

AUDIT

Review, Inspect, Assess,
Inventory, Appraise



KEEP THE MOMENTUM

By Bruce Cousin

When the economy shrinks, it is sometimes first evident in the parking industry. The absence of repeat customers can be an indicator that downsizing has occurred, and the parking operator is usually the first to notice. Perhaps with all the other barometers and economic indicators used to measure the economy, there might be room for the "Parkscale" to measure economic downturns or upturns. Not necessarily scientific, but reality does not lend itself to science at times.

When hard economic times are upon us, layoffs and restructuring are the norm, and are a necessity for most organizations. This is not unusual and most people that remember the mild recession in the early 80's recall the shrinking of personnel in their company and less people working much harder, well into the 90's. Companies resisted the temptation to resume the same workplace compliment, just in case this could occur again.

And along came good times... stock markets at peak, companies flush with cash, amalgamations, mergers, global partnerships and all the structure and personnel that comes with buoyant economies. However, Enron raised its ugly head first and the rest, as they say, is history. Someone took their eye off the ball and the ball continues to bounce to this day, smacking us where it hurts.

Once again, we are seeing the same downsizing and restructuring and companies are looking areas that provide the best value and return for the company. It is sometimes difficult to quantify the return for areas such as training, human resources, marketing and especially, audit. Reduction of audit at this critical time is perhaps one of the most crucial errors that can be made for most businesses, but especially for parking.

> WHY?

While the industry has reduced the amount of cash that it handles through implementation of technology, cash remains a big part of the business. As well, the increased use of credit cards sees information that is regularly uploaded having the potential for fraudulent activity to occur at a higher loss rate than ever.

Reports published in parking industry articles by seasoned experts put losses at 20-25% and as high as 28% in cases that were investigated for "revenue concerns". This, of course, is subject to denial in most companies or institutions with a parking component. But remember, these losses were incurred during a period of good times. And after denial, "delawsuit" is soon to follow from the client, or the board, or any number of stakeholders requiring some quick answers.

Now with everyone feeling the economic squeeze, the temptation to take advantage when an opportunity presents itself may be greater than ever. If I can't get credit at a bank, if I am behind in my mortgage or car payment, where is there opportunity? Maybe opportunity exists at work, especially if you are in the parking industry. The key words for auditors at this difficult time are diligence and thoroughness.

> DILIGENCE

To sustain proper diligence, there is no need to increase your current audit coverage but rather, review your audits for their timeliness and thoroughness. Now is a good time to conduct risk assessment to determine if audit procedures need updating because the risk has changed.

Audit in parking assures that procedures are followed, each ticket or vehicle is accounted for and all the monies get to the bank. Sounds simple? Amazingly, the same theft scenarios

have been ongoing for the last twenty years! What is even more amazing is that nothing has been done to stop this method of theft. People just accept it as a cost of doing business.

There is the idea that revenue control equipment will help to guard against these losses. True, but you can become complacent thinking the equipment is now solving your problems. Most major thefts occurred in large operations with good revenue equipment. Why? Nobody checks the information; no one knows how to analyze the various reports generated by the equipment. The reports taken are filed before being fully examined.

This information does not usually get to clients and the people we report to because we either don't have audit personnel doing what they should, or they are only looking for the same old fraudulent activity from years ago. When is the last time your auditor went to the product manufacturer and took courses in the software application your facility is running?

The old style theft that is still going on may have been acceptable when a single ticket was being stolen at a time when the daily rate was only a dollar. It isn't a dollar anymore, nor is it just one ticket being taken. Here are some examples:

- A proactive parking operation decided to put as many video surveillance units in the booths to capture each transaction. New technology allowed digital recording for up to a month, (much better than swapping tapes every couple of days). This was akin to having an auditor in every booth. The employees were all aware of the camera, it was not kept a secret as advising the staff was thought to be initial attempt deterrence. Over a three year period, fully 85% of all incidents involved ticket swapping from full value tickets to lesser or fully validated tickets. This would not have been caught in



Now is not the time to lose sleep over the effectiveness of audit. It is a time to increase the awareness of all audit aspects, look at each control point and eliminate gaps and opportunities for fraud to occur.

a ticket audit or a field audit, in most cases. Why? Because generally, we allow a certain amount of lost tickets to be acceptable, depending on the operation. This will be denied by many in the industry, but I have yet to see anyone have 100% ticket recovery, every day of the year in attended locations.

Now if the industry allows a "reasonable" loss of tickets, let's say 1% of tickets to be lost in a day, and there are 2 million pay parking spaces in Canada (just a guess), this would be a loss of 20,000 tickets per day or 4,500,000 per year. Factored at an average of \$8.00 per ticket, the total potential loss is \$36M. How many industries have a loss of \$36M and consider that "reasonable"? And remember, extrapolating is something lawyers love to do...

- At an attendant location, people paid for the parking with a credit card. The attendant would, as the card was being approved, write down the security code on the card. At the end of the day, he had card numbers, expiry dates and the security code. That is all the information he needed to buy items and pay bills over the internet, with some success. Caught quickly of course, but brought to light how easy it is to get the information required to commit fraud.

- A supervisor who would compile the daily deposits for all shifts reworked deposit information and succeeded in taking \$25K in three short months.
- The entire management team at one location never recorded cash payments for validations, only for cheque and credit card. They hid this carefully as they were in charge of deposits. When the auditor noticed that the validations redeemed were far greater than purchased, investigations revealed the problem.

> THOROUGHNESS

No longer can it be accepted that ticket audits are good enough. As an example, there was one operation that had seven people checking every ticket each day for a huge urban operation in a major center.

Millions of tickets each month were individually checked for errors. Each month, approx. \$500 in errors was found, the vast majority of it being grace period errors. Two problems occurred here: cost of personnel was about \$14,000 per month to find \$500. Although the operator could claim each ticket was checked each day, where was the ROI?

Consequently, the personnel were put in the field where they found nine cases of theft that led to dismissals in the first 60 days, all items that would not have shown up in a ticket audit.

Ticket audits are thoroughness, they may lead you to an area to investigate or show you a trend that is worrisome, but, as I have said many times, most good fraud artists do not hand in their proof of theft the next day with their paperwork.

All aspects of audit must be thorough. Questions you should ask yourself include:

- Who hands out validations?
- How are they paid?
- What is the usage ratio?
- Are the monthly payment control points adequate?
- Does anyone match audit tape to transactions on a regular basis?
- Are transaction sequences from fee computers reviewed on a regular basis?
- Are ticket inventory controls tight? etc...

Now is not the time to lose sleep over the effectiveness of audit. It is a time to increase the awareness of all audit aspects, look at each control point and eliminate gaps and opportunities for fraud to occur. It is the time to ensure all the monies you diligently collect are remaining with you, and that your stakeholders are assured that the control of the operation, from an audit standpoint, is diligent and thorough. ■

The point is that fraud is now evident at all levels in a parking organization, not just the attendant. There was a case where a senior office person worked the internal monthly system and was able to put payments into phony accounts that she controlled (she was married to a police officer). Times have changed and there are some areas that never should be missed if you wish to maintain control of the revenue:

1. Maintain audit at the levels that all aspects of risk management, coverage and reporting will not adversely affect your control.
2. Control points should be reviewed for segregation of duties protocol and procedures should always be reviewed for compliance.
3. Auditors have to be visible in the field.
4. Correlate possible drops in revenue to vehicle counts; do not readily accept drops due to economic hardships.
5. If you see more short term tickets than long term, are they all short term or substitutions? Check on what changed in the area to create more short term.
6. Your auditors should be able to analyze revenue streams on a daily basis to react quickly to any perceived irregularities.
7. Audit your monthlies more closely, where transactions are higher dollar amounts and easier to hide from auditors.
8. If enforcement is part of your operation, monthly reviews of void tickets are required to search out anomalies or trends with individual personnel

