



# PORT OF GALVESTON CRUISE PARKING AUDIT

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INCREASING CONTROLS AND REVENUES TO PROTECT THE CITY'S  
INVESTMENT IN THE PORT OF GALVESTON



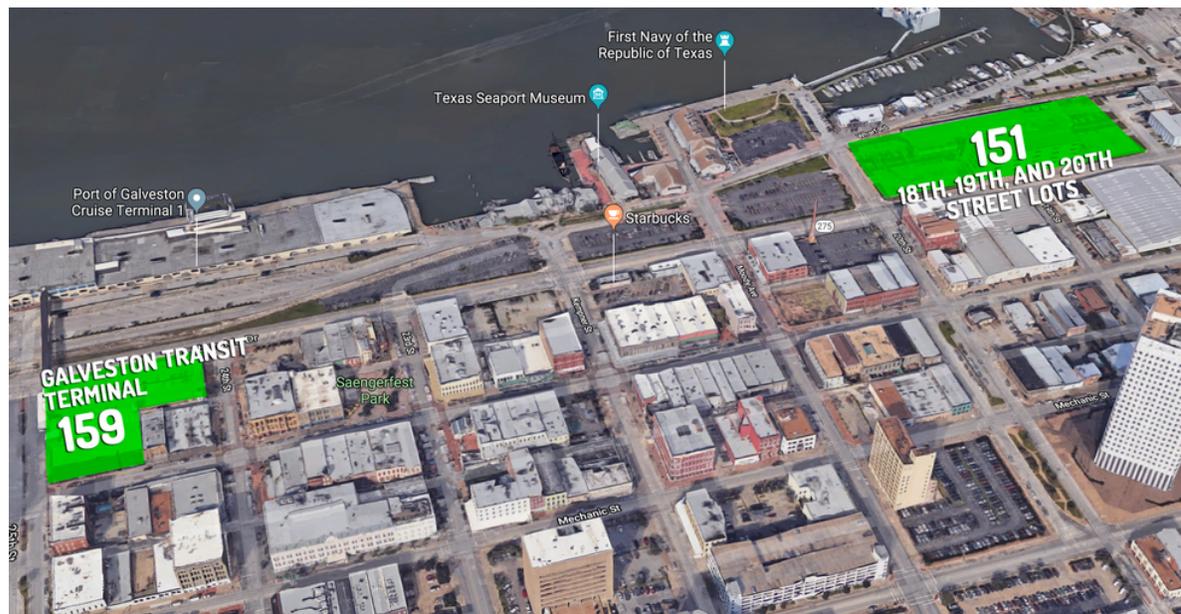
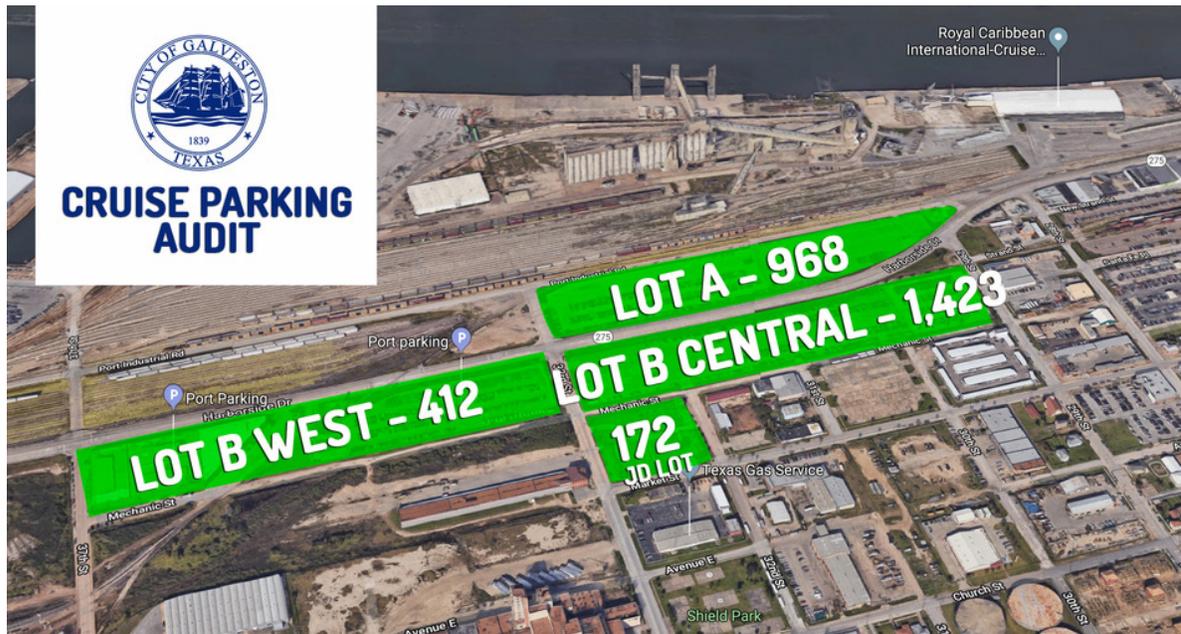
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# PARKING LOTS INCLUDED IN AUDIT AND NUMBER OF SPACES IN EACH



- Lot A: North side of Harborside drive east of 33rd street. 968 spaces.
- Lot B Central: South side of Harborside drive east of 33rd street. 1,423 spaces.
- Lot B West: South side of Harborside drive west of 33rd street. 412 spaces.
- 18th Street Lot: South side of Wharf Road north of Harborside drive. 30 spaces.
- 19th Street Lot: South side of Wharf Road north of Harborside drive. 79 spaces.
- 20th Street lot: North side of Wharf Road north of Harborside drive. 42 spaces.
- Galveston Downtown Transit Terminal: 25th street and Strand. 159 spaces.
- JD Lot: 3201 Market. 172 spaces.

# CRUISE PARKING AUDIT RECOMMENDATIONS

Performed by the City of Galveston  
City Auditor's Office

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The City Auditor's Office was tasked with auditing the Cruise Parking Operations in an effort to ensure that we were capitalizing on one of the largest potential revenue streams for the Port. After reviewing the data from January of 2014 to June of 2017, with estimates through December 31, 2017, we have come up with three suggested opportunities for improvement.

In summary, we recommend the following:

1. Revise written internal control procedures by segregating the duties of the current parking attendants by installing a system in which customers may pay by cell phone, subdividing the cars by the cruise ship departures, using a license plate reader (LPR) to verify payment, and using LPR software to reconcile the transactions for both the Finance Department and the Internal Audit Department.
2. Saving the Port an estimated \$280,000 annually by adjusting the written policies regarding the veterans discount on parking. The program was passed by the Wharves Board with the understanding that this discount would amount to under \$1,000 per year.
3. Write written policies to use activity codes to break out revenues and direct and indirect expenditures associated with revenue producing programs giving the Port the ability to prepare accurate and timely profit and loss statements to help aid in making financial decisions.

All in all, these changes to the written policies and procedures would not only significantly increase the revenues from the Parking Operations, they would also greatly increase the controls that are necessary to run a financially transparent program. The remainder of this report will outline the recommendations summarized above in detail.

# OPPORTUNITY #1

## REVISE WRITTEN INTERNAL CONTROL PROCEDURES TO INCLUDE SEGREGATION OF DUTIES

Currently, the parking procedures for the Port of Galveston outline that the Parking Attendants handle all cash and collections for parking fees collected from customers\*, which are then turned over to the Port Cashier. The Port Cashier then prepares a report that outlines the number of tickets sold and the number of vehicles that are parked in the lot\*\*.

In an effort to increase the level of internal controls, we recommend revising written internal control procedures to separate the duties for these two tasks using an automated system.

### Short-Term Recommendation:

- Subdivide cars parked by each cruise ship departure.
- Implement a system where customers can pay with their phones with a distinct location code for each lot.
- Utilize license plate reader (LPR) software after a ship's departure to ensure customer compliance by parking attendants.
- Distributing the information collected using the LPR software to both the Finance Department and the Internal Audit Department for reconciliation.

### Long-Term Recommendation:

- Install in one central location automation with a license plate reader.
- Ensure that all gross revenues automatically update to the Port's general ledger.
- Establish an internal audit process through the automated operational processes.
- Prepare a schedule for maintaining operational equipment effectiveness.

\* See Money Handling III B.3 in the written parking lot procedures.

\*\* See Balancing of Parking Fees Collected on Worksheets I in the written parking lot procedures.



# OPPORTUNITY #2

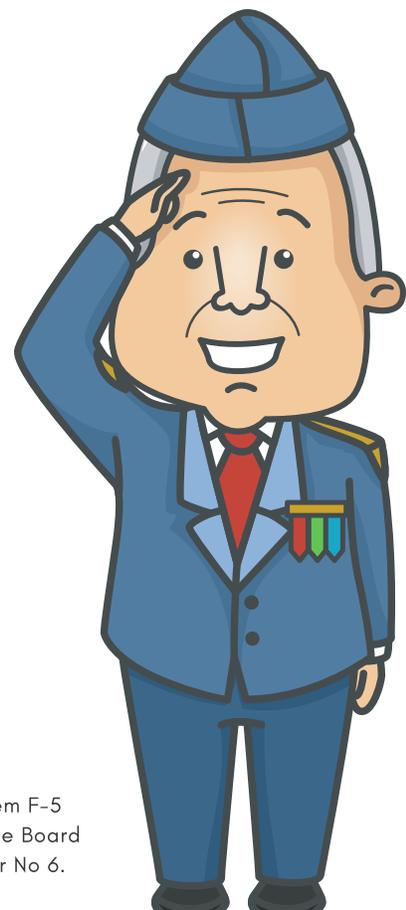
## ADJUSTING THE WRITTEN POLICIES REGARDING THE DISABLED VETERANS DISCOUNT

In May 2003 the Wharves Board of Trustees unanimously passed a motion\* to approve free parking for disabled veterans. The information prepared for the Board stated that the financial impact of this program would amount to a \$1,000 reduction in parking revenues annually.

In 2016, the Port of Galveston reduced parking revenues by \$281,050 due to this program. In 2017, we estimate that the Port will reduce parking revenues by \$287,414 due to this program.

### Recommendation:

- Adjust written policies to create a system of reporting material differences of information that has been reported to the Board in the past.



\* See minutes from the May 19th, 2003 meeting, Item F-5 Discuss and Consider Ratification of Changes to the Board of Trustees at the Galveston Wharves Tariff Circular No 6.

# OPPORTUNITY #3

WRITE WRITTEN POLICIES TO PREPARE  
TIMELY PROFIT AND LOSS STATEMENTS  
FOR REVENUE PRODUCING PROGRAMS

Currently, the Port does not have the ability to prepare a timely Profit and Loss Statement for revenue producing programs. While this measure is not required by the GASB\* or GAAFR\*\*, it is a necessity for making financial decisions and for financial transparency.

## Short-term Recommendation:

- Utilize activity codes to break out direct and indirect expenditures associated with operating the parking lots.

## Long-term Recommendation:

- We recommend the Port implement a Cost Accounting computer system.



\* Government Accounting Standards Board

\*\* Governmental Accounting, Auditing, and Financial Reports

# THE HOW AND WHY

## CAPITALIZING ON A GROWING INDUSTRY

### SUMMARY OF OBJECTIVE, SCOPE, AND METHODOLOGY

- **OBJECTIVE:** The objective of the audit was to evaluate the adequacy of the internal controls and procedures related to Cruise Parking.
- **SCOPE:** The audit scope included a review and evaluation of procedures, practices, and controls related to Cruise Parking. Our test period covered January 1, 2014, to June 30, 2017 with estimates through December 31, 2017, and included the most recent data available at the time our audit fieldwork was conducted.
- **METHODOLOGY:** To achieve our audit objectives we conducted interviews with Wharves Port Administration; conducted interviews with management and staff; reviewed internal controls over the parking; conducted an analysis of the contracts; reviewed monthly revenue reports; recalculated reported revenues; performed tests of selected transactions; reviewed operating expenses, and performed recounts of daily logs submitted as supporting documentation.

### WHY IT'S IMPORTANT | THE FUTURE OF CRUISING\*

- The global cruise market value is expected to increase \$51.45 billion in 2020, as compared to \$42.27 billion in 2016. The market is expected to increase at a Compound Annual Growth Rate of 5.04% over the years 2016-2020.
- The worldwide number of passengers is expected to increase to 30.88 million in 2020, as compared to 23.47 million in 2016, increasing at a Compound Annual Growth Rate of 7.10% over the years 2016-2020. The number of passengers has increased due to rising GDP per capita, increased spending on leisure and travel activities, and improvement in the services provided by the cruise industry. The industry has also increased the preference of travel by cruises over other industries by offering facilities to accommodate family members of all generations traveling together. The number of passengers in North American cruises reached 12.91 million in 2015 and is expected to increase to 15.37 million in 2020, as compared to 13.17 million in 2016. In North America, the increase is expected to rise at a Compound Annual Growth Rate of 3.94% over the years 2016-2020.
- Global cruise capacity is measured by the number of berths. In 2015 there were 471,000, as compared to 451,200 in 2014. From 2016 to 2020 it is expected to increase at a Compound Annual Growth Rate of 6.24%, reaching 630,500 berths in 2020.
- Each year, more and more people migrate to urban areas in search of better living standards and opportunities. With a change in the residential and work locations, spending habits of individuals have changed over time. With increased opportunities in urban areas, the earning capacity of the individuals increase and hence, their spending increases on leisure activities, of which the cruise industry is a part of.

# IN CONCLUSION

## WHAT CRUISE PARKING MEANS TO THE PORT AND THE CITY AND ESTIMATED RESULTS OF RECOMMENDATIONS

### WHAT CRUISE PARKING MEANS TO THE PORT AND THE CITY:

- The Port of Galveston has 3,285 parking spaces representing approximately 65% of the local market share of the cruise parking industry.
- For the last eleven years the Port has collected approximately \$49,000,000 in cruise parking revenues and paid approximately \$4,000,000 in sales tax to the Texas State Comptroller.
- Out of this approximate \$4,000,000 the Texas State Comptroller has passed through to the City of Galveston an estimate of \$1,000,000.

### ESTIMATED RESULTS OF OPERATIONS BROKEN OUT BY OPPORTUNITY PRESENTED:

### ESTIMATED ANNUAL INCREASE IN DOLLARS:

**Opportunity #1:** Based upon our interviews with management and employees from other Organizations that have implemented this internal control of separating the duties we have learned that these organizations have experienced anywhere between 5% and 30% increase in gross parking revenues when implementing this particular internal control. If we apply a 5% increase to the approximate \$7,000,000 annual gross parking revenues we can conservatively estimate that gross parking revenues will increase somewhere around \$340,000 annually.

\$340,000

**Opportunity #2:** By adjusting the written policies regarding the disabled veteran discount the Port of Galveston could possibly increase annual gross parking revenues by approximately \$280,000.

\$280,000

**Opportunity #3:** This opportunity deals with reporting operations and is not quantifiable.

N/A

### TOTAL ESTIMATED INCREASE IN ANNUAL GROSS PARKING REVENUES:

\$620,000

