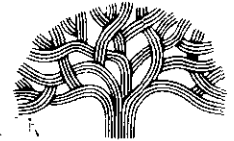


CITY OF OAKLAND

OFFICE OF THE CITY CLERK
OAKLAND



1 FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612

Office of the City Auditor
Roland E. Smith
City Auditor

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Council Meeting Date: September 14, 2004

IGNACIO DE LA FUENTE, PRESIDENT
AND MEMBERS OF THE CITY COUNCIL
OAKLAND, CALIFORNIA

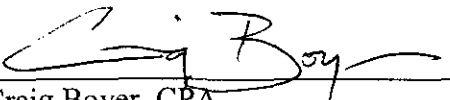
Attn: Finance and Management Committee

**SUBJECT: PERFORMANCE AUDIT OF THE MANAGEMENT AGREEMENT
BETWEEN THE CITY OF OAKLAND AND INTERNATIONAL HOTELIER
MANAGEMENT CORPORATION REGARDING THE OPERATIONS OF THE
PACIFIC RENAISSANCE PLAZA GARAGE**

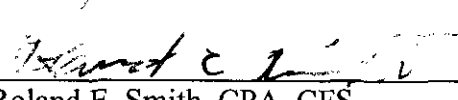
The attached report focuses on compliance with the contract provisions regarding the operation of the Pacific Renaissance Plaza Garage for the five years from July 1, 1998 through June 30, 2003. We conducted our audit in accordance with Generally Accepted Government Auditing Standards as issued by the Comptroller General of the United States.

The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

Prepared by:


Craig Boyer, CPA
Deputy City Auditor

Issued by:


Roland E. Smith, CPA, CFS
City Auditor

Fieldwork completion date: January 9, 2004
Issue date: June 25, 2004

Item No. 4
Finance and Management Committee
September 14, 2004

PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003

OFFICE OF THE CITY AUDITOR
CITY OF OAKLAND

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

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**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

BACKGROUND

The Pacific Renaissance Plaza Garage (the Garage) is part of an underground three floor garage comprised of 90 retail parking spaces owned by International Hotelier Management Corporation (IHMC) and 500 public parking spaces owned by the City of Oakland (the City). The Garage is part of the larger Pacific Renaissance Plaza project that incorporates the Garage as well as housing, retail space and 250 housing parking spaces.

The Garage is located on portions of the blocks bounded by 9th Street, 11th Street, Franklin Street and Webster Street in Oakland, California. The Garage accommodates parking customers on an hourly basis and on a monthly basis.

On January 5, 1993, the City Council approved Resolution No. 69591 C.M.S. authorizing the City to enter into a Management Agreement (Agreement) with Pacific Renaissance Associates II for the operation and management of the Garage for a period of 25 years beginning January 1, 1993. Effective March 2, 2000, Pacific Renaissance Associates II sold all of its interests in the Garage to International Hotelier Management Corporation (IHMC). All of Pacific Renaissance Associates II's rights and obligations in the Garage have been assigned to IHMC, an affiliate of Pacific Renaissance Associates II.

The City's ability to exercise the termination rights provided in the Agreement is subject to a variety of restrictive conditions. At such time as IHMC owns neither the commercial parking parcel (90 retail parking spaces) or the residential II parking parcel (50 parking spaces), all of the management and operating rights of IHMC provided for in the termination section of the Agreement shall terminate.

The City's Public Works Agency, Transportation Services Division monitors the Garage operations and administers the Agreement for the City. They are responsible for such activities as reviewing the monthly revenue and expenditure reports and approving capital expenditures for the Garage.

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
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The Agreement provides for a sharing of the revenues and expenditures in the following ratio:

City's Share	84.75%
IHMC's Share	15.25%

Gross receipts are deposited by the Garage directly into the City's bank account. The City then returns IHMC's share of the revenues back to them through a bank wire transfer. Approved operating and capital expenditures are paid by IHMC and then reimbursed by the City according to the City's contractual share of 84.75% stated above. The following chart shows a synopsis of the financial performance of the Garage over the five year period under audit:

**Table 1
Financial Performance**

<u>Period</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance</u>
June 30, 1999	\$ 809,166	\$316,897	\$492,269
June 30, 2000	\$ 916,252	\$338,718	\$577,534
June 30, 2001	\$1,159,009	\$373,937	\$785,072
June 30, 2002	\$1,245,319	\$403,144	\$842,175
June 30, 2003	\$1,337,960	\$421,522	\$916,438

See Exhibit 1 for further details on the Statement of Revenues and Expenditures for the period July 1, 1998 through June 30, 2003.

OBJECTIVES

The objectives of our audit were to:

1. determine if adequate controls exist for the Garage to provide for the safeguarding of assets, segregation of duties, and the proper collection, recording and timely processing of monthly parking and hourly parking;
2. evaluate the services provided by IHMC for management of the Garage to ensure compliance with the Agreement; and
3. conduct a visual inspection of the facility to verify that the Garage is properly maintained in accordance with the Agreement.

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

**SCOPE AND
METHODOLOGY**

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, competent and relevant evidence to provide a reasonable basis for our findings and conclusions. While conducting our audit, we obtained, tested and analyzed financial and contractual documentation, made inquiries of Garage and City personnel, and conducted a visual inspection of the Garage facility. Our audit covered the period from July 1, 1998 through June 30, 2003.

**FINDINGS AND
RECOMMENDATIONS**

Finding #1: We found several deficiencies in the process for amending the Management Agreement between the City of Oakland and International Hotelier Management Corporation.

Specifically:

- a. **There were two undocumented amendments to the Agreement, despite the fact that the Agreement requires all amendments to be in writing;**
- b. **There were three written amendments, none of which had been reviewed by the Office of the City Attorney or approved by the City Council; and**
- c. **The Office of the City Clerk could not locate any of the written amendments to the Agreement. They were provided to us by the Public Works Agency.**

Unless all amendments are in writing and on file with the Office of the City Clerk, as required, interested parties might not have access to the current provisions of the Agreement. Moreover, if all amendments are not reviewed by the Office of the City Attorney and approved by the City Council, this might cause detrimental results in the operation of the garage, such as increased liability, loss of revenue, or higher operating costs.

These matters are discussed below.

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

**Undocumented
amendments to the
Agreement**

When amendments between IHMC and the City are proposed, the Agreement states they are to be in writing. Section 37 of the Agreement says:

“The parties intend that the terms of the Agreement shall be the final expression of their agreements with respect to Management of the Garage and may not be contradicted by evidence of any prior or contemporaneous agreement. This Agreement may not be amended except by an instrument in writing signed by the parties.”

During the course of our audit, we discovered two changes in the contract where no written documentation could be provided to substantiate the change: (1) the Garage’s operating hours, and (2) the unaccounted ticket ceiling.

Garage operating hours

The Agreement states that the Garage will operate on Sundays through Thursdays from 7:00 a.m. to 12:00 a.m. and on Fridays and Saturdays from 7:00 a.m. to 2:00 a.m. These hours have been modified to Sundays through Thursdays from 8:00 a.m. to 11:00 p.m. and Fridays and Saturdays from 8:00 a.m. to 12:00 a.m. The Agreement does allow for a change in the hours of operation, but the change is required to be done in writing and ratified by the City Council.

Unaccounted ticket ceiling

The unaccounted ticket ceiling of 0.5% was raised to 1.0%. During the normal course of operations, the Garage is not able to account for all of the tickets dispensed from its machines. The unaccounted ticket ceiling sets the maximum limit on the number of tickets that need not be accounted for in the monthly revenue reports. If the Garage exceeds the ceiling, it is responsible for the maximum cost of a daily ticket times the number of tickets in excess of the unaccounted ticket ceiling.

To further complicate the issue, the contract is also ambiguous about how often the unaccounted ticket ceiling should be applied – whether on a daily, monthly or annual basis. Using different frequencies, combined with different ceiling thresholds, will produce inconsistent results. The following table illustrates how changing the independent variables in the analysis can lead to both

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

compliance and non-compliance with the Agreement, as well as
varying the amounts of potential lost revenue:

**Table 2
Variance Analysis of the Unaccounted Ticket Ceiling
on Potential Lost Revenue**

<u>Fiscal Year-End Date</u>	<u>Unaccounted Ticket Ceiling</u>	<u>Potential Lost Revenue</u>		
		<u>Annual</u>	<u>Monthly</u>	<u>Daily</u>
June 30, 1999	0.5%	\$ 0	\$ 0	\$ 576
June 30, 2000	0.5%	0	2,808	10,584
June 30, 2001	0.5%	0	0	2,808
June 30, 2002	0.5%	0	0	3,240
June 30, 2003	0.5%	0	720	7,272
Total		\$ <u>0</u>	\$ <u>3,528</u>	\$ <u>24,480</u>
June 30, 1999	1.0%	\$ 0	\$ 0	\$ 0
June 30, 2000	1.0%	0	0	8,712
June 30, 2001	1.0%	0	0	864
June 30, 2002	1.0%	0	0	72
June 30, 2003	1.0%	0	0	1,008
Total		\$ <u>0</u>	\$ <u>0</u>	\$ <u>10,656</u>

As Table 2 above demonstrates, compliance with the Agreement and potential lost revenue vary depending on the values applied to the unaccounted ticket ceiling and the time frequency variables. Three out of the six possible outcomes show compliance with the Agreement and no potential lost revenue to the city. The other three possible outcomes show noncompliance with the Agreement and the potential lost revenue ranges from a low of \$3,528 to a high of \$24,480. The ability to effectively determine which outcome is correct is impossible until specific parameters are defined in the Agreement for the unaccounted ticket ceiling and the time frequency variables.

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

Recommendations for Finding #1a

We recommend that:

- a. the City submit the two undocumented amendments for written approval, as prescribed by the procedures established by the Agreement; and
- b. the City consider revising the language regarding the unaccounted ticket ceiling to specify the frequency of its application.

**Review and approval of
written amendments**

Since the Garage is leased to IHMC as part of the Agreement, the procedures for creating and amending the Agreement are subject to Administrative Instruction 4316, "Contracts for Real Estate Lease Agreements". Any proposal for a lease agreement must pass through several steps to ensure that all of the necessary documentation has been prepared in accordance with the lease. Once the proper documentation has been prepared, the lease is sent to the Office of the City Attorney who "approves the lease agreement as to form and legality". The lease is subsequently signed by the City Manager before original copies are sent to IHMC and the Office of the City Clerk.

The City Charter grants the City Council the powers to represent the City in all agreement proposals and amendments. When an amendment to an agreement is proposed, the City Council may choose to exercise its authority directly by participating in the renegotiation of the terms of the Agreement or delegating this authority to other representatives within the City. Our office was not provided with any documentation indicating that the City Council had chosen to delegate the responsibility for changing the terms of the Agreement to employees in the Public Works Agency, Transportation Services Division.

Our audit revealed that amendments to the Agreement are completed through correspondence between IHMC and the Public Works Agency, Transportation Services Division. IHMC will make a request for certain changes to the Agreement and the

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

Public Works Agency, Transportation Services Division, will either approve or deny the changes in their response. None of these correspondence amendments were attached to the contract received by our office, although the Public Works Agency, Transportation Services Division, was able to provide three of the amendments when our office requested them. The amendments were dated June 20, 1997; September 11, 1997; and March 16, 2000.

Recommendation for Finding #1b

We recommend that:

- a. the City discontinue the process of amending the Agreement through correspondence. This process circumvents normal procedures for reviewing and approving amendments to the contract, and may lead the City to make substantive changes to the contract that would have a detrimental effect on the operating results of the Garage; and
- b. the City rewrite the Administrative Instructions for agreements to specifically address the procedures for proposing and implementing amendments to agreements.

**Filing amendments with the
Office of the City Clerk**

As stated earlier, the Agreement requires that all amendments be in writing. The City's Administrative Instructions, from 4311 through 4315, plus 4317, identify the Office of the City Clerk as the repository for completed and signed agreements. Administrative Instruction 4315 most clearly defines this responsibility by stating that the City department responsible for the agreement:

“...Sends [the] original signed copy of the fully executed
agreement to the City Clerk for official record...”

When our office requested the completed Agreement and all amendments to the Agreement, we were only provided with the original Agreement effective January 1, 1993. Three written amendments, dated June 20, 1997; September 11, 1997; and March 16, 2000, were provided by the Public Works Agency,

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Transportation Services Division. The amendment process up to this point in time has been exclusively conducted by the Public Works Agency, Transportation Services Division, which is the only City representative that currently has written documentation of the amendments to the Agreement.

Recommendation for Finding #1c

We recommend that:

- a. the originals of all amendments to the Agreement be sent to the Office of the City Clerk and attached to the Agreement; and
- b. the City should consider redrafting the entire Agreement, thereby incorporating all the changes into one document. Adding multiple amendments to an Agreement can cause confusion when interested parties are attempting to review the document.

**Proper storage of
parking tickets**

Finding #2: The Agreement states that tickets will be stored by the Garage for a minimum of one year and made available to the City Auditor for audit purposes. Prior to the audit, the City had given the Garage oral approval to only retain one year's worth of parking tickets in storage at any given time. At the time of the audit, the Garage did not possess all of the parking tickets for the years under audit.

During the course of our audit of the Garage, we requested a sample of the parking tickets for each of the five years under audit. The Garage was only able to provide tickets for the period July 1, 2002 through June 30, 2003. The tickets for the period from July 1, 1998 through June 30, 2002 had been disposed of prior to the beginning of the audit.

The Agreement states that tickets will be stored by the Garage for a minimum of one year and made available to the City Auditor for review and audit. The Garage is not allowed to dispose of stored tickets without the permission of the City Traffic Engineer. In conversations held with the Parking Manager of the Garage, the

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

Garage has sufficient storage space to hold at least one year's worth of tickets but not enough space to hold five years' worth of tickets. A few years ago, the Garage had used all available storage space for tickets. At that point in time, the Parking Manager contacted the City Traffic Engineer and asked if it was acceptable to dispose of the tickets. The City Traffic Engineer gave oral approval for the Parking Manager to dispose of any tickets more than one year old so that the storage space limitation would not become an issue again in the future.

Recommendation for Finding #2

We recommend that:

- a. the City amend the contract to extend the minimum amount of time that the Garage is responsible for retaining the parking tickets from one year to five years. If the Garage does not have sufficient storage space on-site to store the tickets, then either the Garage or the City needs to provide sufficient off-site storage space for the parking tickets.
- b. all future requests by the Parking Manager for disposal of tickets are to be made in writing. The City Traffic Engineer should also give his response in writing. A copy of both the request for disposal of the tickets and its approval should be sent to the Office of the City Clerk to be attached as part of the contract documentation.

**Contractual limit on
monthly parking spaces**

Finding #3: The number of monthly parkers at the Garage is always at the contractual limit. Furthermore, there is a substantial waiting list of clients who would like to purchase monthly parking from the Garage.

The Agreement originally stated that the Garage was allowed to provide up to 65 monthly commercial parking spaces. This was subsequently expanded to 130 monthly commercial parking spaces in a written correspondence dated September 11, 1997. The Garage provides two types of commercial monthly parking: 7-day a week monthly parking and 5-day a week monthly parking. The

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

Garage is contractually allowed to provide 65 parking spaces for each type of monthly parking space. For the years under audit, the Garage was consistently at the maximum levels for monthly parking space usage. In addition, they have a waiting list of approximately 36 people who would like to become monthly parkers.

While having a wait list provides an effective control for collection of monthly parking, the Garage is likely losing potential revenue by not expanding the number of monthly parkers. The average daily ticket revenue for hourly parking is \$1.98 per ticket; this translates to \$59.40 per month received for the average hourly parking ticket versus \$120 per month for 5-day monthly parking and \$140 per month for 7-day monthly parking.

An increase in monthly parking availability and revenue is also not likely to reduce existing hourly parking revenue. Most of the hourly parking receipts are for rates below the effective daily rate for monthly parking. The calculated effective daily rate for monthly parking is \$5.10 per monthly parker compared to the average daily ticket revenue of \$1.98 per ticket for hourly parking. The hourly parking receipts that exceed the effective daily rate for monthly parking make up only 2.2% of the total hourly tickets received on an average day by the Garage.

Finally, potential clients may choose to use other garages for parking if they are able to provide monthly parking upon request. The Garage only averages 31% usage of its capacity during normal business hours so it will not experience difficulty in accommodating new monthly parkers.

Recommendation for Finding #3

We recommend that the City consider increasing the level of monthly parkers from the current maximum amount of 130 to 165. This will allow the Garage to offer monthly parking to all interested monthly parking applicants and not cause potential monthly parking applicants to consider using competitor garages that currently have available monthly parking spaces.

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

**The City is late
reimbursing the Garage's
monthly expenditures**

Finding #4: The Garage is in compliance with the amended date for submitting monthly expenditure reports. The City is frequently late in meeting the deadline for reimbursement of monthly expenditures.

The Agreement states that the Garage shall submit their monthly expenditure reports to the City for reimbursement no later than 15 days after the end of the period. This deadline was subsequently amended to no later than 45 days after the end of the period in negotiations. A memo was written by the Public Works Agency, Transportation Services Division on June 20, 1997 that substantiates this change in the contractual deadline. Once the reports are submitted, the City is supposed to approve and make payment to the Garage within two weeks.

We conducted tests to determine if both the Garage and the City are in compliance with meeting the contractual deadlines for submission and payment of expenditure reports. In our audited sample, the Garage took an average of 20.5 days to submit their expenditure reports to the City; this is within the renegotiated deadline established between the Garage and the City. The total time for the City to approve and process the payment averaged 27.3 days (the approval process averaged 6.8 days and the payment process averaged 20.5 days), almost twice the maximum amount of time allowed by the Agreement.

The City should hold itself to the same standards for compliance as they require from their garage operators.

Recommendation for Finding #4

We recommend that the City evaluate the cause of the delays in processing the Garage invoices. This evaluation can assist the City in establishing specific deadlines for both the approval and payment processes upon receipt of the expenditure report so that reimbursements are completed within the two week timeframe established by the Agreement.

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

The Garage-keepers insurance deductible exceeds the contractual limit.

Finding #5: The Garage is required to maintain Garage-keepers insurance as part of the Agreement. The Agreement limits the Garage-keepers insurance deductible to \$1,000 per occurrence. The current Garage-keepers insurance has a deductible of \$5,000 per occurrence. This exceeds the contractual limit by \$4,000 per occurrence.

The Agreement states that the Garage must maintain Garage-keepers insurance with a maximum deductible of \$1,000 per occurrence. While analyzing the insurance documentation provided by the Garage, it was noted that the Garage-keepers insurance stated that the deductible was \$5,000 per occurrence. A higher insurance deductible means the City will be responsible for a larger portion of any claim against it related to the insurance policy. The deductible would be shared by the City and the Garage in the same percentage ratios established for all other revenues and expenditures. This would make the City responsible for 84.75% of the cost of any deductible incurred related to an insurance claim. The higher deductible may be offset over time by lower insurance premiums depending on the frequency of the claims filed against the Garage. During the period under audit, no claims were filed against the Garage.

The Garage must change either the terms of the Agreement or the terms of the insurance policy in order to establish compliance in this area. Since there have been no claims against the Garage during the years under audit, IHMC may have come to the conclusion that a higher deductible on the Garage's insurance policy is outweighed by the savings on the monthly premiums.

Recommendation for Finding #5

We recommend that the Garage obtain an amendment to their insurance coverage to reduce the Garage-keepers insurance deductible to \$1,000 per occurrence in order to comply with the terms of the contract.

**PACIFIC RENAISSANCE PLAZA GARAGE
PERFORMANCE AUDIT REPORT
For the Five Years from July 1, 1998 through June 30, 2003**

The Garage is in compliance with the maintenance requirements of the contract

Finding #6: The Garage conducts regular maintenance and cleaning of the facility. The Garage also maintains signs that clearly state the hours of operation and the parking rates.

The Garage is responsible for the proper maintenance and upkeep of the Garage facilities. While conducting our site visit of the Garage, we observed that the Garage appeared clean and free from unnecessary debris. Also, there were several signs posted at both the entrance of the Garage and at the Cashier's Booth that clearly identified the hourly rates for parking at the Garage. The rates on the signs were in compliance with the rates identified on the current Master Fee Schedule.

Recommendation for Finding #6

Since this area was in compliance with the Agreement, no recommendations are needed in order to address issues of noncompliance. We recommend that the Garage continue to implement the current procedures since they are effective in meeting the requirements of the Agreement in this area.

CONCLUSION

The Garage and the City are generally in compliance with the revenue and expenditure reporting provisions in the Agreement. However, our audit did find that improvements are needed in areas such as the documentation of amendments to the Agreement, proper storage of all parking tickets until the completion of the audit, and reconsideration of the maximum number of monthly parking spaces. Implementation of our proposed recommendations for these findings will help to improve the operational compliance of the Agreement by both the Garage and the City.

PACIFIC RENAISSANCE PLAZA GARAGE
STATEMENT OF REVENUES AND EXPENDITURES
For the Years Ended June 30, 1999, 2000, 2001, 2002 and 2003

	1999	2000	2001	2002	2003
Revenues					
Hourly parking	\$ 573,432	\$ 684,812	\$ 946,016	\$ 993,056	\$ 1,079,025
Monthly parking	140,569	152,343	156,334	199,413	203,515
Validation sales	42,807	39,554	30,938	24,404	24,009
Validation stamps	46,650	35,650	21,500	25,275	27,585
Lost tickets	2,258	2,476	3,921	3,171	3,826
EBMUD salary expense reimb.	3,450	967	-	-	-
Special event parking	-	450	300	-	-
Total revenues	\$ 809,166	\$ 916,252	\$ 1,159,009	\$ 1,245,319	\$ 1,337,960
Expenditures					
Salaries and wages	\$ 205,549	\$ 215,710	\$ 247,568	\$ 274,427	\$ 283,998
Payroll taxes	20,541	20,594	25,515	24,446	24,578
Workers' compensation	8,388	7,690	4,109	8,226	14,064
Employee benefits	11,857	13,029	14,881	18,627	15,048
401(k) employer match	725	2,526	5,040	5,704	6,872
Management fees	31,398	32,838	34,272	35,976	37,218
Professional fees	583	-	-	-	140
Advertising	1,000	-	-	-	-
EBMUD rent expense	10,200	10,200	10,200	10,200	10,200
Telephone	970	1,105	1,350	1,151	1,241
Printing and postage	1,262	1,128	3,825	3,227	9,135
Supplies	3,244	7,119	5,337	4,850	42
Equipment rental	2,110	1,800	1,814	1,800	900
Payroll processing	2,136	1,912	2,064	2,099	2,877
Repairs and maintenance	4,716	12,441	6,590	6,204	5,038
Utilities	-	-	-	829	3,019
Insurance	7,170	4,256	5,591	1,572	2,594
Office and equipment reimbursement	3,180	3,180	3,180	3,180	3,180
401(k) processing	-	395	611	626	1,378
Computer hardware	-	2,795	-	-	-
Miscellaneous expense	1,868	-	1,990	-	-
Total expenditures	\$ 316,897	\$ 338,718	\$ 373,937	\$ 403,144	\$ 421,522
Excess of revenues over expenditures	\$ 492,269	\$ 577,534	\$ 785,072	\$ 842,175	\$ 916,438

See accompanying notes.

PACIFIC RENAISSANCE PLAZA GARAGE
NOTES TO THE STATEMENT OF REVENUES AND EXPENDITURES
For the Years Ended June 30, 1999, 2000, 2001, 2002 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Statement of Revenues and Expenditures has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accrual basis of accounting recognizes revenues when they are earned and expenditures in the period incurred, without regard to the time of receipt or payment of cash.

Revenue Recognition

Hourly parking revenue is payable in cash prior to exiting the Garage and is received at the same point that it is recognized. Monthly parking revenue is due by the fifth of each month and can be paid with a late fee by the eighth day of each month. If the monthly parker has not paid by the eighth day of the month, the card is deactivated. The Garage is limited to providing 130 monthly parking permits and there is a substantial waiting list of people who would like to become monthly parkers.

All revenue that is collected for a given day must be processed through the cashier. Once it has been processed through the cashier, it is prepared for deposit, usually within one business day of receipt. The daily deposits are placed directly into a City-owned bank account.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – MANAGEMENT FEE

One of the operating expenditures included for monthly reimbursement by the City is the management fee payable to the garage operator. For the first five years of services provided by the garage operator, the management fee was increased by 5% per annum. In subsequent years, it was agreed that the management fee was to be determined by taking the annual increase in inflation based on the Consumer Price Index (CPI) for all Urban Consumers (San Francisco – Oakland – San Jose) as published by the Bureau of Labor Statistics, United States Department of Labor. The maximum increase allowed by the Agreement annually is the lesser of 8% per annum or the amount determined by the CPI. The management fee is calculated on a calendar year basis.

PACIFIC RENAISSANCE PLAZA GARAGE
VIEWS OF RESPONSIBLE OFFICIALS
For the Years Ended June 30, 1999, 2000, 2001, 2002 and 2003

This section of the report contains the views of responsible officials. To ensure that our report is fair, complete and objective, our office submitted advance review copies and obtained comments from responsible officials of the audited entity prior to the issuance of report. These views have been included in their entirety on the following two pages.

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James Murad
General Counsel

May 19, 2004

VIA FAX (510) 238-7640

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1 Frank H. Ogawa Plaza
Oakland, CA 94612

**RE: Draft Performance Audit Report
Pacific Renaissance Plaza Garage**

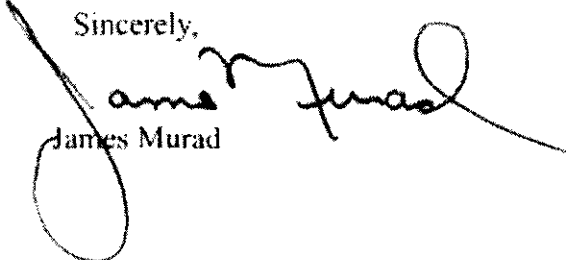
Dear Mr. Boyer:

Thank you for the opportunity to comment on the above referenced draft audit report. Our few comments and suggestions are set out below. References are to the page (p.) and then to the sequential paragraph (§) on the page.

1. P1-§4 I believe the reference in line 4 should be to the "residential II *parking* parcel..."
2. P6-§2 An essentially similar observation was made in the audit of March 5, 1996 at paragraph 16. Is this a matter that we or the department of Traffic Engineering & Parking should pursue? I have the original agreement on my system and would be pleased to prepare the appropriate amendments. If someone from the City Attorney's office would contact me, we can proceed with that activity.
3. P6-§3 The agreement is a Management Agreement and not a lease and should not be construed as a lease. It is not clear to me and I do not have copies of the referenced Administrative Instructions, whether the procedures to which you refer are also applicable to a non-possessory interest. I would suggest however, that it may well be appropriate for the City Council to delegate discretionary authority to an appropriate individual. I know that the City Manager is often the recipient of such authority.

4. P7-¶3 We are amenable to any reasonable approach that both complies with the City's regulations and the day-to-day operational requirements of the garage.
5. P8-¶5 With respect to the Finding #1c Recommendation, we do not believe a complete redraft of the Agreement is either necessary or appropriate. An amendment granting discretionary authority should be adequate to address the types of changes you suggest, which are, after all, operational and not substantive.
6. P9-¶4 Your Finding #2 Recommendation appears to be essentially an economic issue: who pays the incremental cost of the long term storage of the tickets? It should be resolvable.
7. P13-¶3 We concur in the need for a higher deductible for the Garage-keepers insurance. I am advised by our corporate Risk Manager, that the insurance provided for in the Agreement is essentially not available. That appears to have been the case for at least the last 2 years.

Once again, I apologize for not responding within the time period set out in your letter. Hopefully, my comments are helpful however.

Sincerely,

James Murad

cc: E. Wong
S. Pope

**PACIFIC RENAISSANCE PLAZA GARAGE
RESPONSE TO VIEWS OF RESPONSIBLE OFFICIALS
For the Five Years from July 1, 1998 through June 30, 2003**

We provided a draft copy of our report to International Hotelier Management Corporation (IHMC) for review and comment. The following section is a summary of their views coupled with our response.

VIEWS OF RESPONSIBLE OFFICIALS

1. Page 1, Paragraph 4 states, "At such time as IHMC owns neither the commercial parking parcel (90 retail parking spaces) or the residential II parcel (50 parking spaces), all of the management and operating rights of IHMC provided for in the termination section of the Agreement shall terminate". The term "residential II parcel" should be changed to "residential II parking parcel".
2. Page 6, Paragraph 2 states, "We recommend that the City submit the two undocumented amendments for written approval, as prescribed by the procedures established by the Agreement". An essentially similar observation was made in the audit of March 5, 1996 at paragraph 16. Is this a matter that we or the department of Traffic Engineering and Parking should pursue?
3. Page 6, Paragraph 3 states, "Since the Garage is leased to IHMC as part of the Agreement, the procedures for creating and amending the Agreement are subject to Administrative Instruction 4316". The Agreement is a management agreement and not a lease and should not be construed as a lease.

CITY AUDITOR RESPONSE

1. We are in agreement with your comment and have made the change.
2. We recommend that IHMC contact their representative in Traffic Engineering and Parking to determine the proper course of action for resolving this issue.
3. The Agreement assigns a possessory interest in the Garage to IHMC with all of the corresponding rights and obligations. Since the Agreement assigns a possessory interest, we believe that Administrative Instruction 4316 is appropriate for determining the contract amendment procedures that must be followed by the City in order to properly amend the Agreement.

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VIEWS OF RESPONSIBLE OFFICIALS

4. Page 7, Paragraph 3 states, "We recommend that the City discontinue the process of amending the Agreement through correspondence". We are amenable to any reasonable approach that both complies with the City's regulations and the day-to-day operational requirements of the Garage.
5. Page 8, Paragraph 5 states, "We recommend that the City should consider redrafting the entire Agreement, thereby incorporating all the changes into one document". We do not believe a complete redraft of the Agreement is either necessary or appropriate.
6. Page 9, Paragraph 4 states, "If the Garage does not have sufficient storage space on-site to store the tickets, then either the Garage or the City needs to provide sufficient off-site storage space for the parking tickets". The recommendation appears to be essentially an economic issue: who pays the incremental cost of the long-term storage of the tickets? It should be resolvable.
7. Page 12, Paragraph 4 states, "We recommend that the Garage propose an amendment to the Agreement to reflect the need for a higher deductible on the Garage-keepers insurance". We concur in the need for a higher deductible for the Garage-keepers insurance.

CITY AUDITOR RESPONSE

4. We agree with the response of IHMC on this comment.
5. We believe that redrafting the entire Agreement would be appropriate if the number of amendments to the Agreement becomes excessive. Our recommendation encourages the City to consider on a regular basis whether a contract with several amendments has become unwieldy. If so, the City should then redraft the entire contract.
6. We agree with the response of IHMC on this comment and will defer to the appropriate City representative to make a determination on the proper way to handle this issue.
7. We encourage IHMC to conform to the terms of the contract regarding the appropriate limit on deductibles for Garage-keepers insurance.