effort from prospective tenants. Staff report that many commercial tenants are unaccustomed, unaware, or uninterested in participating in this type of RFP process. Staff note that they consistently receive negative feedback about the process from prospective tenants. In addition, the costly and time-consuming process raises equity concerns, as it is difficult to navigate and a deterrent to new, small, family- and minority-owned businesses, and businesses with less resources and community connections.

The RFP process places the City at a competitive disadvantage within the marketplace. Most critically, it may be preventing the City from reaching and/or attracting the highest quality tenants. Without a competitive process in place, the City will likely experience higher rates of extended vacancies, poorer tenant performance, and, ultimately, a decrease in related revenue.

It is important to note that the City’s approach to leasing is not solely motivated by revenue generation (which is the typical goal of real estate owners). Rather, the City’s version of maximizing value is based on leveraging its assets to attract and nurture small, independent businesses that support the unique character of Santa Monica. While the City recognizes the need to generate some degree of revenue, this is balanced against the overarching goals of community cultural and economic development. Within this context, it is especially critical that the City ensures that leasing processes are easily accessible to small and independent business owners.

Now that the majority of City property is managed by the EDD, the EDD and the City Attorney should review leasing guidelines to either identify ways to create consistent leasing processes, including streamlining the RFP process or adopting an alternative to the RFP process. If the City chooses to focus on streamlining, it should align with industry best practices to ensure that the leasing process takes no more than three to six months in total, depending upon the size and complexity of the lease. The Airport recently implemented streamlined, consistent leasing guidelines, which could be used as a model for other City properties. The City should also consider using real estate broker services for unique and/or larger commercial spaces to ensure leasing opportunities are marketed to a wide range of prospective tenants.

When assessing the leasing process, the City should determine the appropriate role for oversight boards as well as the City Council. It is best practice for boards to establish leasing criteria and provide guidance, rather than reviewing individual leases, which is staff-level work. It is likely that the City will need to develop overarching guidelines and criteria, as well as specific criteria and processes for specific properties or categories of property to account for unique operations, such as for the Airport and the Pier. While changes to the leasing process may be time-intensive to develop and



adopt via review and approval by City Council in the short term, there are significant long-term efficiency and marketability benefits to be gained.

Alternatively, the City could adopt a “discretion in a box” that would give EDD staff authority to process a bulk of leasing activity more efficiently. Within this type of structure, if a prospective tenant and their related lease terms meet certain criteria (as determined by City Council or other committee), EDD staff would have full authority to negotiate and finalize the lease (subject to adoption of a market-standard lease agreement template). For instance, if the tenant is a small business and the lease is less than 2,000 square feet, has a rent within a market-based range, and there are no special tenant options, the EDD could bypass the typical RFP process.

Market-Based Information

9.	Observation	Rent levels for license agreements are based upon outdated appraisals.
	Recommendation	Adopt a standard process to commission third-party appraisals for all properties on a two-year cycle.

In alignment with industry standards, the amount of rent that the City charges to license agreement holders is based on third-party appraisals, which are performed on an inconsistent basis Downtown leases are currently at market rate. However, many other licenses and leases, especially on the Pier, are outdated and have rolled into month-to-month (hold over) tenancy. Given the length of time between appraisals, market conditions may have fluctuated significantly. If the market is rising, the City is potentially losing rent-related revenue. If the market is falling, the City may be charging rents that are above market value and increasing its vacancy rate.

To ensure that rents are well aligned with the local market, the EDD should adopt the practice of commissioning third-party appraisals for all properties on a two- to three-year cycle. As noted in Recommendation 6, it may be helpful to engage local brokers during this process to get a clearer understanding of the regional conditions.

Capital Improvement Funding

10.	Observation	The City does not utilize a regular capital planning process to support its real estate portfolio or maintain reserves to invest in capital improvements. This model may not be conducive to attracting the City’s desired tenants.
	Recommendation	Incorporate leased properties in the City’s Capital Improvement Program (CIP) and establish reserve funds to support capital improvements across the City’s real estate portfolio.

With the exception of the City’s Pier properties, the City does not utilize a regular capital planning process to support its real estate portfolio or maintain cash reserves to invest in capital or leasehold improvements. It is standard practice in the commercial real estate market for landlords to provide a large portion or all of the tenant improvement capital needs. However, the City has adopted an



alternate system where tenants must provide all upfront funding for capital improvement costs. The tenants are then charged a discounted rent for a specific period of time as an offset.

This model presents challenges for some tenants. In particular, many small and independent businesses are unlikely to be able to afford these types of investments. Given that one of the stated goals of the City is to support locally based small businesses, this practice may be creating unnecessary barriers to attracting this tenant profile.

The City should re-evaluate the capital improvement funding structure. Ideally, the City should include both tenant improvement costs and regular capital replacement needs across its rental portfolio in the Capital Improvement Program (CIP). The City should also consider establishing a reserve fund to account for unplanned maintenance costs. The reserve fund could be funded through retention of a small proportion of the rent revenue (which is the most typically approach) or could be funded through a rolling line of credit which would help smooth out cash needs. By making these changes to the current funding model, the EDD will be able to proactively manage cash flow and reserves to fund capital or leasehold improvements on the City's real estate portfolio. In addition, the City will be able to remove a potential barrier to attracting small and locally owned businesses.



APPENDIX: REAL ESTATE PORTFOLIO ANALYSIS

Data provided in this appendix was sourced from the Yardi system for the period April 2019-March 2020, with the exception of holdover lease data, which was provided in June 2020.

A. ANNUALIZED GROSS BASE RENT BY LOCATION

The chart below summarizes the City’s gross annualized base rent by location. This type of report provides an overall summary of rent revenue and can be used to identify relative priorities.

EXHIBIT 1: GROSS ANNUALIZED BASE RENT BY LOCATION

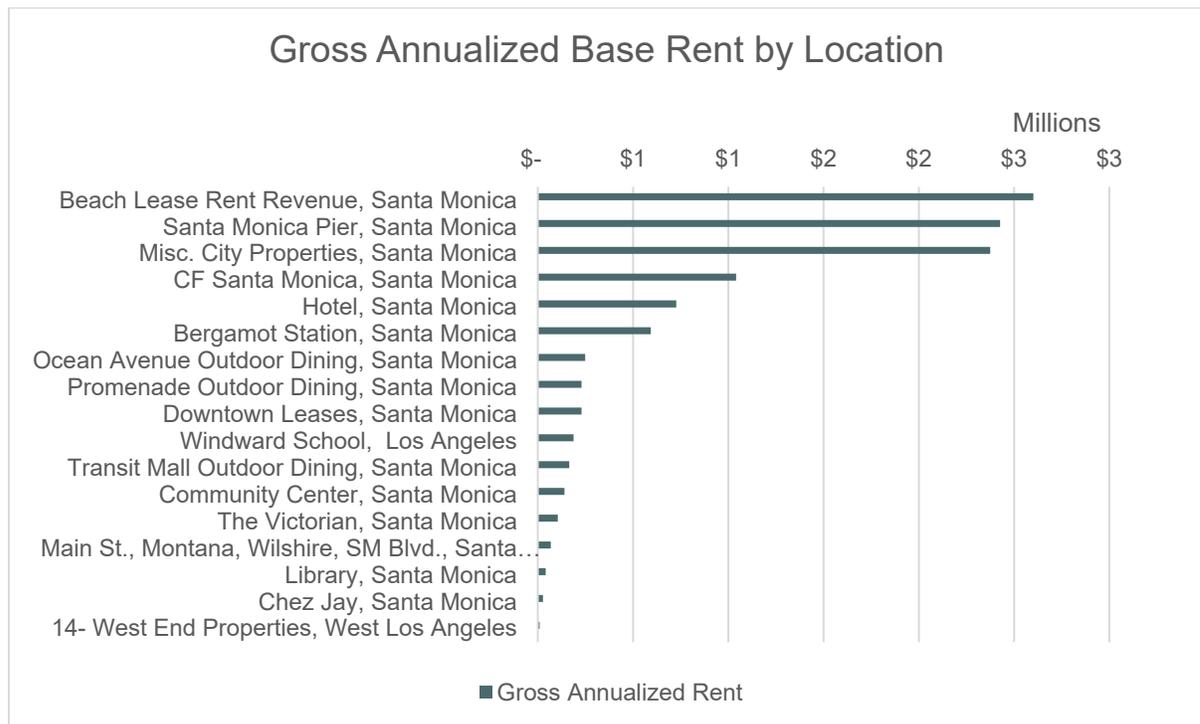
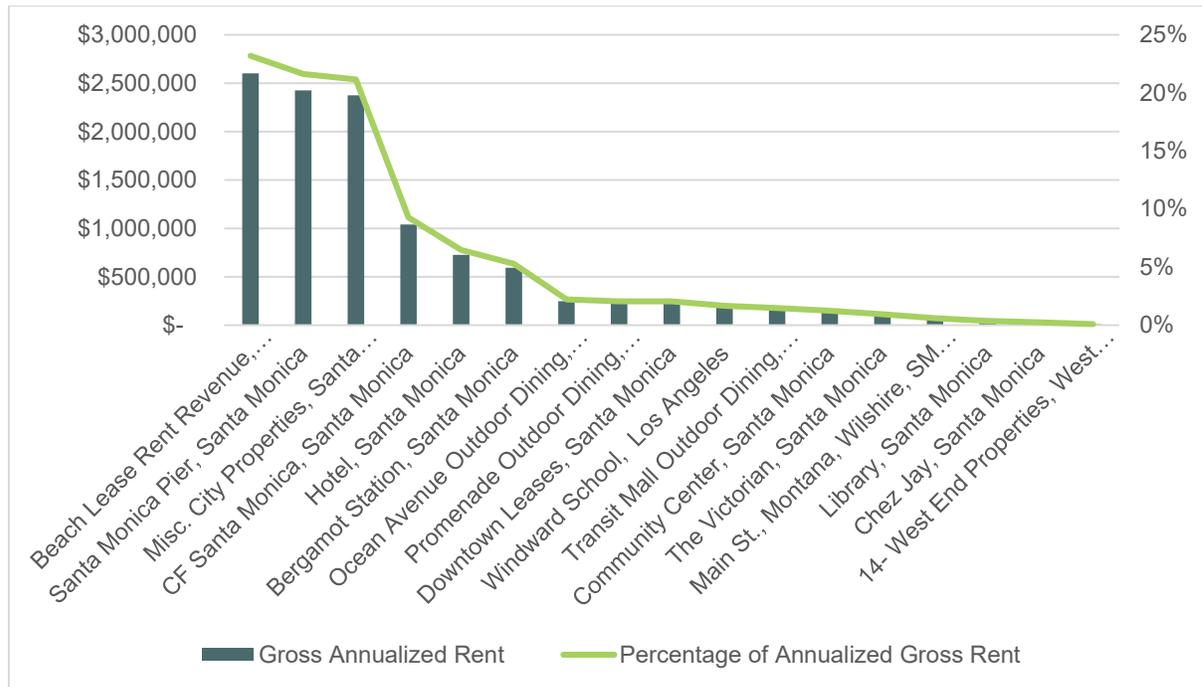




EXHIBIT 2: GROSS ANNUALIZED BASE RENT BY LOCATION AND PERCENTAGE OF TOTAL ANNUALIZED RENT



The following table breaks down the gross annualized base rent by square footage for both leases and licenses. While overall comparative generalizations should not be drawn (as each asset should be compared against market rates for that specific type of property), this type of report should be regularly reviewed as part of the City’s portfolio management process. One notable element is that, while the Santa Monica Pier is one of the largest overall contributors in gross annualized rent, it has a relatively low \$10.10 rent per square foot. This is an indication that the City could increase and further maximize the space on the Santa Monica Pier.

EXHIBIT 3: GROSS ANNUALIZED BASE RENT PER SQUARE FOOT, LEASES AND LICENSES

Asset Location	Gross Annualized Base Rent	Percentage of Annualized Gross Rent	Gross Sq. Ft	Gross Annualized Rent/Sq. Ft.
Beach Lease Rent Revenue, Santa Monica	\$2,601,564	23%	113,644	\$22.89
Santa Monica Pier, Santa Monica	\$2,426,649	22%	240,253	\$10.10
Misc. City Properties, Santa Monica	\$2,374,401	21%	46,686	\$50.86
CF Santa Monica, Santa Monica	\$1,040,689	9%	168,577	\$6.17
Hotel, Santa Monica	\$727,083	6%	98,775	\$7.36
Bergamot Station, Santa Monica	\$592,999	5%	64,000	\$9.27



Asset Location	Gross Annualized Base Rent	Percentage of Annualized Gross Rent	Gross Sq. Ft	Gross Annualized Rent/Sq. Ft.
Ocean Avenue Outdoor Dining, Santa Monica	\$248,849	2%	6,181	\$40.26
Promenade Outdoor Dining, Santa Monica	\$229,816	2%	5,562	\$41.32
Downtown Leases, Santa Monica	\$229,773	2%	5,554	\$41.37
Windward School, Los Angeles	\$187,832	2%	11,000	\$17.08
Transit Mall Outdoor Dining, Santa Monica	\$165,291	1%	3,269	\$50.57
Community Center, Santa Monica	\$139,941	1%	22,024	\$6.35
The Victorian, Santa Monica	\$105,405	1%	8,781	\$12.00
Main St., Montana, Wilshire, SM Blvd., Santa Monica	\$67,832	1%	2,537	\$26.74
Library, Santa Monica	\$41,713	0%	750	\$55.62
Chez Jay, Santa Monica	\$27,610	0%	3,320	\$8.32
14 West End Properties, West Los Angeles	\$10,131	0%	3,125	\$3.24
Grand Totals	\$11,217,579	100%	804,038	\$13.95



B. ANNUALIZED GROSS BASE RENT BY LEASE TYPE

The following four charts provide comparative data between the City's real estate portfolio by lease type and by square footage. By comparing the two sets of data, the City can identify potential areas of underperformance. For example, while the Retail Lease category comprises only 15% of revenue, it comprises 31% of the square footage chart. By comparison, the Restaurant, License, and Easement types are bringing in higher rent levels per square foot. This is an indication that the Retail Lease category may need further optimization.

EXHIBIT 4: GROSS ANNUALIZED BASE RENT BY LEASE TYPE

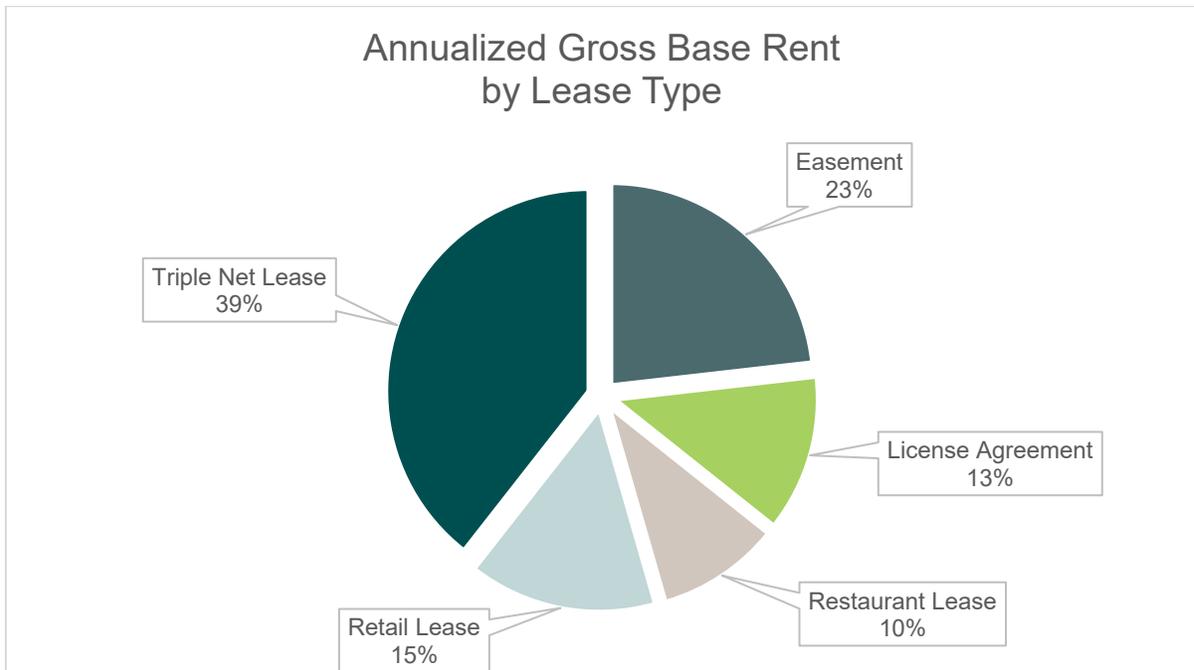




EXHIBIT 5: SQUARE FOOTAGE BY LEASE TYPE

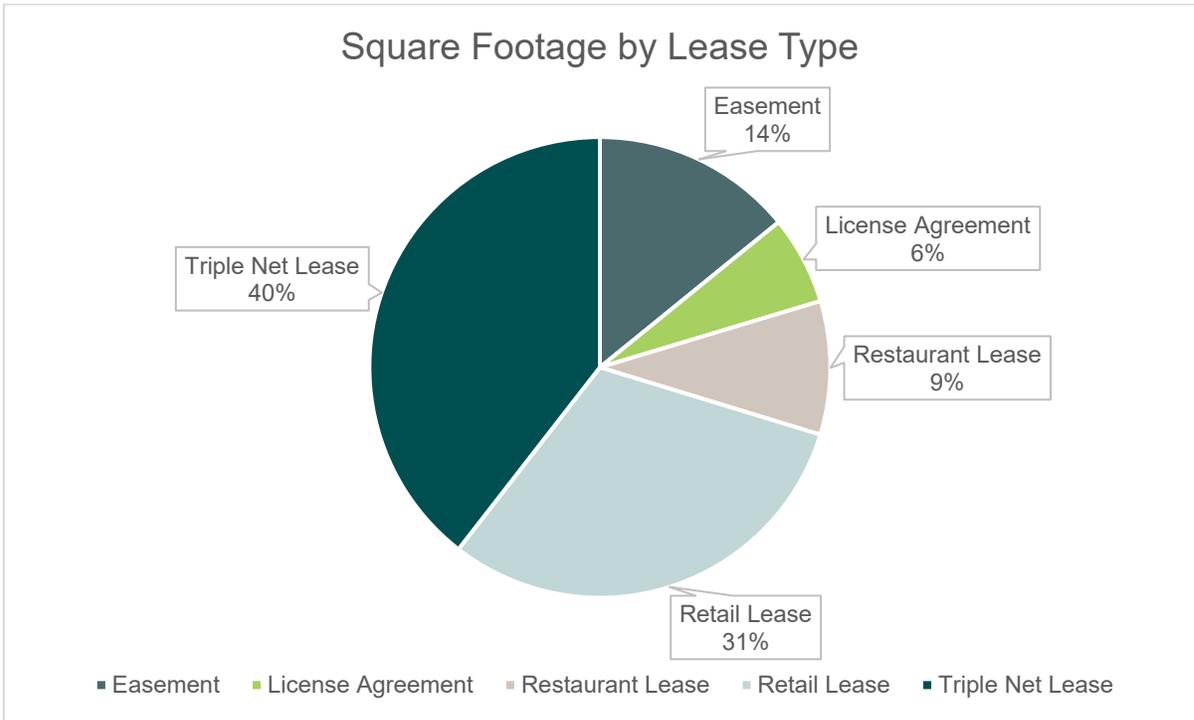


EXHIBIT 6: PORTFOLIO BY LEASE TYPE AND SQUARE FOOTAGE

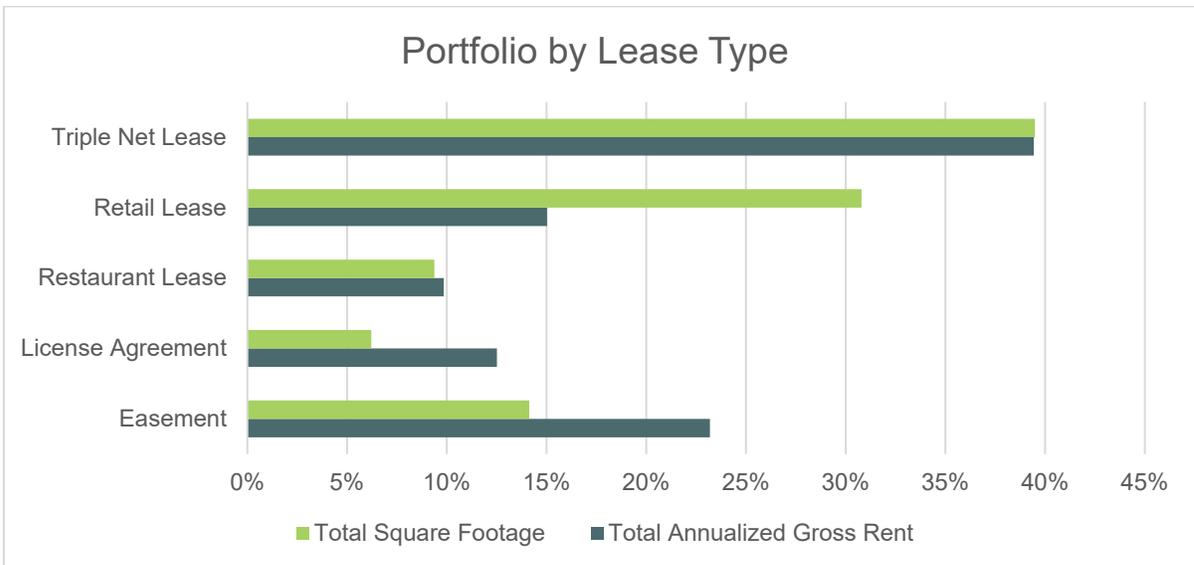
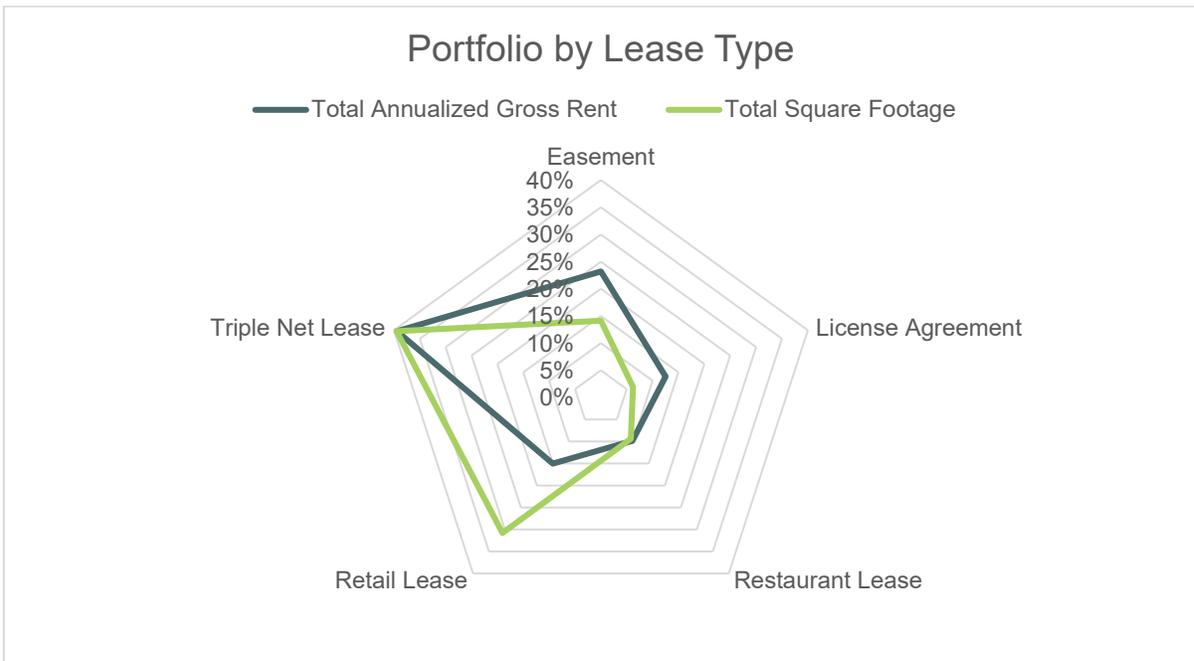




EXHIBIT 7: PORTFOLIO BY LEASE TYPE, TOTAL GROSS RENT, AND TOTAL SQUARE FOOTAGE



C. ANNUALIZED GROSS BASE RENT BY LEASE EXPIRATION

The chart below summarizes annualized gross base rent according to lease expiration timeline. It would appear that over 50% of current leases are expired or held over, per rent roll reporting. This level is significantly higher than optimal.

EXHIBIT 8: TOTAL GROSS ANNUALIZED REVENUE BY LEASE EXPIRATION DATE

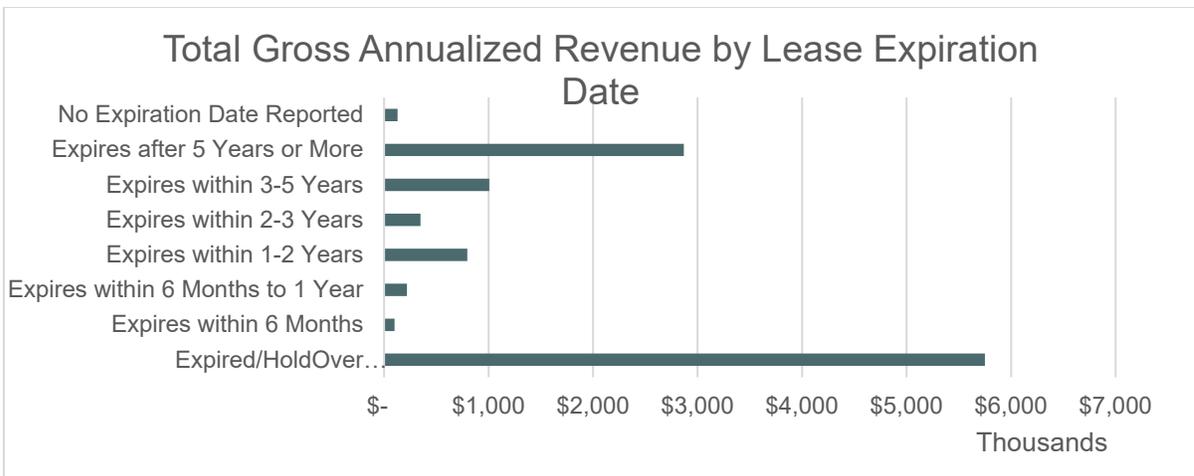




EXHIBIT 9: ANNUALIZED GROSS BASE RENT BY LEASE EXPIRATION

Gross Annualized Revenue By Lease Expiration Date



- Expired/HoldOver (June 30, 2020 or prior)
- Expires within 6 Months
- Expires within 6 Months to 1 Year
- Expires within 1-2 Years
- Expires within 2-3 Years
- Expires within 3-5 Years
- Expires after 5 Years or More
- No Expiration Date Reported

Date: August 12, 2020

To: Audit Subcommittee of the Santa Monica City Council

From: Jennifer Taylor, Economic Development Manager

Subject: Moss Adams LLP – City of Santa Monica EDD Property Management and Leasing Review

We would like to thank Moss Adams LLP for their thorough review and analysis of our team's property management and leasing efforts. As the report stated, we have experienced significant changes due to the City's budget deficit and associated restructuring. We have lost several staff members due to the restructuring and to retirement. At the same time, our real estate leasing portfolio has subsequently grown since the Moss Adams audit initially took place and now includes Santa Monica Beach and Airport property management. As such, we have now addressed the recommendation #1 for centralizing oversight of the City's real estate operations.

The timing of this report is critical. We are ready and positioned to undertake many of the recommendations provided by Moss Adams in order to achieve operational efficiencies, enhance customer service while helping to leverage the City's real estate assets more effectively in an effort to generate much-needed revenue for the City. We have inherited many old and antiquated systems and look forward to a streamlined leasing process. Thankfully we have a very talented and experienced team in place that also embraces change.

In particular, I would like to address the following Moss Adams report recommendations:

2 – Inventory and develop critical policies and procedures. We have inherited five sets of leasing guidelines – one specific to SM Pier, one for SM Beach, another to Downtown SM Inc, one for Bergamot Station Arts Center and another for SM Airport. We are in process now of reviewing the various guidelines and look forward to working with Finance and the City Attorney's Office to create a unified citywide leasing policy with standardized leasing templates. This is a high priority for us.

#4 – We are working closely with SM Airport staff, ISD and Finance to transition from YARDI to ProDIGIQ for tracking leases, collecting payments and providing month end reports. This new software should help streamline and optimize our efforts. As the Moss Adams report correctly identifies, EDD (and Airport) staff currently waste too much time manually entering the same data in different systems and cross checking. It is an extremely inefficient process. We will require support from our ISD Team to facilitate this transition and integrate the software with Tyler Munis. As leasing activity is a critical revenue generator for the City, this software integration effort needs to be a high priority for the City.

#6 + #8 – We welcome the opportunity to work with Council to review, amend and adopt new Citywide Leasing Guidelines and a Property Management Strategy. We currently have inconsistent, competing policy priorities within our leasing guidelines – such as leveraging City assets to generate market rents vs. utilizing City assets to support artists and non-profits at below-market rates. The variations within our leasing guidelines, by location, further complicate the process. Transitioning from a time-intensive RFP process to a more efficient system utilizing third party brokers, along with clear leasing guidelines to authorize staff negotiations for smaller properties, all will assist in realizing greater efficiencies and revenues and having happier tenants.

#7 – As we witness the impacts of COVID on commercial leasing, we anticipate more leases will transition into percentage-rent models with the City taking on a greater role as equity investor in its tenants. We have an existing audit process in place. Efforts to further refine it and pass along audit responsibilities to tenants utilizing approved City vendors could be a good solution. We will continue to evaluate the options and best practice efforts.

In conclusion, we are supportive of the Moss Adams report and recommendations. We look forward to implementing many of the recommendations in FY20/21 and FY21/22. Melissa Lindley, Principal Administrative Analyst, and I will be attending the Audit Subcommittee Meeting on August 18th and look forward to feedback and answering any questions.

Thank you for your consideration and support.



Proprietary & Confidential

FINAL REPORT

City of Santa Monica
PARKING CONTRACT REVIEW

August 11, 2020

Moss Adams LLP
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Seattle, WA 98104
(206) 302-6500



This report is intended for the internal use of City of Santa Monica, and may not be provided to, used, or relied upon by any third parties.

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I. EXECUTIVE SUMMARY

The City of Santa Monica (the City) entered into an agreement (the Agreement) with SP Plus Municipal Services, an operating division of SP Plus Corporation (SP+) on November 30, 2015, and renewed the Agreement on October 14, 2019. The Agreement is now extended through November 30, 2022. For the full extended contract term of seven years, the Agreement amount was not to exceed \$38.2 million, with an average of \$5.5 million annual budget overseen each year. The Agreement requires SP+ to manage and operate parking operations on behalf of the City, which includes, but is not limited to, the following:

- Managing, operating, and maintaining the City's public parking facilities which includes:
 - 13 off-street parking structures/garages with approximately 7,000 spaces; and,
 - 28 off-street surface parking lots with approximately 6,000 spaces.
- Collecting and depositing parking revenues from the public for daily parking, monthly parking permits, keycards (for non-meter parking), and validation sales. In fiscal year 2018-19, approximately 10 million customers were serviced totaling \$42.4 million in revenue collected across multiple funds (General Fund, Beach Recreation Fund, and Pier Fund).
- Providing revenue forecasts based on City-proposed or adopted parking fees.
- Providing maintenance and engineering services for City parking facilities, equipment, and elevators.
- Providing the City with a robust web-based reporting platform, enabling the City to generate reports and view data.
- Designing, implementing, and maintaining a system of internal controls.
- Providing ancillary services to support City programs including:
 - Parking facility maintenance, including plumbing, painting electrical, fire protection, etc.;
 - Elevator repairs and maintenance (via subcontract);
 - Go-with-the-Flow traffic management special event activations;
 - Bike Valet and Farmer's market staffing support; and,
 - Santa Monica High School crossing-guard services.

SP+ **does not** oversee the on-street parking meter program, as this program is co-managed by City departments (Community Development Department and the Finance Department).

Under the Agreement, the City may subject SP+ to an annual third-party audit. Moss Adams LLP was asked by the City to perform a contract review of the current Agreement between the City and SP+ for parking management services. The goal of the review was to assess whether SP+ was in compliance with significant aspects of the Agreement, as well as to determine whether adequate controls over contract compliance had been established. Our contract audit took place between February and June 2020.

The contract review was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. The specific methods used for testing contract compliance are presented in the Scope and Methodology section below. The scope of our review was



focused on testing for compliance with significant requirements in the Agreement. Our review included testing procedures in the following areas:

- Employee parking cards
- SP+ reporting to the City
- Daily cash collections, deposits, reporting, and reconciliations
- SP+ invoicing to the City
- Parking equipment and maintenance tracking
- AR/Billing collections and monitoring
- Standard operating procedures (SOPs)
- Purchasing

There were some areas where SP+ appeared to be in compliance with Agreement requirements and solid internal controls were in place. Some examples of commendable areas include:

- SP+ submits invoices on a monthly basis to the City, and invoices tested were adequately supported and included charges allowable, including the proper calculation of the program management fee, per the Agreement.
- Reports on monthly activity and revenue were prepared by SP+ and submitted to the City for review.
- Cash collections, and the related deposits, were performed within the established timelines of the Agreement.
- The cash collection and deposit process appears to be well-controlled and automated, resulting in minimal human interaction and overall protection over the payments collected. In the daily collections assessed during this review, the automatic process was in place and multiple reconciliations were performed by SP+ and the Division, as well as Finance, to ensure that all funds collected were ultimately deposited.

Similar to most contract reviews, there were areas where practices were not in compliance with Agreement requirements, and there were opportunities to strengthen policies, procedures, systems, and controls. Suggested priorities to address over the next 6 to 12 months include, but are not limited to:

- Increase monitoring of City parking cards and restrict system access to key parking card functions.
- Clarify reporting timelines and ensure deadlines are met. Implement cross-training for reporting responsibilities to support the timely submission of reports to the City.
- Improve tracking and reporting related to parking equipment, including tracking inventory, maintenance performed, replacement schedules, and related issues as they are identified and resolved. Assess the overall impact/cost (revenue, time, customers, etc.) of continuing to use outdated parking equipment.

The City is planning to request a modification to the Agreement with SP+ in the near future, which would extend the Agreement term an additional three years (i.e., the full Agreement term would be ten years through November 2025). If the Agreement is modified (extended), the recommendations included in the detailed report below should be considered, and language should be incorporated into



the amended Agreement, where appropriate. Adding clarified language to several areas within the Agreement will help to better define roles and responsibilities between the City and SP+ and better align expectations.



II. SCOPE AND METHODOLOGY

The scope of our contract review included an evaluation of the Agreement, SP+ standard operating procedures, and applicable City parking policies and procedures. To gain an understanding of the processes and controls in place, we conducted extensive interviews with key personnel from both SP+ and the City's Parking Operations Division (the Division). Through these interviews, we gained insight on key functions related to parking operations, concerns, or areas that could be improved, and an overall understanding of the roles and responsibilities of each party as well as the current control structure.

The specific focus areas of the contract review, as well as a summary of the procedures performed to test for compliance, included the following:

Employee Parking Cards

To assess whether employee parking cards were well controlled and only issued to current employees, we performed the following:

- Obtained a list of current City employees and a list of all current active parking cards. We selected a random sample of 100 active parking cards to determine whether they were issued to current City employees. For all parking cards that were issued to an individual who was not on the list of current City employees, we inquired and requested documentation to determine whether the card was appropriately issued and supported.
- Obtained a SKIDATA system access report showing all individuals who have access to activate/deactivate City employee parking cards and assessed the report to determine whether access appeared to be well-controlled and whether only employees who warranted access to this system function had been granted access.
- For the month of January 2020, we requested the report submitted to the City by SP+ showing the reconciliation of parking cards activated/deactivated to determine whether the reconciliation was performed and properly supported.

SP+ Reporting to the City

We obtained an understanding, per the Agreement, of the reporting SP+ is required to provide to the City, the methods SP+ uses to prepare and approve those reports, and the deadlines for submission. To test for compliance with reporting requirements, we randomly selected two months during the review period (December 2019 and January 2020) to assess whether:

- The required reports were prepared, approved, and submitted by SP+.
- SP+ maintained supporting documentation for the reports submitted.
- The deadlines for the monthly submissions were met.

Daily Cash Collections, Deposits, Reporting, and Reconciliations

We randomly selected a period of five consecutive dates within our review period (July 16 through July 20, 2019). For each date selected, we obtained all system-generated cash receipt reports,



deposit and reconciliation documentation, credit card sales reports, and daily reports produced and submitted to the City. We utilized this information to:

- Assess the personnel responsible for key functions in the process to determine whether proper segregation of duties and reviews/approvals were in place.
- Document the dates of collection, deposit, and reporting to the City and assess for compliance with the Agreement.
- Attempt to determine whether sequentially ordered receipts/tickets were being used.
- Evaluate the process for internal controls to mitigate risks associated with cash receipt handling.

SP+ Invoicing to the City

We randomly selected three months during the review period (July, August, and September 2019). For each month, we assessed the SP+ invoice and supporting documentation as follows:

- Reconciled the invoices to supporting documentation.
- Recalculated the program management fees to assess for compliance with the defined fee structure in the Agreement.
- Assessed the SP+ invoice review process prior to submission to the City, and subsequent payment by the City to SP+.
- Compared charges on the monthly invoices to the allowable charges per the Agreement.
- Assessed the submission date of the invoice to the City for compliance with the due dates presented in the Agreement.
- Assessed whether there appeared to be controls for ensuring City procurement policies and procedures were adhered to.

In addition, we gained an understanding of the process for budgeting for expenses incurred by SP+ on behalf of the City, as well as internal processes for comparing expenses to the budget available and actively monitoring it on a regular basis. For the months selected for testing, we assessed whether there was documentation that a budget to actual analysis was performed and whether it appeared that it was being used effectively as an operational tool.

Parking Equipment and Maintenance Tracking

We obtained an understanding of the various types of parking equipment in place and the system/software that the equipment runs on. Given that a lot of the parking equipment is very old, we attempted to assess the overall impact/cost associated with utilizing the old equipment through:

- Determining if a parking equipment list was maintained to track the age of equipment.
- Determining if a system or process was in place to track maintenance, issues, and costs related to specific pieces of equipment.
- Assessing the maintenance and daily inspection logs maintained by SP+ for compliance with Agreement requirements.
- Assessing whether trend analysis by specific pieces of equipment could be performed to identify potential repetitive issues/problems.



- Analyzing the customer complaint tracking and reporting processes for adequacy, including documenting resolution and assessing for trends.

Accounts Receivable/Billing Collections and Monitoring

We obtained A/R aging, billing, and collection reports for two months (August and September 2019) during the audit period. We assessed the reports available to determine:

- Whether monthly invoicing was occurring for the monthly parking passes that were still active. No new parking passes were being issued; however, existing ones were still honored.
- If old aged accounts (over 90 days) appeared to be actively managed, and either collected or written-off.
- If a reconciliation of A/R balances between the months could be performed (i.e., whether the ending balance was equal to the beginning balance plus new billings, less collections).

Standard Operating Procedures (SOPs)

We assessed the Agreement to identify what SP+ is required to have documented in a current Operations and Procedures Manual or detailed SOPs to guide parking operations and management for the City. We obtained all existing SOPs that related to City operations and management from SP+ and assessed whether the required areas of coverage were included and if they appeared to be current and up to date.

Due to the COVID-19 pandemic, which was occurring at the time of this contract review, we were unable to perform certain planned procedures as we were unable to go on-site for testing. Specifically, we were unable to perform the following:

- Physical observations of the inventory on-hand, including parking permits, parking validations, and parking ticket stock.
- Assessment of the overall management and tracking of inventory, the accounting for sequential ticket stock, and other inventory controls. We were also unable to assess whether tickets were being issued in sequential order, and that all ticket numbers were being accounted for.
- A walkthrough to include tracing ticket numbers from each system to assess for gaps or non-sequential tickets.
- A walkthrough of the functionalities of the portal used by SP+ to maintain, and give the City access to, all parking operations supporting documentation, including detailed purchase support such as quotes obtained, requisitions, and documentation of bids/proposals, and reporting tools. The walk-through was meant to physically try using the system functionalities to assess the ease of use of the overall portal.

Properly managing and controlling inventory stock, including the tracking of sequential receipts, helps to prevent misappropriation or lost revenue. The portal houses information, support, and reports that are required by the Agreement, and aids in assessing the overall management of key functions of operations, such as performing and documenting the procurement process, and providing access to real-time reporting tools. The City should consider including these additional on-site procedures during a future follow-up review.



III. FINDINGS AND RECOMMENDATIONS

Based on the input gathered from interviews, document review, detailed testing and other procedures, as well as comparisons to best practices, we prepared a comprehensive set of findings and recommendations, which are detailed below.

A. EMPLOYEE PARKING CARDS

1. Finding	Parking card monitoring could be improved to ensure that all active cards are issued appropriately and that cards are deactivated timely upon an employee’s termination or when a third-party (non-employee) ceases work with the City.
Recommendation	Develop a process for actively monitoring employee and non-employee parking cards and ensure parking cards are deactivated timely upon an employee’s termination or a non-employee no longer requiring access.

SP+ is responsible for managing and monitoring employee and non-employee (i.e., contractors, temporary employees, etc.) parking cards. This includes handling all parking card activations and deactivations, providing regular reporting on parking cards to the City, and ensuring access to the SKIDATA system is controlled. At the time of this review, there were approximately 1,500 active parking cards.

During our analysis of a sample of 100 active parking cards as of March 2020, we identified the following:

- In two instances (2% of the sample), an employee had been terminated, but the card had not been deactivated. The last dates of employment for the two individuals were December 28, 2019 and January 2, 2020.
- There were eight instances (8% of the sample) where a parking card was assigned to someone who was not included on the City’s Active Employee Listing. Upon inquiry, we were informed that these were likely due to temp agency personnel, volunteers or contractors that were working with various City programs. However, a current list of all active non-employee individuals working with the City could not be provided to assess whether the related active non-employee cards were appropriate.

The instances identified above imply that employee parking cards are not always deactivated timely upon termination and that a monitoring process for non-employee-issued cards needs to be implemented. In addition, while SP+ performs a reconciliation of all activations/deactivations on a monthly basis and reports the results to the City, the non-employee parking cards are not included on this reconciliation.

- *Employee Cards:* The process by which SP+ activates, deactivates, and reconciles parking cards should be evaluated. SP+ and the Division should coordinate with Human Resources (HR) to receive a monthly “City Employee Separation Report”. SP+ and the Division should review this report monthly to proactively deactivate parking cards timely for terminations. In general, the process should ensure that parking cards are cancelled on, or shortly after, an employee’s last



day of employment. As a control to ensure that all terminations were communicated and that deactivation occurred, the list of active employee parking cards should be reconciled to the Active City Employee Listing on a monthly basis by SP+.

- *Non-Employee Cards:* It was unclear how parking cards issued to non-employees are being monitored. These parking cards should be subject to monitoring and regular oversight; however, given that there are several programs throughout the City that request non-employee cards for different situations, a full reconciliation each month may not be possible. However, a SKIDATA report of all active non-employee cards should be run each month and a reasonableness review should be performed by someone within SP+ or the Division. This reasonableness review should consider if any known changes have occurred (i.e., contracts expiring, volunteer events ending, etc.) that would affect parking cards. Where appropriate, the reviewer should reach out to the program that initially requested the card to confirm that it is still needed. In addition, consider requiring an expiration date for non-employee cards, upon which the program working with the non-employee must resubmit documentation to ensure the parking cards are still warranted. Non-employee parking cards should be deactivated immediately when they are no longer needed for City business.

2.	Finding	Access to the activation/deactivation function for City parking cards within the SKIDATA system is not adequately restricted.
	Recommendation	Properly restrict system access to SKIDATA activation/deactivation functions to City employees and SP+ personnel who warrant access based on their current roles within the City's parking function.

The City purchased the SKIDATA hardware and software system in 2017 for the Downtown Civic and Pier Deck off-street parking facilities. The parking equipment and system is used to provide controlled arm-gate access to these facilities and various payment options for parking fees. SP+ is responsible for operating the SKIDATA system, coordinating and scheduling SKIDATA technicians, and providing supplemental equipment maintenance and repairs in the field.

We obtained a SKIDATA system access report showing all users able to activate or deactivate a City parking card. This report showed that there were 81 accounts set up that may have activation/deactivation access granted; however, only four of these accounts were for current City and SP+ employees whose current job responsibilities warranted access. Of the remaining 77 accounts, 29 appeared to be “system accounts” that were not directly attributable to a specific person, and it was unclear who would have knowledge of the relevant login credentials. The remaining 48 accounts appeared to be related to individuals who were not City employees; thus, they may be for individuals employed with SP+. There also appeared to be duplicate accounts set up for some users.

There are varying levels of access rights that can be setup in SKIDATA, and it was unclear if all of these active accounts had inappropriate access; however, we could verify that approximately half of them were assigned “Administrator” access which gives them access to all system functions. SP+ and the City should work together to review the current list of 81 accounts and determine if any are warranted, based on job responsibilities, outside of the four individuals identified as needing access. Access to sensitive functions (i.e., activation/deactivation) should be removed for all other individuals and system accounts to prevent unauthorized changes. System access reports should be reviewed regularly to ensure that only required access to sensitive functions is granted. Controlling system



access helps to mitigate the risk that someone could inappropriately activate old parking cards or misappropriate parking cards in the inventory stock for personal use/benefit.

B. SP+ REPORTING TO THE CITY

3.	Finding	Required monthly reports are not consistently submitted to the City by the established deadline.
	Recommendation	Establish a process to ensure reports are submitted by the required deadlines, even in the event of an employee’s absence. Ensure reports are submitted by the deadlines presented in the Agreement, or document an alternate due date (i.e., the 15 th) that is acceptable to both the City and SP+.

The Agreement requires SP+ to prepare and submit two detailed monthly reports to the City:

- **Downtown Structures Monthly Report**, which includes a monthly operating report, monthly revenue report, and monthly non-revenue and revenue ticket counts. This report is due to the City by the 15th of the following month.
- **Beach and Pier Parking Locations Monthly Report**, which includes a monthly operating report, monthly revenue report, and monthly non-revenue and revenue ticket counts. This report is due to the City by the 5th of the following month.

During our assessment of the reports for December 2019 and January of 2020, we found that these reports are not consistently submitted to the City by the deadlines in the Agreement. Specifically, we found:

- The December 2019 reports, which were due on January 5th (Beach) and January 15th (Downtown), were not submitted until March 5, 2020.
- The January 2020 reports, which were due on February 5th (Beach) and February 15th (Downtown), were not submitted until March 5, 2020.

After discussions with SP+ and City personnel, it was determined that the delays were due to an employee being out on leave, and the reports not being prepared and submitted until they returned. SP+ provided support for five additional months, which showed that both reports (Downtown and Beach) were typically submitted by the 15th of the following month. Standard practice was to prepare and submit the reports at the same time, rather than on the 5th and 15th, as required by the Agreement. While this did not seem to be of concern to the Division, it does result in the Beach report being submitted subsequent to the deadline each month.

Given that reports are typically submitted by the 15th of each month, SP+ should implement the following to ensure that requirements of the Agreement are adhered to:

- Cross-train additional personnel to perform the reporting function in the event of an absence.

Discuss the reporting date discrepancy (5th versus 15th) with the Division and come to a mutual understanding of whether the deadlines in the Agreement must be adhered to, or whether consistently submitting reports on the 15th is acceptable. If both parties agree that an alternative due



date, outside of those presented in the Agreement, is appropriate, document the agreed-to requirements and obtain approval by both parties to support contract compliance.

C. DAILY CASH COLLECTIONS, DEPOSITS, REPORTING, AND RECONCILIATIONS

4. Finding	Parking Access and Revenue Control System (PARCS) equipment-generated reports were not being submitted to Division daily, as defined by the Agreement.
Recommendation	SP+ should evaluate how their internal process for preparing and submitting daily reporting packages to the Division could be improved to ensure the 48-hour deadline is consistently met.

The Agreement requires daily submission of PARCS equipment-generated reports, daily cash receipts, copies of deposit slips, and an equipment-generated summary of credit card sales to the Division no later than 48 hours after collection of revenue. PARCS is the operating system for most of the Division’s parking equipment, and it interfaces with SKIDATA and other system used.

During our analysis of the cash receipt, deposit, and reporting support for five days of the reporting period (July 16 through July 20, 2019) for both the Downtown and Beach sites, we found that nine of the ten daily reports were not submitted within the 48-hour timeline as required by the Agreement. The reports were submitted between one and eight days after the 48-hour deadline. The Division was able to provide an email in which the expected delayed submissions were communicated due to turnover that had occurred; however, the Agreement does not state in what circumstances a delayed timeline is acceptable, and in some of the instances identified, the actual reporting date did not meet the revised schedule submitted in the email. It is important to note that the delays in reporting to the City did not affect the actual depositing of the related revenue, as all deposits were processed on the same date that the cash/payments were collected.

SP+ should evaluate the internal processes that occur between when time collections are performed and the related deposit made, and when reports are ready for submission to the Division. Given that almost all (nine of the ten) reports tested were submitted late, indicates that an improvement to the overall process for preparing daily reporting packages, reviewing them internally, and submitting them to the Division needs to be made. Cross-training other individuals, outside of the primary person responsible for this reporting function, to either assist in the process or fill in if there is an absence, could help to ensure the deadline is consistently met.

If it is determined that the 48-hour deadline is not reasonable, or typically not achieved due to factors that cannot be prevented, such as pending information, system capabilities, etc., then SP+ and the Division should discuss to determine whether a later deadline is acceptable and appropriate. Any decisions that affect the language in the Agreement should be documented and that support should be maintained with the Agreement.



D. SP+ INVOICING TO THE CITY

5.	Finding	It is unclear whether SP+ is required to follow procurement requirements (due diligence, bids, proposals, etc.) for purchases made on the City's behalf.
	Recommendation	Clarify with SP+ as to whether the City's AI must be followed for all purchases made on the City's behalf.

The City and SP+ work together to develop an annual budget for parking operations. Once this budget is approved, SP+ carries out parking operations and incurs expenses on the City's behalf, which are subsequently reimbursed by the City through the monthly invoicing process. Budget to actual monitoring is performed monthly. This arrangement provides significant benefit to the City as it allows SP+ to process purchases, issue disbursements, and manage operations in real time, and allows for the City to benefit from the national market share discounts that SP+ obtains. SP+ and the Division communicate regularly and most purchases are preapproved by the City prior to the actual purchase being made.

It is unclear within the Agreement as to whether SP+, along with the Division, is responsible for ensuring that City purchases under this Agreement are subject to the overall City Procurement Administrative Instruction (AI) (IV-4-1). Specifically, the AI establishes thresholds in accordance with the City Code for due diligence (informal or formal quotes, bids or proposals) requirements based on dollar amount to ensure a competitive process is followed for purchases over the set threshold. The Agreement does include procurement provisions related to the approved budget and addressing reallocating budget line items, reasonable expenditure approval authority and cost overruns. SP+ also has internal corporate procurement guidelines. However, given that purchases are made by SP+ on behalf of the City, related purchases and the supporting documentation must adhere to the City's AI.

During our testing of monthly invoices, we attempted to select a sample of larger purchases to assess whether its underlying documentation was in compliance with the AI; however, given the ways the invoices are prepared, expenses are budgeted, and individual invoiced charges related to one larger purchase spread across several months, we were unable to perform this testing.

SP+ and the Division should define the purchasing requirements for purchases made by SP+ on the City's behalf. While preapproval of expenses is typically provided by the City, and the overall Agreement budget is agreed to, clarification should be made as to what due diligence is required for purchases. Competitive purchasing benefits the City by ensuring a fair and reasonable price is obtained for goods and services. An assessment of whether or not competitive purchasing is required, and how it must be documented, should be performed and documented. If SP+ is required to comply with the City Procurement AI, an analysis should be performed to determine whether this has been occurring on all past purchases. The Agreement is unclear in this area.



6.	Finding	<p>The annual detailed budget process for those expenses that are charged through the SP+ contract as part of the Agreement, is not formalized, and adjustments are not processed formally.</p> <p>Budget to actual tracking is performed; however, it is difficult to trace individual purchases to budget line-items.</p>
Recommendation		<p>SP+ and the Division should collaborate to prepare operating budgets on a yearly (fiscal) basis, as it relates to expenses through the Agreement. The budgets should be agreed to and significant changes should be documented and approved.</p> <p>The recording of actual expenditures against budgeted line-item categories should be evaluated for more accurate ways to monitor budget to actual by line-item.</p>

The Agreement included a budget (Exhibit B-1) for operating expenses that could be paid by SP+ and reimbursed by the City of approximately \$4.4 million to \$5.0 million per year. However, this budget was approved by the City based on an assessment of operations in place in 2015 and had not been updated until the fiscal year ending June 2020. That budget was meant to cover each year of the contract; however, significant changes to parking operations have occurred since the time it was developed. The Agreement allows for “non-material adjustments,” including additions, deletions, or other revisions, to be made to the scope of services or budget. Reallocation of line item budgets can be performed with “reasonable approval by the City, as long as the expenses do not exceed the total operating expenses for each year.”

SP+ and the Division appeared to be monitoring budget to actual reports each month; however, for 2015 through June of 2019, the annual detailed budget from 2015 was not updated proactively between SP+ and the Division reflect changes in operations, responsibilities of SP+, added services, or other significant changes. Rather, the City tracked the SP+ budget based on a bottom-line approach, ensuring that the total expenses each year did not exceed the total budget allowed. This approach did not allow for meaningful monitoring to be performed on a detailed line-item basis between 2015 and 2019. Beginning in early fiscal year ending June 2020, SP+ and the Division collaborated to develop a more meaningful budget and updated individual line items to reflect anticipated spending based on actual expected expenses in each line-item category.

In addition, given the ways in which individual invoices and expenses are charged back to the City on a monthly invoice, we were unable to determine if the budget truly could be used to monitor line item balances real-time. Instead, a monthly reconciliation approach was being utilized to compare budget to actual amounts by line item. SP+ does provide a sub-system (SP+ Client View) that could provide more meaningful line-item budget to actual reporting; however, for the months tested during this review, an overall reconciliation approach was being used rather than a real-time line item monitoring approach.

SP+ and the Division should work together each year to develop a detailed line-item budget that accounts for all changes that have occurred and are expected in the upcoming year. The Agreement should be modified to reflect what is required, including approvals and monitoring reports, each year as right now the Agreement includes the same budget that was approved back in 2015. When there



are non-material adjustments, the approval should be documented in some way, and the budget should be amended/changed to reflect the adjustment to allow for more accurate ongoing budget to actual monitoring. The current process/system for tracking and reporting actual expenditures by category should be evaluated to provide a consistency between budget and actual expenditure tracking.

E. PARKING EQUIPMENT AND MAINTENANCE TRACKING

7. Finding	Some of the City’s parking equipment, and the related systems the equipment runs on, is nearing end of life. Additionally, there is limited tracking of maintenance issues or equipment problems related to parking equipment.
Recommendation	The overall age of the City’s parking equipment, the systems the equipment runs on, and the impact/cost of using older equipment should be assessed.

The Agreement requires that SP+ serve as the City’s parking facilities manager, which includes the requirement to maintain an inventory of all equipment and associated maintenance schedules. SP+ is also responsible for managing the contracts for performing parking equipment maintenance with a Service Maintenance Provider and ensuring all customer complaints are handled and resolved quickly and effectively. There are several system and equipment providers, including SKIDATA, T2 and Hi-Tech, that SP+ works in conjunction with to fulfill these Agreement responsibilities.

During interviews, it was communicated that a lot of the parking equipment currently in use is very old, prone to mechanical and other issues, and runs on systems that do not provide adequate reporting. During our assessment of the impact of the older equipment, we identified the following issues contributing to the problem:

- A current list of all parking equipment, tracking the date of purchase and other key information, is not maintained; therefore, we were unable to assess the overall age of the equipment being utilized for City parking operations. SP+ or the Division could not provide this listing.
- While daily inspection logs and issues logs are maintained, the information provided on those logs does not denote the specific machine/piece of equipment. Issues identified are not tracked by machine/piece of equipment, and the resolution of specific issues is not always documented. The daily logs primarily relate to minor issues (cosmetic-type problems, trash/cleanliness, or sign issues), and typically only denote “pass” or “needs follow-up” rather than the specific issue and the related resolution.
- A formal reporting system for customer complaints related to parking equipment or facilities is not in place; however, SP+ deploys a secret shopper program to assess the customer experience.

Given the items above, it is not possible to track the impact of issues and malfunctions of older equipment and the related systems/software, or to assess the overall impact/cost of potential lost revenues to the City. As such, we were unable to determine the overall impact that aged equipment has on parking operations and the related revenue to the City. As identified in the Standard Operating Procedures finding below, SP+ does not have SOPs covering Equipment Inventory or Maintenance and Replacement Schedules for equipment, which could be a cause of the issues presented above.



SP+ and the City should collaborate to determine ways to begin tracking equipment-related information, including maintenance performed, issues reported, resolution of issues identified, and customer complaints. Going forward, a means of reporting and monitoring the impacts/costs associated with old equipment should be tracked and reported to allow the City to perform a cost-benefit assessment for replacing old equipment. A full equipment inventory, which tracks the date of original purchase or an estimated date, as well as maintenance and replacement schedules for all equipment, should be developed and maintained on an ongoing basis.

Given the systems/software that the parking equipment uses are old, the reporting and controls over these systems should be assessed to determine what risks they pose to the City. Older systems are more prone to errors in reporting and allow for controls to be more easily bypassed, which could result in misappropriation going undetected.

SOPs covering Equipment Inventory, Maintenance Schedule, and Replacement Schedule should be developed and implemented, in compliance with the Agreement. Refer to the Standard Operating Procedures below.

F. ACCOUNTS RECEIVABLE/BILLING COLLECTIONS AND MONITORING

8. Finding	<p>There are large A/R credit and debit balances in the 120 days or older category that have not been fully addressed to remove them from the A/R listing.</p> <p>Systems access to the billing system is not restricted to only individuals with billing responsibilities.</p>
Recommendation	<p>SP+ should work with the City to ensure the old A/R is cleaned up in the system, and that only balances in which collection efforts are currently being made on, are included. Old accounts should be written-off allowing for more accurate reporting and monitoring of the rolling A/R balances.</p> <p>Systems access should be restricted to only those individuals that are responsible for billing activities related to the City of Santa Monica A/R.</p>

SP+ is responsible for billing and collection efforts related to parking keycard permit access monthly cards (parking cards) that are still being honored by the City. New monthly parking cards are not being issued. SP+ bills customers in advance (i.e., the month before) in all cases except for specialized license agreements, using the SP+ Central Accounts Receivable System (CARS). Customers remit payment directly to SP+, and all A/R and payment activity is recorded in CARS, not in the City's system, which results in the related A/R not being included on the City's balance sheet. SP+ then remits payment to the City via wire transfers to the City's bank account, at which time, the payments are recorded as revenue by the City.

In fiscal year 2017–2018, Moss Adams performed a review in this area and provided recommendations to improve the management of billing and collections related to parking card A/R. Following that review, SP+ and the Division implemented several improvements to the overall A/R monitoring and management function. Based on our analysis of the current A/R function, it does appear that significant improvements have been made and there is a process in place to keep A/R



balances current by deactivating cards if payment is not received within 60 days of the due date. However, there are a few large account credit balances (approximately \$1.5 million) on old accounts that are now being billed manually versus utilizing the system. In addition, there were some old accounts with debit balances that had not been adjusted or written off.

Based on our discussions with management, they have been trying to correct these accounts for several years; however, had not been successful in getting them resolved (i.e., adjusted or written-off) as of the time of this review. There had initially been plans to resolve the issues in early 2020; however, due to COVID-19's effect on City operations and priorities, this had not been resolved. These old aged accounts make A/R reporting and monitoring more difficult as it is difficult to distinguish if new A/R balances are hitting the 90-day or older categories.

Finally, based on a memo provided by SP+ and a systems access report related to the City of Santa Monica account in the CARS billing system, it appears that there 590 SP+ users with access to the account. Systems access should be restricted to only individuals who are responsible for billing and collections on the City of Santa Monica A/R, and SP+ should ensure that none of those individuals are also responsible for handling the related payments (cash receipts) on those accounts.

SP+ and the City should work together to resolve the system issues and clean-up the old A/R. Going forward, a roll-forward should be performed each month to ensure the ending balance, plus new billings, less collections, ties to the ending A/R balance. In addition, any A/R that hits the 90-day+ categories should be addressed immediately. It is difficult to determine if this is occurring regularly given the large A/R balances residing in the 120+ days category. If the Agreement is modified, the City should consider modifying the language around billing and collections to be more consistent with the City's current AI in this area.

G. STANDARD OPERATING PROCEDURES (SOP)

9. Finding	Many of the SOPs that SP+ is required to develop and keep current, in accordance with the Agreement, were either incomplete, did not appear sufficient to meet the requirements or did not exist.
Recommendation	SP+ should review all SOPs, compare them to Agreement requirements, make updates or draft new SOPs to meet the requirements of the Agreement, and obtain City approval.

The Agreement requires SP+ to prepare and maintain an up-to-date Operations and Procedures Manual (SOPs) that reflect the method of parking lot operations proposed by SP+. These SOPs must be proposed to, and approved by, the City. The manual must cover 16 key areas of operations specified by the Agreement.

In our analysis of the SOPs provided by SP+, we identified the following:

- Many of the 16 required SOPs were available. However, several were incomplete, did not appear sufficient to meet the requirements of the Agreement, or were not included, including:
 - *Graffiti Abatement* – An SOP covering this area was not provided.
 - *Quality Control (QC) Plan* – A QA Assessment was provided; however, a detailed QC Plan was not.



- *Facility Maintenance Procedures and Schedule* – Some elements of these were covered throughout other SOPs; however, a comprehensive set of procedures and detailed schedule were not provided.
- *Equipment Inventory, Maintenance Schedule, and Replacement Schedule* – The SOPs provided covered facility inspections and a 2020 space count inventory; however, SOPs covering equipment inventory or maintenance and replacement schedules were not provided.
- *Company personnel policies, including Affirmative Action Plan* – SP+ personnel policies were provided; however, not an Affirmative Action Plan.
- *Alarm Procedures* – SP+ has an Emergency Plan that requires location supervisors to familiarize themselves with the local alarm system and ensure employees understand its function; however, there are no other alarm procedures included.
- Most of the SOPs are not dated; therefore, we were unable to determine whether they are up to date and reflect current practices. The three SOPs that were dated indicate the last updates occurred in 2016, 2017, and 2020.
- There was no documentation available as to whether the SOPs were originally submitted to the City for approval, or if significant updates to the SOPs over the years had been submitted to the City for approval.

A full review of the SP+ SOPs should be performed. All SOPs required by the Agreement should be either updated to ensure they reflect current practices, or developed if they do not exist. SP+ and the Division should work together to ensure that the SP+ SOPs meet the requirements of the Agreement, including detailed language throughout the Agreement on what the responsibilities of SP+ are in these areas, and ensure, where appropriate, that they are consistent with City policies.

Once drafted/updated, the full set of SOPs should be submitted to the City and documentation of approval should be maintained. These SOPs should be evaluated at least annually to ensure they are up to date, and any significant changes should be submitted to the City for review and approval.



MOSSADAMS

Management Responses to the City of Santa Monica Parking Contract Review

By Parking Operations Division, Community Development Department, City of Santa Monica

Moss-Adams Auditors, LLP, audit preparer

August 11, 2020

A. Employee Parking Cards

1. Finding: Parking card monitoring could be improved to ensure that all active cards are issued appropriately and that cards are deactivated timely upon an employee's termination or when a third-party (non-employee) ceases work with the City.

Recommendation: Develop a process for actively monitoring employee and non-employee parking cards and ensure parking cards are deactivated timely upon an employee's termination or a non-employee no longer requiring access.

Manager's Response: We agree. The Division will develop a process between Parking Operations and Human Resources to monitor and provide information of terminated employee and non-employee to SP+ in a timely manner for the purposes of deactivation of parking access media.

2. Finding: Access to the activation/deactivation function for City parking cards within the SKIDATA system is not adequately restricted.

Recommendation: Properly restrict system access to SKIDATA activation/deactivation functions to City employees and SP+ personnel who warrant access based on their current roles within the City's parking function.

Manager's response: We agree. The Division will review SP+ access policy and confirm access restrictions for activation/deactivation be limited to managers explicitly directed to make changes on behalf of the City. All others will be limited to read-only modes to verify active key card use.

B. SP+ Reporting to the City

3. Finding: Required monthly reports are not consistently submitted to the City by the established deadline.

Recommendation: Establish a process to ensure reports are submitted by the required deadlines, even in the event of an employee's absence. Ensure reports are submitted by the deadlines presented in the Agreement, or document an alternate due date (i.e., the 15th) that is acceptable to both the City and SP+.

Manager's response: We concur with this finding. Division staff will work with SP+ staff to ensure that all required operating reports are produced and presented by their contractually established due dates.

C. Daily cash Collections, Deposits, Reporting, and Reconciliations

4. Parking Access and Revenue Control System (PARCS) equipment generated reports were not being submitted to Division daily, as defined by the Agreement.

Recommendation: SP+ should evaluate how their internal process for preparing and submitting daily reporting packages to the Division could be improved to ensure the 48-hour deadline is consistently met.

Manager's response: We concur with this finding. SP+ staff will evaluate internal processes to improve upon submittal deadlines. The Division will review these processes to ensure 48-hour deadlines are met consistently.

D. SP+ Invoicing the City

5. Finding: It is unclear whether SP+ is required to follow procurement requirements (due diligence, bids, proposals, etc.) for purchases made on the City's behalf.

Recommendation: Clarify with SP+ as to whether the City's AI must be followed for all purchases made on the City's behalf.

Manager's response: The Division will clarify this requirement with SP+. Generally, SP+ follows fair and competitive bid practices for provision of third-party services and equipment supplies but City will confirm to what extent the contract requires closer adherence to procurement requirements.

6. Finding: The annual detailed budget process for those expenses that are charged through the SP+ contract as part of the Agreement, is not formalized, and adjustments are not processed formally. Budget to actual tracking is performed; however, it is difficult to trace individual purchases to budget line-items.

Recommendation: SP+ and the Division should collaborate to prepare operating budgets on a yearly (fiscal) basis, as it relates to expenses through the Agreement. The budgets should be agreed to and significant changes should be documented and approved.

The recording of actual expenditures against budgeted line-item categories should be evaluated for more accurate ways to monitor budget to actual by line-item.

Manager's response: The Division concurs on this request and will continue to refine monitoring and approval processes.

E. Parking Equipment and Maintenance Tracking

7. Finding: Some of the City's parking equipment, and the related systems the equipment runs on, is nearing end of life. Additionally, there is limited tracking of maintenance issues or equipment problems related to parking equipment.

Recommendation: The overall age of the City's parking equipment, the systems the equipment runs on, and the impact/cost of using older equipment should be assessed.

Manager's response: The Division agrees with this. Industry best practices indicate that new equipment be listed with its expected useful life, include a regular maintenance schedule and parts consumed, and that prior to end of useful life, an assessment be done to consider replacement options based on return on investment.

F. Accounts Receivable/ Billing Collections and Monitoring

8. Finding: There are large A/R credit and debit balances in the 120 days or older category that have not been fully addressed to remove them from the A/R listing. Systems access to the billing system is not restricted to only individuals with billing responsibilities.

Recommendation: SP+ should work with the City to ensure the old A/R is cleaned up in the system, and that only balances in which collection efforts are currently being made on, are included. Old accounts should be written-off allowing for more accurate reporting and monitoring of the rolling A/R balances. Systems access should be restricted to only those individuals that are responsible for billing activities related to the City of Santa Monica A/R.

Manager's response: The Division concurs. City staff will arrange with SP+ to address outstanding A/R clean-up issues as a first order priority, and address access authority.

G. Standard Operating Procedures (SOP)

9. Finding: Many of the SOPs that SP+ is required to develop and keep current, in accordance with the Agreement, were either incomplete, did not appear sufficient to meet the requirements or did not exist.

Recommendation: SP+ should review all SOPs, compare them to Agreement requirements, make updates or draft new SOPs to meet the requirements of the Agreement, and obtain City approval.

Manager's response: The Division agrees with this finding and will implement such measures.