



CITY OF SAN ANTONIO

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November 15, 2012

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SUBJECT: Follow-up Audit Report of Alarm Permit and Service Fees

Mayor and Council Members:

We are pleased to send you the audit report of the Follow-Up Audit of Alarm Permit and Service Fees. This audit began in August 2012 and concluded with an exit meeting with department management in October 2012. Management's verbatim response is included in Appendix C of the report. The San Antonio Police Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Kevin W. Barthold'.

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Follow-up Audit of San Antonio Police Department

Alarm Permit and Services Fees

Project No. AU12-018F05

November 15, 2012

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan, we conducted a follow-up audit of the recommendations made in the San Antonio Police Department Alarm Permit and Services Fees audit report dated May 9, 2011. The objective for this follow-up audit is:

Are prior audit recommendations successfully implemented and working as intended?

We determined that SAPD has successfully implemented four of the five recommendations in the report mentioned above. The audit team reviewed management actions for all five audit recommendations made in the original report with results noted in Table 1 below (see Appendix A on page 7 for a detailed summary):

Table 1: Recommendation Status Summary

Recommendation Status	Number of Recommendations
Implemented	4
In Process	0
Not Implemented	1
Total Recommendations Reviewed	5

SAPD has not successfully implemented one recommendation. Auditors had previously recommended that SAPD document and implement an effective process for waiving alarm permit and service fees ensuring proper segregation of duties among Alarms Investigations Office (AIO) staff to improve internal controls over fee waiver transactions. SAPD responded that the AIO Supervisor would determine whether to waive fees and document his or her decisions within the False Alarm Management System (FAMS). However, upon reviewing a random sample of 25 waived fees in FY 2012, we identified 7 that were not approved by the supervisor or otherwise authorized by management.

SAPD management’s verbatim response is provided in Appendix C on page 9.

Other Matters

During the audit, we learned that the AIO was dealing with a significant backlog of unprocessed billings and payments. Major contributing factors to this backlog include personnel performance issues and complications that emerged while

implementing FAMS. SAPD management has taken steps to resolve these issues, including making personnel changes, working closely with the FAMS vendor, and bringing in temporary employees to help with the workload. Additionally, the Office of Innovation and Reform conducted a review on alarm permit and service processes after the implementation of FAMS and helped SAPD develop a plan to improve efficiency and productivity. The Office summarized results of their review and recommendations for the AIO in a report dated June 26, 2012.

Finally, although revenue for false alarm service fees has generally increased over recent years, we noted that revenue for new permits and renewals has decreased during the same period. The net effect of these trends is a slight decrease in overall revenue since FY 2010. We believe that the backlog discussed above is a contributing factor to the decreasing revenues.

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Background

In May 2011, the Office of the City Auditor completed an audit of the San Antonio Police Department (SAPD) Alarm Permit and Service Fees. The objective of that audit was:

Are adequate controls in place to appropriately develop, bill and collect alarm permit fees and false alarm service fees?

The report concluded that adequate controls were not in place to appropriately develop, bill and collect alarm permit fees and false alarm service fees. There was no comprehensive process in place to effectively develop alarm permit and service fee rates. In addition, auditors estimated \$200,000 in unbilled false fire alarm fees and identified \$123,000 in unrealized alarm permit and service fee revenue due to untimely updating of new fee rates. Auditors also identified inadequate controls over cash handling (most of which were corrected during the audit) and a lack of segregation of duties over fee waiver transactions. Finally, the Alarms Investigations Office (AIO) did not timely inform existing permit holders age 65 or older of their eligibility for discounted alarm permit fees.

The report recommended that the SAPD Chief:

- Develop alarm permit and service fee rates using a comprehensive process that includes all relevant costs.
- Develop a process to ensure SAPD's permitting system and forms are timely updated after City Council approves new alarm permits and service fee rates.
- Develop a process to enable billing for excessive false fire alarm fees, including past unbilled fees.
- Ensure that AIO personnel comply with the City's Administrative Directive 8.1 Cash Handling procedures.
- Document and implement an effective process for waiving alarm permit and service fees, ensuring proper segregation of duties among AIO staff, to improve the internal controls over fee waiver transactions.

Audit Scope and Methodology

The follow-up audit scope was October 2011 through August 2012. In some cases, we expanded the scope to include more recent transactions in September 2012 and analyzed historical revenue data from FY 2009 to the present.

We interviewed AIO personnel and SAPD management to obtain a general understanding of processes and procedures related to alarm permit, renewal,

and service fees. Testing criteria included city ordinances and standard operating procedures related to fees and AIO functions.

We analyzed revenue data from SAP, the City's accounting system, to identify trends for total revenue collected over four years. This data included actual revenue from October 2008 through August 2012 plus estimated revenue in September 2012¹. We used results from this trend analysis to help determine SAPD's effectiveness in implementing recommendations related to fee collections.

We relied on computer-processed data in the False Alarm Management System (FAMS) to verify that correct rates for permit renewals and service fees were programmed into the system. We also tested the data to ensure supervisors were appropriately documenting waived fees in the system and properties that should have fire alarm permits, per information provided by San Antonio Fire Department, were included in the system. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We performed the follow-up audit in accordance with guidance from the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500.A1-1) and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. We performed our testing during August and September 2012.

¹ September 2012 revenue was estimated by calculating the average monthly revenue for the prior 11 months.

Prior Audit Recommendations and Status

A. Alarm Fee Development

A-1. SAPD should develop alarm permit and service fee rates using a comprehensive process that includes all relevant costs.

Status: Implemented

SAPD partially accepted this recommendation and responded that a more appropriate consideration would be to review opportunities to change the method for responding to alarms. We verified that SAPD management has considered appropriate methods for improving responses to false alarms and that revenue obtained from false alarm fees has increased over the past few years.

B. Billing Accuracy

B-1. Develop a process to ensure SAPD's permitting system and forms are timely updated after City Council approves new alarm permits and service rates.

Status: Implemented

The City contracted Orion Communications to implement FAMS in September 2011. We verified that the vendor programmed correct alarm permit and service fee rates into the system according to City Ordinance and that FAMS correctly applies these rates to each billing cycle. We also verified that permit applications and AIO standard operating procedures show correct rates. City Council has not approved any rate changes since September 2009. Finally, regarding rates for senior citizens, we identified 11,087 current permit holders in FAMS that are receiving the reduced rate, tested a random sample of 25, and verified they all qualified for the rate.

B-2. Develop a process to enable accurate billing for excessive false fire alarm fees including past unbilled fees.

Status: Implemented

Revenue from false fire alarm fees has increased significantly since the implementation of FAMS in September 2010, which demonstrates an improvement in billing for and collecting those fees since the previous audit. Total revenue collected for false fire alarm fees in fiscal years 2011 and 2012 was approximately \$124,000, indicating that the estimated \$200,000 in past unbilled fees has not been entirely collected. However, upon reviewing billing

information in FAMS, we noted that past unbilled fees are now being billed, although the likelihood for collecting them is diminishing with time.

C. Internal Controls over Cash Handling

C-1. Ensure Staff complies with the City's Administrative Directive 8.1 Cash Handling procedures.

Status: Implemented

AIO personnel completed the City's cash handling training course and signed a form acknowledging that they agreed to comply with AD 8.1 Cash Handling procedures. Additionally, SAPD's Fiscal Service Office and the Administration and Records Manager have conducted periodic surprise cash counts at the AIO to verify that personnel are complying with the AD. No significant issues were identified by the surprise counts.

D. Appropriateness of Fee Waivers

D-1. Document and implement an effective process for waiving alarm permit and service fees ensuring proper segregation of duties among Alarms Investigations Office staff to improve internal controls over fee waiver transactions.

Status: Not Implemented

Waived alarm permit and service fees are not consistently approved by appropriate personnel. We randomly selected 25 waived false alarm fees from a list of 290 waived fee transactions between October 2011 and September 2012, and found that 7 were not approved by the AIO Supervisor. According to SAPD's response from the previous audit recommendation, as well as current AIO standard operating procedures, the AIO Supervisor is responsible for reviewing requests for waived fees and determining whether to waive them. However, the AIO Supervisor had allowed other staff members to waive fees in an effort to address the backlog of unprocessed renewals and service fees.

Other Matters

During the course of the audit, we learned of a significant backlog in unprocessed permit, renewal, and services fees. The backlog is not directly related to recommendations from the previous audit or SAPD's responding action plans; however, it is having a negative impact on the AIO's ability to collect and process payments in a timely manner. The table below summarizes AIO

management’s description of primary causes of the backlog and actions they have taken or plan to take to address each issue.

Issue: Backlog in Processing Alarm Permit, Renewal, and Service Fees	
Causes	Resolution
<p><i>Issues with FAMS implementation in September 2011:</i> Due to a misunderstanding on the new billing process, billing for renewals was not mailed out between October 2011 and April 2012. Additionally, data entry in FAMS is more complicated and time-consuming than the previous system. Finally, the City’s emergency call center system automatically updates FAMS with false alarms locations that need to be billed; however, some addresses provided are unassociated with alarm locations programmed into FAMS and, therefore, cannot be automatically billed.</p>	<p>Upon discovery of the issue, AIO billed for renewals between October 2011 and April 2012. Additionally, management incorporated procedures whereby billings are generated in PDF format and deposited in a network folder to be retrieved and sent for printing by the AIO Supervisor each month. Additionally, management continues to work with the FAMS vendor to address system problems, including data entry problems. Unassociated alarms records need to be researched one at a time.</p>
<p><i>Personnel issues:</i> Management discovered a large quantity of unprocessed billings and permits under an employee’s care. This employee had not notified management of the backlog to solicit help to address it.</p>	<p>Management has made personnel changes and AIO staff members are now working on processing the documents.</p>
<p><i>Phone project.</i> To improve collections for past due renewal and service bills, SAPD brought in five temporary employees and tasked them with calling and encouraging recipients of those billings to submit payment. The program resulted in greater mail and call-in volume received and processed by AIO personnel</p>	<p>The contract for the five temporary employees is due to expire soon; however, SAPD is extending the contract and reassigning them to help with the backlog.</p>
<p><i>Reduction in AIO personnel:</i> Due to organizational changes in October 2010, four AIO positions were eliminated, leaving a smaller team to handle a growing workload.</p>	<p>As stated above, the five temporary employees assigned to the “phone project” are being reassigned to help with the backlog.</p>

Additionally, while conducting a revenue trend analysis, we noted that total revenue for the AIO increased between FY 2009 and FY 2010, but decreased by 14 to 16 percent each year since. Revenue for most service fees, such as false fire and burglar alarms, has increased over the past few years, while revenue

from new permits and renewals has decreased during the same period, resulting in a net decrease in total revenue. We believe that the backlog discussed above is a major contributing factor to the decline in AIO revenue.

Appendix A – Recommendation Status Summary

No.	Original Report Recommendation	Current Status
1	<i>A.1</i> SAPD should develop alarm permit and service fee rates using a comprehensive process that includes all relevant costs.	Implemented
2	<i>B.1</i> (Regarding alarm fee changes and reduced rates for senior citizens) SAPD should develop a process to ensure SAPD’s permitting system and forms are timely updated after City Council approves new alarm permits and service rates.	Implemented
3	<i>B.2</i> SAPD should develop a process to enable accurate billing for excessive false fire alarm fees including past unbilled fees.	Implemented
4	<i>C.1</i> SAPD should ensure Staff complies with the City’s Administrative Directive 8.1 Cash Handling procedures	Implemented
5	<i>D.1</i> SAPD should document and implement an effective process for waiving alarm permit and service fees ensuring proper segregation of duties among Alarms Investigations Office staff to improve internal controls over fee waiver transactions	Not Implemented

Appendix B – Staff Acknowledgement

Bruce Coleman, CIA, Auditor in Charge
Rosalia Vielma, CFE, Auditor

Appendix C – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

November 7, 2012

Kevin W. Barthold, CPA, CIA, CISA
 City Auditor
 San Antonio, Texas

RE: Management's Corrective Action Plan for the San Antonio Police Department (SAPD) and Alarm Permit and Service Fee Follow-Up Audit

The SAPD has reviewed the follow-up audit report and has developed the Corrective Action Plans below for the one "not implemented" recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
D.1	Document and implement an effective process for waiving alarm permit and service fees ensuring proper segregation of duties among Alarms Investigations Office staff to improve internal controls over fee waiver transactions.	4	Accept	Steven W. Baum/ Assistant Director	October 26, 2012
<p>Action plan: In response to the May 9, 2011 Alarms Audit, SAPD, Alarms Investigation Office (AIO) did implement a process to address the waiving of fees, ensure proper segregation of duties, and proper documentation. The follow up audit indicated that the procedure lacks the proper safeguards to insure segregation of duties. The AIO Supervisor delegated authority to AIO personnel. As a result, personnel changes have been made in the AIO Supervisor position. Also, SAPD, AIO has implemented a new procedure to insure proper segregation of duties when waiving alarm permit and service fees. Procedure 208 of the AIO SOP details the procedures for waiving of fees. The AIO Investigators must submit a "Request for review" case to the AIO Supervisor, who passes on his recommendation of action to the Administration and Records Manager for final disposition. The procedure does not allow any AIO personnel to waive fees without following the proper steps. This procedure will satisfy segregation of duties when waiving alarm permit and service fees, and provide adequate documentation.</p> <p>In FY12 there were a total of 43798 false alarms (both Fire and Police); less than 300 (.07%) cases had fees waived.</p>					

Follow-Up Audit of San Antonio Police Department Alarm Permit and Service Fees

For the remaining four completed action plans from the original audit, our comments are as follows.

- Fully Agree (*provide any comments*)
- Agree Except For (*provide any comments*)
- Do Not Agree (*provide any comments*)

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



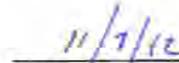
William McManus
Police Chief
San Antonio Police Department



Date



Erik Walsh
Deputy City Manager
City Manager's Office



Date