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**Council Meeting Date:** October 26, 2004

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

**Attn:** Finance and Management Committee

**SUBJECT: PERFORMANCE AUDIT OF THE LEASE AGREEMENT BETWEEN  
THE CITY OF OAKLAND AND THE CITY OF OAKLAND - CLAY  
STREET GARAGE CORPORATION REGARDING THE OPERATIONS  
OF THE CLAY STREET GARAGE**

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The attached report focuses on compliance with the contract provisions regarding the operation of the Clay Street Garage for the five years from January 1, 1998 through December 31, 2002. We conducted our audit in accordance with Generally Accepted Government Auditing Standards as issued by the Comptroller General of the United States.

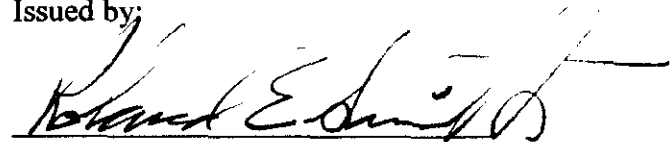
The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

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Fieldwork completion date: January 9, 2004

Issue date: August 30, 2004

Item: \_\_\_\_\_  
Finance & Management Committee  
October 26, 2004

**CLAY STREET GARAGE  
PERFORMANCE AUDIT REPORT  
For the Five Years from January 1, 1998 through December 31, 2002**

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**CLAY STREET GARAGE  
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**BACKGROUND**

The Clay Street Garage (the Garage) is owned by the City of Oakland (the City). It exists to serve the government, retail and commercial districts of downtown Oakland.

The Garage is located west of City Hall and is bounded by City Hall, 14<sup>th</sup> Street, Clay Street and 15<sup>th</sup> Street in Oakland, California. It has 335 parking spaces. The Garage accommodates parking customers on an hourly basis and on a monthly basis.

On December 14, 1959, the City Council approved Resolution No. 38896 C.M.S. authorizing the Garage to operate under a 50-year lease agreement (Agreement) between the City of Oakland and the City of Oakland – Clay Street Garage Corporation (the Corporation). The Corporation was initially responsible for the financing and construction of the Garage. A construction note was assumed by the Corporation and was subsequently paid in full. *Since the liability for the construction note no longer exists, the City may terminate the Agreement at any time by giving the Corporation one year's written notice.*

The Corporation operates the Garage through its contract manager, the Downtown Merchants Parking Association, Inc. (Management). Management is the beneficial owner of the stock of the Corporation. Management is responsible for furnishing managerial, supervisory and line staff. It is also responsible for contracting out security and cleaning services, and for the general maintenance of garage equipment. The City's Public Works Agency, Transportation Services Division monitors the Garage operations and administers the Agreement for the City.

Management receives an annual management fee for operating the Garage. For the year ended December 31, 2002, the management fee is the lesser of 5% of the gross receipts received by the Garage in connection with its operations or \$11,000. For the year 2002, 5% of the annual revenues of \$793,533 equaled \$39,677 and exceeded the management fee ceiling of \$11,000, so Management received \$11,000 for services rendered. For the years ended December 31, 1998, 1999, 2000 and 2001, the management fee is the lesser of 5% of the gross receipts received by the Garage in connection with its operations or \$10,000. In each of these four

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years, the annual revenues of the Garage exceeded the management fee ceiling of \$10,000 so Management received \$10,000 annually for services rendered.

Management has a fiduciary responsibility to the City to collect and deposit to the City's bank account 100% of the revenues from hourly parking, monthly parking, special event parking and the sale of validation stickers. The City reimburses Management for personnel fees, security fees, cleaning fees, utilities, maintenance and various other miscellaneous expenditures. The following chart shows a synopsis of the financial performance of the Garage over the five year period under audit:

<u>Period</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance</u>
December 31, 1998	\$487,094	\$256,606	\$230,488
December 31, 1999	\$535,340	\$174,085	\$361,255
December 31, 2000	\$656,006	\$169,000	\$487,006
December 31, 2001	\$666,103	\$199,207	\$466,896
December 31, 2002	\$793,533	\$214,729	\$578,804

See Exhibit 1 for further details on the Statement of Revenues and Expenditures for the five years from January 1, 1998 through December 31, 2002.

**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 Downtown Merchants Parking Association for management of the Garage to insure 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.

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***SCOPE AND  
METHODOLOGY***

We conducted our audit in accordance with Generally Accepted Government Auditing Standards 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. In the process of 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 January 1, 1998 through December 31, 2002.

***FINDINGS AND  
RECOMMENDATIONS***

**Finding #1**

**City Needs to Complete the Stair and Safety Railing Repair Work**

**Discussions have taken place between the City and Management to repair some of the stairway steps and rails on the northeast side of the Garage. Some of the stairway steps are corroding and breaking apart. The stair rail height is not in compliance with state safety standards. This work has been delayed pending approval by the City.**

During a tour of the garage facility for the year ended December 31, 2001 audit, Management advised us of discussions with the City Traffic Engineer regarding repairs of the stairway steps and the stair rails on the northeast stairwell of the garage. California Code of Regulations, Title 8, Section 3231(d) states,

“All treads shall be slip-resistant. Stairways shall be maintained clear and in good repair”.

Some of the stairway steps are corroding and breaking apart and may jeopardize the structural integrity of the stairwell.

The stair rails on the top two floors of the stairway also do not conform to state regulations. California Code of Regulations, Title 8, Section 3214(c) states,

“The top of stair rails, handrails and handrail extensions shall be placed not less than 34 inches or more than 38 inches above the nosing of treads and

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landings. Stair rails and handrails shall be continuous the full length of the stairs and, except for private stairways, at least one handrail or stair rail shall extend in the direction of the stair run not less than 12 inches beyond the top riser nor less than 12 inches beyond the bottom riser. Ends shall be returned or shall terminate in newel posts or safety terminals, or otherwise arranged so as not to constitute a projection hazard.”

The height of the current guardrail is only 32 inches high, 2 inches below the minimum requirement. This should be raised to at least the minimum height requirement in order to minimize the risk of falls.

The condition of both the stairway steps and rails are unsafe and create a potential legal liability for the City. A building inspector report is in the process of being completed that will corroborate these findings. Immediate action needs to be taken to repair these deficiencies to avoid personal injuries and a potential lawsuit against the City.

**Recommendation for Finding #1**

The City and Management need to work together to complete the stairs and safety railing repair work immediately to avoid the potential for a liability claim. The repair work should be included as part of the fiscal year 2004-2005 budget and the work should be started once funds are available.

**Finding #2**

**Lease Agreement Deficiencies**

**We found several deficiencies in the process for amending the Lease Agreement between the City of Oakland and Management.**

**Specifically:**

- a. There was an undocumented amendment to the Agreement;**

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- b. There were two written amendments, neither one 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.

**Undocumented  
Amendments to the  
Agreement**

Proposed amendments between Management and the City should be made in writing. During the course of our audit, we discovered a change in the contract regarding the deadline for submission of monthly expenditure reports where no written documentation could be provided to substantiate the change.

The contract states that the Garage shall submit their monthly expenditure reports to the City for reimbursement no later than ten days after the end of the period. Per conversation with the City Traffic Engineer, this deadline was extended to 45 days but there is nothing in writing to support the change in the deadline.

We conducted tests to determine if the Garage was in compliance with meeting the contractual deadlines for submitting expenditure reports. During 2002, the Garage took an average of 22.7 days to submit their expenditure reports to the City; this fails to meet the written contractual obligation of no later than 10 days but meets the restated deadline of no later than 45 days after the end of each month.

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**Recommendation for Finding #2a**

We recommend that the City submit the undocumented amendment for written approval.

**Review and Approval of  
Written Amendments**

Since the Garage is leased to Management 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 Management 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 Management and the Public Works Agency, Transportation Services Division. Management will make a request for certain changes to the Agreement and the 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 two of the amendments when our office requested them. The amendments were dated October 6, 1992 and July 24, 2001.



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The current amendment 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.

**Recommendations for Finding #2b**

We recommend that:

- a. the City discontinue the process of amending the Agreement through correspondence; 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:

“... [s]ends [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 December 8, 1959. Two written amendments, dated October 6, 1992 and July 24, 2001, were provided by the Public Works Agency, 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.

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***Recommendations for Finding #2c***

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.

**Finding #3**

**Inaccurate Employee Monthly Parking List**

**The City Traffic Engineer's list of employees who have monthly parking at the Garage is inaccurate. An inaccurate list makes it difficult to determine whether all monthly parking spaces are being used by current employees.**

The City Traffic Engineer's master list of employees receiving City paid monthly parking at September 2003 was not accurate. From a list totaling 107 employees, 3 of the employees listed (2.8%) were not current employees. These 3 former employees had termination dates ranging from March 2003 to August 2003. In addition, 7 employees listed (6.5%) could not be identified in the City personnel database.

Our office subsequently sent the City Traffic Engineer's master list to the City Administrator's office to determine the status of the non-current and unidentifiable employees on the list. All but one of the unidentifiable employees were listed in the payroll database under a different name. The non-current employees had been removed from the City Administrator's list. The City Administrator's office also commented that the City Traffic Engineer's list was outdated. They have taken the time to update the information on the City Traffic Engineer's list to make it accurate.

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**Recommendation for Finding #3**

On a monthly basis, the City Traffic Engineer's list of employees receiving monthly parking should be reviewed for accuracy. Part of this process should involve obtaining additions and deletions from the City Administrator's office. Better communication will result in a more accurate employee parking list and will lead to better control of employee parking cards.

**Finding #4:**

**Untimely Reimbursement of City Validated Hourly Parking**

**The City is responsible for monthly reimbursement of both validated hourly parking and monthly parking to the Garage. The City is usually in compliance in paying the monthly parking but is frequently delinquent in paying the validated hourly parking.**

Management typically bills the City on a monthly basis for validated hourly parking and monthly parking. Based on our audit, we found that the City was reimbursing the Garage on average 50 days after the date of the invoice for validated hourly parking and 19 days after date of invoice on monthly parking. The contract states that the City should pay no later than 30 days after the invoice date. The late payments for validated hourly parking charges delayed the charge back of expenditures to the City departments.

There are many administrative steps incurred by the City and Management to account, bill, pay and report on the City's hourly validated and monthly parking benefit programs. These administrative steps result in money paid by the City to Management; and subsequently, this same money is deposited by Management into the City's bank account. The same money is making a circular route by flowing from the City to Management, and then from Management back to the City.

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**Recommendation for Finding #4**

We recommend that:

- a. consideration should be given to discontinuing the administrative burden associated with the current procedures since the City gains no financial benefit from processing these transactions. If the City wants to continue the current procedures for the billing, payment and charge back process; then the City should pay Management's bills and charge back City departments within 30 days of the invoice date of Management's bill; and
- b. for validated hourly parking, the Public Works Agency (PWA) should pick up Management's invoice and parking tickets within 5 days of when notified that documents are available, or have Management send the documents to them.

**Finding #5:**

**Parking Manager's Theft of Garage Revenues**

**The Garage's external auditors discovered that the Parking Manager had been stealing funds from the Garage and falsifying bookkeeping records in an attempt to cover up his actions. The Parking Manager confessed to his actions and repaid the stolen funds so the Garage released him from his position without pursuing criminal prosecution.**

The Management of the Garage had a CPA firm conduct an audit for their entire organization. The Garage is one part of the organization. During the course of the audit, the CPA firm discovered that the Parking Manager had been falsifying records in order to cover up his theft of funds from the Garage. Once the theft was discovered, Management had the CPA firm apply agreed-upon procedures to determine the amount of the theft. The CPA firm used the following agreed-upon procedures to calculate the amount of the theft:

- “1. We will compare cash collections per daily shift reconciliations to the bank deposit slips for each day during the period starting January 1, 2001 to June 30, 2003. Daily shift reconciliations

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are filled out by each attendant and show the amount of cash collected by each attendant. The Office Administrator verifies the accuracy of the daily shift reconciliations by comparing them to the tickets collected each day.

2. Based on the above procedures, we will summarize any differences noted between the daily shift reconciliations and the bank deposit slips for each month.

The total amount of the theft was \$11,166.

We conducted a telephone interview with the President of the Board of Directors to obtain more information regarding the findings of the CPA firm. According to the President, the CPA firm discovered that the Parking Manager committed the theft during the period from March 2001 through October 2002. No losses were discovered prior to March 2001 by the CPA firm and the Parking Manager resigned his position and repaid the stolen funds to the Garage after the discovery of his actions by the CPA firm.

**City Recovers \$11,166**

The Garage repaid the stolen \$11,166 to the City along with penalties and interest in August 2003. Since these amounts were not properly accounted for on the monthly revenue reports submitted to the City, we have modified the monthly revenue amounts collected for the months identified by the CPA firm's audit report. This will fairly state the monthly revenue from the period March 2001 through October 2002.

Although the small size of the office staff limits the extent of separation of duties, our office believes that certain steps could be taken to limit incompatible duties. The Garage should avoid giving one employee access to both physical assets (e.g. cash) and the related accounting records. The following is a summary of the process for the handling and recording of cash in the Garage prior to the identified theft by the Parking Manager.

The Garage Attendants initially handle cash in the Garage. At the end of each shift, they prepare a deposit slip. The cash and corresponding deposit slip are given to either the Parking Manager

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or Foreman. One of them counts the cash to verify the accuracy of the deposit slip. Once this process is complete, the deposit is made. Neither the Bookkeeper nor the Office Administrator is involved in the deposit process.

The Office Administrator is involved in the recording process related to cash. The Office Administrator manually summarizes the daily cash collections on a worksheet. The Office Administrator gives the original copy of the completed worksheet to the Parking Manager for review. Once the Parking Manager approves the spreadsheet, he inputs the data into an Excel spreadsheet. The Parking Manager was able to override this internal control procedure by subsequently destroying the original manual worksheet in order to cover up his theft of the Garage's revenues.

**Recommendation for Finding #5**

We recommend that:

- a. the Excel summary report be prepared and maintained by the Office Administrator. If the Parking Manager or any other employee needs the information on this worksheet, the Office Administrator should send copies of the report but retain the original documentation; and
- b. *in order to strengthen internal controls and create adequate segregation of duties, we suggest that either the Bookkeeper or the Office Administrator receive and compare the bank deposit slips and the bank deposit receipts to the cash collection or shift reconciliation report on a daily basis.*

**Finding #6:**

**Releasing Vehicles from the Garage without Payment or Proper Validation**

**Although most City associates are required to use a validation stamp in order for the Garage cashiers to permit parkers to leave the facility without immediate payment, some City associates only need a signature. This inconsistency makes it difficult for Garage cashiers to enforce payment of parking**

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**tickets and for auditors to verify that unpaid parking tickets are valid.**

When City Council and its affiliated committees and commissions have meetings, City associates are able to obtain free validation from the Garage by signing their ticket. Since there is no way to verify that the signer is part of a specific event, the Cashier Attendants have been instructed to give clearance to anyone who signs a ticket during reasonable departure hours after the conclusion of an event. On one of our ticket sample days, there were 17 signed free tickets related to an approved committee meeting. This provides weak internal controls for both the Cashier Attendants to monitor drivers and enforce payment of hourly fees and for auditors to verify that unpaid tickets are valid city-related unpaid tickets.

Several City departments already have stamps that are used to authorize the release of a vehicle from the Garage without immediate payment of the hourly fees. The Parking Supervisor indicated during the audit that City Council and its affiliated committees and commissions do not want to be burdened with the procedure of using a stamp for free tickets and they believe that the signature procedure is sufficient. This creates a situation where management is overriding the internal controls that have been put into place and creates the potential for higher lost revenue than would occur otherwise.

We disagree with the conclusion that stamps are too inconvenient to use because of the lack of internal controls that the signature process provides. The Cashier Attendant is forced to let anyone through the gate for free if they are aware of an event that is occurring where the parking fees will be waived. Use of a validation stamp will eliminate the opportunity for vehicle owners to exploit this gap in the internal control environment.

**Recommendation for Finding #6**

We recommend that all City associates be required to use a validation stamp in order to be released from the Garage without making immediate payment. The validation stamp should include

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an assigned department serial number and be placed in a secure area.

**Finding #7**

**Improper Reconciliation of Monthly Accounts Receivable Balance**

**The Garage does not properly reconcile their accounts receivable balance from month to month. Review procedures employed by either the Garage or the City failed to recognize this deficiency in the monthly reports.**

During our evaluation of accounts receivable, we noticed that the ending accounts receivable balances from one month did not correspond to the beginning accounts receivable balances for the following month. Upon discovering this inadequacy in reporting, we employed alternative auditing procedures in order to verify that the accounts receivable balance at December 31, 2002 was fairly stated.

**Recommendation for Finding #7**

We recommend that:

- a. the Garage implement better procedures to reconcile accounts receivable balances from month to month. Review of the revenue reports by someone other than the preparer should be done and checking ending accounts receivable balances for one month against beginning accounts receivable balances in the following month should be a mandatory review procedure; and
- b. the City Traffic Engineer take greater responsibility for the review function in this area. He should verify that all ending accounts receivable balances for a given month agree with the following month's beginning balances. Any discrepancies should be noted and submitted to the Garage for explanation.



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**Finding #8**

**Miscalculated Invoice Charged to City Expenditure Report**

**We identified a miscalculated invoice for security services. This resulted in an overcharge to the Garage that was subsequently passed on to the City when the Garage was reimbursed for the expenditure.**

The Garage's security service submitted an invoice to the Garage dated September 16, 2002 in the amount of \$1,660.08 for services provided for the period September 1, 2002 through September 15, 2002. The invoice was miscalculated and resulted in an excess charge to the Garage of \$600. This mistake in billing was not identified by the Garage and the entire invoice amount was submitted to the City for reimbursement. The City also did not identify the miscalculation on the invoice during their review of the monthly expenditure report and reimbursed the Garage for the entire balance.

**Recommendation for Finding #8**

We recommend that:

- a. the City notify the Garage to return the excess reimbursement of \$600 for security services. The Garage should then contact the security company and request reimbursement for the excess charge on the invoice; and
- b. both the Garage and the City implement more effective review procedures for verifying that invoices are for valid garage expenditures.

**Finding #9**

**The Garage Does Not Always Use Tickets in Sequential Order**

**The Garage does not always dispense parking tickets in sequential order. Failure to dispense tickets in a sequential order raises the risk of theft of parking revenue.**

For four out of the twelve months of the year 2002, the Garage did not use a sequential number of tickets. During these four months, parking tickets were loaded into the ticket dispenser in a non-

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sequential order. This eliminated one of the control totals that are normally available for auditors to check for completeness when testing revenues. This forced us to use alternative auditing procedures to verify that the monthly revenues for these four months were reasonable. When this issue was discussed with the Parking Supervisor, he indicated that sometimes the Cashier Attendants are careless when they go to get new tickets to refill the machines.

**Recommendation for Finding #9**

We recommend that the Parking Supervisor maintain strict control over the stock of unused parking tickets and be responsible for giving the Cashier Attendant the right stock of new parking tickets when the ticket dispenser needs to be refilled.

***CONCLUSION***

The Garage has several areas where improvements could be made to strengthen internal controls and operational efficiency. Procedures such as using a sequential order of tickets and reviewing accounts receivable balances for consistency between periods will help to strengthen internal controls and reduce errors. The City should also take responsibility for improving procedures. These include timely repayment of the Garage's invoices and a prompt response to the safety issues dealing with the stairway steps and rails.

**CLAY STREET GARAGE**  
**STATEMENT OF REVENUES AND EXPENSES**  
**For the Years Ended December 31, 1998, 1999, 2000, 2001 and 2002**

Description	1998	1999	2000	2001	2002
<b>Revenues</b>					
Total hourly parkers	\$ 392,085	\$ 422,570	\$ 541,911	\$ 584,642	\$ 681,375
Accounts receivable and validations	13,264	19,370	12,902	7,408	14,085
Monthly parking revenue	81,745	93,400	101,154	74,053	96,704
Monthly late charges	-	-	-	-	148
Monthly lost cards	-	-	-	-	160
Monthly card deposits/returns	-	-	-	-	20
Special event	-	-	39	-	-
Validation stamp books sold	-	-	-	-	150
Attendant shortages paid	-	-	-	-	891
<b>Total revenues</b>	<b>\$ 487,094</b>	<b>\$ 535,340</b>	<b>\$ 656,006</b>	<b>\$ 666,103</b>	<b>\$ 793,533</b>
<b>Expenses</b>					
Salaries and wages	\$ 61,100	\$ 64,341	\$ 62,528	\$ 77,393	\$ 82,823
Payroll taxes	4,768	4,807	4,709	5,887	6,327
Workers' compensation	9,326	7,556	7,094	5,608	6,969
Utilities	18,055	17,975	16,260	22,917	24,742
Insurance	4,348	4,946	5,521	8,563	10,640
General maintenance and repairs	45,575	22,843	26,503	32,377	31,650
Supplies and uniforms	325	318	340	64	-
Sign maintenance	222	70	-	999	195
Security	28,357	27,787	26,166	27,029	30,052
Elevator maintenance	6,281	2,520	2,267	2,520	2,553
Printing	3,685	3,066	4,155	1,006	3,646
Postage	33	30	34	46	65
Legal and audit	2,718	-	-	1,117	-
Joint office expense	3,205	3,294	3,423	3,664	4,067
Miscellaneous expense	-	4,532	-	17	-
Painting and construction	58,608	-	-	-	-
Management fee	10,000	10,000	10,000	10,000	11,000
<b>Total expenses</b>	<b>\$ 256,606</b>	<b>\$ 174,085</b>	<b>\$ 169,000</b>	<b>\$ 199,207</b>	<b>\$ 214,729</b>
<b>Net income</b>	<b>\$ 230,488</b>	<b>\$ 361,255</b>	<b>\$ 487,006</b>	<b>\$ 466,896</b>	<b>\$ 578,804</b>

See accompanying notes.

**CLAY STREET GARAGE**  
**NOTES TO THE STATEMENT OF REVENUES AND EXPENSES**  
**For the Years Ended December 31, 1998, 1999, 2000, 2001 and 2002**

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Statement of Revenues and Expenses 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 expenses 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 fifteenth day of each month and can be paid with a late fee by the end of each month. If the monthly parker has not paid by the end of the month, the card is deactivated. Monthly card deposits and refunds are recognized as revenue and expenses, respectively.

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 – TELECOMMUNICATIONS LICENSE AGREEMENT

The City entered a Telecommunications Licensing Agreement with Pacific Bell Wireless, LLC (Licensee) on June 28, 2002. The Licensing Agreement allows the Licensee to place cell phone tower equipment in the basement storage area of the Garage and cell phone tower antennas on the roof of the Garage. The term of the lease is for three years with the option to extend the lease for five additional three-year terms. The City must provide at least six months notice if it elects to not extend the term at the end of any three-year term.

For the first year of the licensing agreement, the Licensee agrees to pay the City a monthly licensing fee of \$1,000. The first monthly payment for the licensing fee began December 2002.

**CLAY STREET GARAGE**  
**NOTES TO THE STATEMENT OF REVENUES AND EXPENSES**  
**For the Years Ended December 31, 1998, 1999, 2000, 2001 and 2002**

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NOTE B – TELECOMMUNICATIONS LICENSE AGREEMENT (CONT'D)

The Licensee has also provided a \$2,000 security deposit for the first and last month's licensing fee. The City shall increase the licensing fee on each anniversary of the commencement date of the contract by the greater of three percent or the percentage increase that occurred in the Consumer Price Index for All Items – All Urban Consumers for the San Francisco-Oakland-San Jose Metropolitan Statistical Area during the preceding twelve month period.

Since the commencement of the contract occurred during the last month of the audit, the Licensee is current in their licensing fee payments to the City. The licensing fee payments are not paid to the Garage but rather to the City directly and therefore are not reflected on the Statement of Revenues and Expenditures.

**CLAY STREET GARAGE  
PERFORMANCE AUDIT REPORT  
For the Five Years January 1, 1998 through December 31, 2002**

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**VIEWS OF RESPONSIBLE OFFICIALS**

The Downtown Realty Company did not respond with any written comments on our draft report.

The Public Works Agency, Transportation Services Division, officials did not respond with any written comments on our draft report.

The Finance and Management Agency, Risk Management Division, officials did not respond with any written comments on our draft report.