1000 Lenox Drive, Lawrenceville, NJ 08648
(609) 924-4200

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ATTORNEY WORK PRODUCT

READING PARKING AUTHORITY

FORENSIC INVESTIGATION
INTERIM STATUS REPORT
AS OF
JANUARY 29, 2018

PREPARED
BY
JAMES T. O'BRIEN, CPA, CFF
MANAGING DIRECTOR

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I. OVERVIEW AND SUMMARY

A. RETENTION AND SCOPE

In January 2016, law enforcement authorities recommended to the City of Reading's (the "City") new Mayor, Mr. Wally Scott ("Mayor Scott"), that he meet with forensic professionals from Baker Tilly Virchow Krause, LLP ("Baker Tilly") to address concerns surrounding the City's contracting process, as well as construction activity and the costs associated with the Wastewater Treatment Plant ("WWTP"). Mayor Scott also shared concerns about other areas of operations, which included the Reading Parking Authority ("RPA").

I, James T. O'Brien, CPA, CFF ("Mr. O'Brien"), led the Forensic Investigative Services provided by Baker Tilly Virchow Krause, LLC ("Baker Tilly"). I left Baker Tilly in July, 2017 to join Management Planning, Inc. ("MPI"). In December 2017, MPI was retained by the RPA to complete the Forensic Investigation Services that were started by Baker Tilly. Baker Tilly provided the following Forensic Investigation Services: (1) Initial scoping and the identification of red flag concerns and a detailed Proposal for Forensic and Investigation Services, dated March 21, 2016; and (2) A status update presentation at the May 24, 2017 board meeting that communicated Baker Tilly's initial "Fieldwork/Observations." The primary contact for the Forensic Investigative Services was Reimundo "Rei" Encarnacion ("Mr. Encarnacion"), the Executive Director of the RPA. In addition to working directly with Mr. Encarnacion, the following individuals also assisted with the process:

- Christina Gilfert, ("Ms. Gilfert"), former Finance Director for RPA;[1]
- Stacey Fitzgerald, ("Ms. Fitzgerald"), former assistant at the RPA;[2]
- Thomas J. MacDougal, IV ("Mr. MacDougal") the Executive Director of the RPA.[3]

At a special meeting of the RPA Board on August 30, 2017, Mr. Encarnacion abruptly resigned along with Felix Freytiz III ("Mr. Freytiz"), the parking enforcement and officer supervisor. It was reported that Mr. Freytiz was married to the cousin of Mr. Encarnacion.[4] It was also reported that Mr. Encarnacion's resignation followed the resignation of his sisters (Josephina Encarnacion and Rocio Encarnacion) from their posts in the City government.[5, 6]

In connection with the provision of Forensic Investigation Services to RPA, I made numerous requests for documents and information from Mr. Encarnacion. While Mr. Encarnacion was outwardly willing to provide assistance, he was unable to provide the documents and information necessary for my team and I to adequately perform our Forensic Investigation Services. Mr. Encarnacion, expressed concerns related to the quality, organization, and sufficiency of the documents maintained by Mr. Patrick Mulligan, RPA's former Executive Director and Ms. Gilfert, RPA's former Finance Director. Specifically, Mr. Encarnacion noted that the files were

[1] We met with Ms. Gilfert while she was still employed by RPA. Ms. Gilfert resigned from her position at the RPA immediately after Baker Tilly issued it preliminary assessment to Mayor Scott.

[2] Ms. Fitzgerald resigned from the RPA in the summer of 2017 and was assisting Mr. Encarnacion with the collection of documents related to the Forensic Investigation Services.

[3] October 16, 2017, the RPA Board appointed Mr. MacDougal the new executive director of the RPA.

[4] "Reading Parking Authority director resigns," Reading Eagle, August 31, 2017.

[5] "Reading Parking Authority director resigns," Reading Eagle, August 31, 2017.

[6] It was reported that: (1) Josephina Encarnacion resigned from her position as the Human Resource Director for the City and relinquished her board seat at the Reading Area Water Authority ("RAWA") in August and July of 2017, respectively; and (2) As of August of 2017, Rocio Encarnacion was no longer employed as an information technology data analyst for the City.

unorganized, missing or not available. As a result, the documentation available to analyze was limited during the initial stage of the Forensic Investigation Services.

In January 2018, MPI began working with Mr. MacDougal to request documents and begin the next phase of the forensic investigation. It is evident that Mr. MacDougal was concerned with the lack of organization and record keeping at RPA and has spent a significant amount of time organizing and collecting documentation about RPA. Specifically, Mr. MacDougal supplied, and has continued to supply, MPI with many of the documents and information that Mr. Encarnacion was unable to provide. The documents and information provided by Mr. MacDougal form the basis of this Interim Status Report. As such, my ability to perform the analyses set out in this Interim Status Report is largely due to Mr. MacDougal's efforts to organize the documents and provide access to them as well as his overall cooperative and collaborative working style.

The remainder of this Interim Status Report addresses our on-going fieldwork, preliminary observations, and recommended next steps.

B. QUALIFYING LANGUAGE

The analysis and findings herein are based upon the documentation provided to date, as well as my experience in performing similar financial analyses and forensic investigations. While I have no obligation to update this Interim Report for information that comes to my attention after the date hereof, I reserve the right to do so, and may do so if requested.

Further, to the extent a party issues a response to the analysis and findings contained herein, I will evaluate any such response and may provide my own response or update my analysis and findings if deemed appropriate. This Interim Status Report was prepared for the sole use of RPA. The publication of, distribution of, or access to this Interim Status Report is not intended to, and does not, create any right to rely on the contents herein by any other party. Further, nothing contained herein shall be construed to create third-party beneficiary rights in any other party.

I did not audit, review, or compile the underlying accounting data and other information provided to MPI in the course of my analysis. I have performed this analysis based upon the documentation and information available to date, which is of the type typically relied upon by experts in the field.

II. BACKGROUND

RPA was incorporated in 1957 by the City under the Commonwealth of Pennsylvania's Parking Authorities Law of 1947. The first parking structure financed and erected by RPA was the Franklin Plaza Garage in 1962. Financed by a conventional construction loan, this was to be the first in a series of parking structures commissioned by RPA within the City. Overall, RPA is responsible for over 6,000 off-street and 1,100 on street parking spaces. The RPA was initially established for a term of fifty (50) years. As bonds in the name of the RPA were issued to finance various projects, the term was extended to cover the life of the bonds (i.e., in 1988 the term was extended to the year 2008, etc.). With the issuance of the 1993 series bonds the term of the RPA was extended to the year 2020, at which point after presumably having discharged itself of all debt, RPA may be dissolved by a joint resolution of City Council and the RPA Board of Directors.[7]

The initial concerns raised by Mayor Scott surrounding the financial operations at the RPA precipitated the Board to approve our Forensic Investigation Services. The balance of this Report

[7] https://readingparking.com/history/. I also understand since the debt extends past 2020, City Council and the RPA Board of Directors have extended the resolution to match the financing.

will address the focus areas of the investigation and the findings and recommendations of next steps for the RPA.

III. ONGOING FIELDWORK AND PRELIMINARY OBSERVATIONS

A. THE RPA'S SALE OF THE WYNDHAM GARAGE

As noted in the 2013 audited financial statements, the RPA sold a parking garage for $1,042,051, which generated a loss of approximately $490,000. Prior to the sale, the audited financial statements indicated the parking garage was generating approximately $120,000 in annual revenues. In our initial assessment for Mayor Scott, I questioned whether the nature and terms of this transaction were appropriate and whether the RPA had policies and procedures in place to determine if the transaction was arms-length and reasonably equivalent value was received.

Mr. MacDougal provided MPI with copies of the closing settlement statement and a copy of RPA's 2013 asset disposal report. The closing settlement statement was dated April 16, 2013 and the buyer of the garage was listed as the Lincoln Hotel, L.P.[8] The contract sales price for the garage was $1,000,000 and also included an additional $50,000 for personal property. The net proceeds that the RPA received from the sale was a total of $1,042,050.94, which was a reduction of $7,949.06[9] from the $1,050,000 sales price. The RPA's disposal report[10] summarizes the loss that was realized on the sale of the garage. Specifically, the disposal report included the following line items:

[8] See the April 16, 2013 closing settlement statement.
[9] According to the settlement statement, the reduction was comprised of: (1) $5,644.06 Reduction in the rent for the period from 4/16/13 to 5/1/13; (2) $2,190.00 for a security deposit; and (3) $115.00 settlement charges.
[10] See the RPA disposal report for 2013.

- Account 1125 – Abe Lincoln Garage – in service date of September 1, 1996 with an acquired value of $210,000 and zero net proceeds, which produced a realized loss of $210,000 for the RPA.
- Account 1130 – Abe Lincoln Garage – in service date of September 1, 1996 with an acquired value of $1,892,690.09. The disposal report also listed current accumulated depreciation at $788.620.84 as well as the net proceeds of $1,042,050.94 (which equaled the amount listed in the closing settlement statement). In addition, the disposal report also listed $198,485 of improvements what were performed at the garage over the years. The improvements also identified $41,524.41 of depreciation on those improvements. As a result of the sale, the loss realized by the RPA on the sale of the garage in account 1130 totaled $218,978.90.
- Account 1140 – Abe Lincoln Garage – listed signs and pay stations that were acquired over time at a cost of $123,000.40. The disposal report listed the items as being fully depreciated, and as a result of the sale, generated no accounting loss.
- Account 1160 – Abe Lincoln Garage Retail Space – listed the acquired cost of the retail space at $91,658.50. The disposal report listed accumulated depreciation at $32,844.26 and a realized loss of $58,814.24 from the sale of the garage.
- In total, the Abe Lincoln Garage listed an acquired cost of assets at $2,515,833.99 (Accounts 1125, 1130, 1140 and 1160). For accounting purposes, the RPA applied a total of $985,989.91 in depreciation on the garage, which resulted in a net value on the property on the RPA books of $1,529,844.08. RPA's net sales price of $1,042,050.94, results in a recognized loss of $487,793.14 on the property. However, none of these items address the fair market value of the garage at the time of the sale.

The board minutes for April 25, 2012 indicate that RPA "…reached an agreement of sale of the Wyndham garage," which was signed by the Vice Chairman, Jack Lantrip ("Mr. Lantrip"). In addition, the board minutes for October 24, 2012, indicate that the board approved an addendum to the agreement of sale related to the Wyndham Garage. At this point in the investigation, I have not seen the agreement of sale, or the related addendum, for the Wyndham Garage. In addition, I have not identified the board meeting minutes that discuss the Board's rationale for the decision to sell the garage or whether any information or analysis was performed that would substantiate the $1,050,000 sales price for the garage was reasonable. As a result, I question whether the RPA received a reasonably equivalent value for the sales transaction on the garage. While the accounting loss on the sale of the garage was almost $500,000, the RPA invested over $2.5 million into the purchase and improvements of the garage during its ownership beginning in September of 1996. The garage generated approximately $1,000,000 of depreciation, which, for accounting purposes, was netted against the purchase price and improvements to calculate the realized loss reported in the financial statements. My initial concerns were two-fold: (1) Did support exist that would substantiate the reason why RPA sold the garage; and (2) Did RPA receive a reasonably equivalent value for the sale of the garage. Based on the information analyzed to date, it is evident that the sale of the garage did not benefit the RPA from a financial prospective.

B. CONTRACTUAL AGREEMENTS

1. Double Tree Hotel (Reading Hospitality, LLC) Agreement

On September 1, 2010, RPA completed construction of a 929 space garage at 700 Penn Street, which was referred to as the "Double Tree Convention Center Garage."[11] The primary purpose of the Double Tree Convention Center Garage was to provide parking support for the Double Tree

[11] RPA Financial Statements and Supplementary Information for the Years Ended December 31, 2010 and 2009.

Hotel and Convention Center.[12] RPA obtained funding of $14.2 million in connection with the construction of the Double Tree Convention Center Garage, which was comprised of: (1) Federally Taxable Parking Revenue Note – Series of 2009 (a/k/a Build America Bond) in the amount of $8.2 million;[13] and (2) Redevelopment Assistance Grant provided by the State of Pennsylvania in the amount of $6.0 million.[14]

On December 19, 2013, RPA entered into an agreement with Reading Hospitality, LLC ("Double Tree") in connection with the provision of parking spaces at the Double Tree Convention Center Garage ("Double Tree Parking Agreement").[15] Albert Boscov ("Mr. Boscov") signed the agreement on behalf of Double Tree.

Pursuant to the terms of the Double Tree Parking Agreement:

- Double Tree was entitled to 350 parking spaces free of charge for use by its guests and customers, without limitation ("Double Tree Free Customer Parking");

- Double Tree was entitled to rent 100 additional parking spaces for "co-workers" at RPA's lowest prevailing annual group rate ("Discounted Employee Parking");

- Double Tree was entitled to additional parking spaces in excess of the Double Tree Free Customer Parking, which RPA was required to provide at no additional cost upon at least

[12] RPA Financial Statements and Supplementary Information for the Years Ended December 31, 2010 and 2009.
[13] RPA obtained a $6.0 million bridge loan in the event the Build America Bond was not available when needed. This bridge loan was closed in December of 2010.
[14] RPA Financial Statements and Supplementary Information for the Years Ended December 31, 2010 and 2009.
[15] See the Double Tree Parking Agreement.

one-week notice by Double Tree ("Additional Double Tree Free Customer Parking"). Save for the notice period, the Additional Double Tree Free Customer Parking was not limited.

- Double Tree was responsible for any equipment for the allocation and accounting for spaces used by and, requested for use, by Double Tree.

- RPA was responsible for maintenance, lighting, repairs, and any other services required in association with the operating of the parking garage.

- Termination occurs upon the date on which the property and improvements owned by Double Tree cease to operate as a hotel and lodging facility.

For the purpose of my analysis, I have considered the financial and economic aspects of the Double Tree Parking Agreement. As such, I offer no opinion on the legal basis of the Double Tree Parking Agreement. Based on my preliminary analysis of the Double Tree Parking Agreement, including discussions with Mr. MacDougal and the review of available documents, I note the following:

- Double Tree Free Customer Parking represented approximately 37.0 percent of the available parking at the Double Tree Convention Center Garage.

- Double Tree has taken the position that they are entitled to <u>unlimited</u> Additional Double Tree Free Customer Parking as long as RPA is provided with proper notice (i.e., one week). In addition, based on discussions with Mr. MacDougal, we note the following:

  - Double Tree typically provides notice to RPA in connection with the provision of Additional Double Tree Free Customer Parking during peak times (e.g., during events at the Santander Pavilion and Performing Arts Center.)

  - It was also disclosed that Mr. Encarnacion routinely left the gates open at the Double Tree parking garage. I recommend reviewing the supporting documentation to determine the financial impact the RPA suffered as a result of Mr. Encarnacion's decision.

- In theory, it appears that Double Tree could charge its customers for the parking spots provided pursuant to the Double Tree Agreement. I understand that Double Tree has not been charging its customers for parking, but rather, offering "free parking" as an incentive to drive traffic to its hotel and restaurant, sometimes during peak parking opportunities for RPA.

- It is also our understanding that Double Tree has not complied with its responsibility under the Double Tree Parking Agreement in connection with the provision of equipment for the allocation and accounting for spaces used by and, requested for use, by Double Tree.

- Mr. MacDougal noted that he is currently in a dispute with Double Tree in connection with amounts due to RPA for Discounted Employee Parking. Mr. MacDougal is currently determining the amounts that Double Tree owes RPA. We understand that Double Tree disagrees with RPA's position.

Based on the foregoing, the Double Tree Parking Agreement provides Double Tree with the rights to substantially all of the financial benefits of the Double Tree Convention Center Parking Garage and leaves the RPA with limited financial benefits from the garage operations. In addition, the RPA has the repayment obligations on the debt associated with the construction of the garage and the annual costs related to the operations of the garage, including, among others, maintenance, lighting, and repairs.[16]

The RPA's Board of Directors approved the Double Tree Parking Agreement on December 18, 2013. Our analysis of RPA's board minutes is ongoing. However, based on my analysis, I question RPA's motives, processes, and controls related to the approval and construction of the Double Tree Convention Center Garage as well as the approval of the Double Tree Parking Agreement. I also understand that RPA has engaged legal counsel to pursue the Double Tree's breach of the Double Tree Parking Agreement, based on the issues identified by Mr. MacDougal. In addition, I understand that RPA has provide the Double Tree notice that the Double Tree Parking Agreement has been terminated based on the Double Tree breaches of the agreement. Finally, I recommend that RPA undertake further investigation related to the circumstances surrounding the Double Tree Parking Agreement, including the relationships between RPA, the City government, and the Reading Hospitality Group, LLC (i.e., Double Tree.

2. WFMZ-TV Agreement

On March 17, 2017, RPA entered into a barter/trade agreement with WFMZ-TV, which had a start date of May 1, 2017 ("2017 Barter Agreement").[17] The 2017 Barter Agreement was signed on

[16] An analysis of the general ledger indicates that the RPA incurred expenses of $42,271 in 2016 for repairs, maintenance and utility costs related to the Double Tree Convention Center Garage.
[17] The 2017 Barter Agreement appears to supersede an earlier agreement dated January 12, 2016.

behalf of RPA by Nelson Espinal, ("Mr. Espinal"), who we understand was the former Chairman of RPA's Board of Directors.[18]

Pursuant to the 2017 Barter Agreement, RPA agreed to provide WFMZ-TV use of 25 parking spaces in the 2nd and Washington parking garage. While not explicitly stated, it appears that in exchange for the parking spots provided by RPA, WFMZ-TV would provide RPA with $36,925 of annual television advertising and a $1,500 credit towards production costs. Based on my reading of the 2017 Barter Agreement, the terms appear ambiguous. For example, the body of the 2017 Barter Agreement states:

> "All barter/trade must be used within 18 months of the start date of this agreement, after the 18th month period has expired this contract between both parties stated above will be terminated."

However, in the "[D]etails" section of the 2017 Barter Agreement, it contains a hand written annotation that stated: (1) The trade amount is "$36,925 per year for five years"; and (2) "Trade is for 2017, 2018, 2019, 2020, & 2021, to match WFMZ's lease in the building."

Early Termination of the 2017 Barter Agreement "…will require both parties agreeing to terms and at least 60 days prior notification." Given this termination provision and the ambiguity surrounding the term. I recommend working towards a termination of the 2017 Barter Agreement. In addition, I was also told that RPA has not been utilizing the advertising as part of the 2017 Barter Agreement. Based on the language set out in the 2017 Barter Agreement, it appears that if

[18] Mr. Encarnacion is listed as the "contact" person for the RPA in connection with the 2017 Barter Agreement. Given Mr. Encarnacion's role as the RPA Executive Director, he knew or should have known about the 2017 Barter Agreement.

RPA fails to utilize the advertising, they forfeit their opportunity for advertising as part of the 2017 Barter Agreement.

In addition, we reviewed the board minutes to understand the discussion and basis of why RPA entered into the 2017 Barter Agreement. Unfortunately, very little information existed in the board minutes about the agreement. However, our analysis of the board minutes identified that RPA has had a long history with WFMZ. Specifically, in the board minutes for April 25, 2012, there was a discussion of the script for a commercial as well as the need to establish a "shoot" date. The board minutes for January 28, 2015 include a note to extend the trade agreement for one year, which indicates that the barter agreement was in place before 2015. Finally, the board minutes for March 22, 2017 include a note that the renewal of WFMZ agreement for 5 years was approved.

Based on our analysis of the board minutes, we are concerned that RPA's longstanding relationship with WFMZ has been one sided. RPA providing valuable parking spaces but RPA's management has failed to utilize the advertising that was part of the trade agreement. At this point, we have not quantified the amount of advertising RPA has historically received from WFMZ. However, we also have not identified any information as to why RPA needs to commit to such a large advertising budget, especially if the RPA has not been utilizing the advertising. I recommend that RPA work to identify and quantify the advertising that was historically provided by WFMZ and seek legal advice regarding RPA's financial exposure under the 2017 Barter Agreement to determine whether RPA can unilaterally terminate the 2017 Barter Agreement and/or work to renegotiate the terms of the WFMZ trade agreement.

C. INTERNAL CONTROLS - MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

Previously, I set out my initial concerns and preliminary observations related to the troubling lack of and/or ineffective internal controls at RPA. These concerns were communicated to Mr.

Encarnacion along with my opinion that the issues surrounding internal controls exposed the RPA to the risk of fraud, waste and abuse related to its assets, including cash and parking facilities. As noted in ***Section I***, Mr. Encarnacion failed to adequately address my concerns, including those related to internal controls, during his tenure at RPA (i.e., February of 2016 to August of 2017), which continued to expose the RPA to risk subsequent to his departure.

For example, documents prepared by Bill Wisser ("Mr. Wisser"), the accounting manager of RPA, paint a dismal picture of the state of RPA's internal controls in late September 2017 (i.e., a month after Mr. Encarnation resigned). Mr. Wisser's concerns were set out in a document entitled, "Detailed List of Challenges Encountered in Position of Accounting Manager." In Mr. Wisser's own words, here are some of the internal control issues he identified (emphasis added):

> "Recording revenue is very tedious and time-consuming; Involves at least 7 different Excel spreadsheet summaries. ***System is prone to errors***."
>
> "***Event collections are not well controlled***. We need an experienced event coordinator and more complete paperwork."
>
> "***Most accounting documents*** (invoices, receipts, accounts payable invoices, receivable invoices) ***have not been filed since beginning of 2016.***"
>
> "***Not all manual Excel Invoices are entered into our SAGE software***. Cannot retrieve all historical info."
>
> "***No one attempted to reconcile the cash account*** until the accountant from Ruhl Associates started spending time here sometime in mid-2017. ***To this day, I don't think cash is reconciled in a satisfactory manner.***"
>
> "***Nobody at RPA monitors who pays and who does not***. I don't believe a past-due customer is ever called for a payment request, unless the customer is very large or extraordinary."

We understand that Mr. Wisser subsequently resigned from RPA due to the difficulties related to the foregoing issues.

Mr. Wisser was not alone in expressing concerns related to the internal control issues at RPA during the tenure of Mr. Encarnacion. On October 25, 2017, (approximately one month after Mr. Encarnacion's resignation), Herbein and Company, Inc. issued an "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards ("Herbein Internal Control Report"). The Herbein Internal Control Report was prepared in connection with RPA's annual financial statement audit for the year ended December 31, 2016. The Herbein Internal Control Report grouped their findings on RPA's internal controls into three categories, which are defined in **Table 1**.

Table 1 – Definition of Internal Control Deficiencies

DEFICIENCY	Exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
SIGNIFICANT DEFICIENCY	A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
MATERIAL WEAKNESS	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

The Herbein Internal Control Report identified four internal control weaknesses, which were all classified as either a "Material Weakness" or a "Significant Deficiency." Following, are some quotes from the Herbein Internal Control Report in connection with RPA's internal controls:

> "Several material balance sheet accounts were not accurately and timely reconciled throughout the year, including cash, accounts receivable, prepaid expenses, investments, fixed assets, and accounts payable"
>
> "During our testing of accounts receivable we noted several months for which invoices were not sent monthly to customers. Of the 18 customers we tested, 14 customers did not receive at least one invoice for 2016…These missed billings were not detected by the authority or followed up on…"
>
> "…there was no review of the accounts receivable aging throughout the year to identify delinquent accounts for follow-up. As a result, there was no action taken to collect on past-due balances."
>
> "During our testing there were several pieces of documentation that could not be located. Certain spreadsheets and deposit logs which are used as an audit trail to support deposit breakdowns were not updated timely throughout the year. For example, for certain months the Authority could not provide a breakdown of what checks and payments that were included in each bank deposit."
>
> "During the year, financial reports for the board were prepared in Excel not through the accounting software. As a result, the information provided to the board did not agree to financial transactions tracked in the general ledger system."

Mr. Encarnacion's failure to address the internal control issues at RPA exposed and continues to expose the organization to the risk of fraud, waste, and abuse.

D. DEFERRED CAPITAL IMPROVEMENTS

The Management's Discussion and Analysis ("MD&A") section of RPA's financial statements for the year ended December 31, 2015 states:

> "The Authority is looking to upgrade our structures with a five year capital improvement plan that will start in the summer of 2016. This capital improvement plan will have an impact on the contributions to the City in the next five years."

Table 2 summarizes the five-year capital improvement plan set out in the MD&A section of RPA's 2015 financial statements.[19]

Table 2 – Five-Year Capital Improvement Plan

Location	Year 1	2	3	4	5	Total
2nd & Washington	$ -	$ 2,150	$ 2,150	$ 166,950	$ 166,950	$ 338,200
4th & Cherry	$ 363,100	$ 31,850	$ 31,850	$ 402,900	$ 402,900	$ 1,232,600
7th & Washington	$ -	$ -	$ -	$ 84,550	$ 84,550	$ 169,100
Chiarelli Plaza	$ 2,000	$ 60,600	$ 60,600	$ 366,350	$ 366,350	$ 855,900
Double Tree	$ -	$ -	$ -	$ 144,700	$ 144,700	$ 289,400
Front & Washington	$ 91,700	$ 5,400	$ 5,400	$ 17,000	$ 17,000	$ 136,500
Poplar & Walnut	$ 24,600	$ 51,100	$ 51,100	$ 319,000	$ 319,000	$ 764,800
Reed & Court	$ 289,510	$ 257,485	$ 257,485	$ 408,310	$ 408,310	$ 1,621,100
South Penn	$ 1,015,390	$ 110,170	$ 110,170	$ 503,930	$ 503,930	$ 2,243,590
Total	**$ 1,786,300**	**$ 518,755**	**$ 518,755**	**$ 2,413,690**	**$ 2,413,690**	**$ 7,651,190**

RPA's 2015 financial statements, which included the foregoing capital improvement plan, were issued on April 27, 2016 or approximately three months after the appointment of Mr. Encarnacion. On October 25, 2017 (i.e., approximately 19 months later), RPA's 2016 financial statements were issued. The MD&A section of RPA's 2016 financial statements cited the same five-year capital improvement plan included in the 2015 financial statements., which totaled $7,651,190. In other words, Mr. Encarnacion made none of the recommended capital improvements to RPA's

[19] We understand that the foregoing capital improvement plan was based on a proposal from DESMAN Associates, dated December 7, 2015.

infrastructure during the period from April 27, 2016 through August 30, 2017 (i.e., the day he resigned).

Based on discussions with Mr. MacDougal, Mr. Encarnacion's failure to make the necessary improvements to RPA's infrastructure resulted in additional costs and significant maintenance issues that require immediate attention. For example, we were advised that Mr. Encarnacion did not address the recommended and necessary repairs to the garages, which resulted in additional costs to RPA.

At the present time, we are unable to determine the nature or extent of the additional costs and expenses that will be incurred by RPA in connection with Mr. Encarnacion's failure to make the appropriate capital improvements.

IV. CONCLUSIONS AND RECOMMENDED NEXT STEPS

In summary, my conclusion based on the information available and the procedures performed to date are as follows:

- Mr. Encarnacion knew or should have known of the financial and operational issues facing the RPA related to internal control weaknesses and required capital improvements, among others. Mr. Encarnacion's failure to adequately act on these issues during his tenure as the Executive Director of the RPA caused the organization to incur additional costs and exposed, and continues to expose, the RPA to the additional risk of fraud, waste, and abuse.

- RPA's internal controls suffer from material weaknesses and significant deficiencies, which were not addressed despite Mr. Encarnacion's knowledge of their existence.

Specifically, Mr. Encarnacion's failure to replace RPA's finance director, who left in the spring of 2016 contributed to these operating issues.

- Based on a limited review, RPA entered into contracts where the organization received little or no benefit for the transaction or risks assumed. This calls into question the process utilized by RPA to consider and approve contracts and whether, such contracts were entered into by the parties in good faith and/or whether reasonably equivalent value was received. In addition, I question why, under Mr. Encarnacion's leadership, the RPA did not evaluate its contractual relationships.

- Under Mr. Encarnacion's leadership, RPA deferred necessary capital improvements, which resulted in additional costs to the organization. The extent of these additional costs is not currently known.

Based on the foregoing, I recommend RPA consider addressing the following concerns that have not been investigated:

- Hire a director of finance and immediately begin the design and implementation of an appropriate and reliable system of internal controls that address the financial and operational issues at RPA.

- Develop a plan to address the outstanding capital improvements.

- Perform a full review of RPA's contractual relationships to determine whether they provide RPA with reasonably equivalent value.

- Perform investigative services in connection with RPA's decision to operate a gateless system. I understand RPA entered into a contract under Mr. Encarnacion leadership, which may not have been approved by the Board.

- Evaluate whether the risks related to the RPA Event – Cash Receipts process (i.e. systems, controls and supporting documentation) are ongoing. In addition, RPA should evaluate whether documentation exists related to the historical Event – Cash Receipts process to determine whether any inappropriate activity can be substantiated.

- Investigate RPA's Outstanding parking tickets / fines to determine the appropriateness of how those tickets are, or are not, recorded in RPA's financial statements.

- Evaluate whether any inappropriate handling of petty cash has occurred at the RPA.

- Evaluate whether any inappropriate financing and/or investment activity has occurred. Specifically, the amounts listed on the December 31, 2016 Statements of Net Position listed the current portion of the revenue bonds payable was $2.74 million and the noncurrent portion of note payables was $15.75 million. Note 5 addresses the long-term liabilities to the audited financial statements, which provides more information about the maturities of the long-term debt, which included $25.82 million of debt and $2.45 million of interest, which totals $28.27 million. The schedule also identifies payments on these obligation by RPA until 2025.

- Evaluate whether any inappropriate disposal of fixed assets has occurred and if RPA received reasonably equivalent value for the transaction.

Respectfully submitted,

James T. O'Brien

James T. O'Brien, CPA/CFF
Managing Director
MPI