



CITY OF SAN ANTONIO

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May 9, 2011

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Councilman, District 10

Mayor and Council Members:

SUBJECT: Audit Report of San Antonio Police Department's Alarm Permit and Service Fees

We are pleased to send you the audit report of the San Antonio Police Department's Alarm Permit and Service Fees. This audit began in May 2010 and concluded with an exit meeting with department management in February 2011. 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
Acting City Auditor
City of San Antonio

Distribution:

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Alarm Permit and Service Fees

San Antonio Police Department

Project No. AU10-003

May 9, 2011

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the San Antonio Police Department (SAPD), specifically the Alarms Investigations Office (AIO). The audit objective, conclusions and recommendations follow:

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

No. Adequate controls are not in place to appropriately develop, bill and collect alarm permit fees and false alarm service fees. There is no comprehensive process in place to effectively develop alarm permit and service fee rates. In addition, we 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. We 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. In addition, the AIO did not timely inform existing permit holders age 65 or older of their eligibility for discounted alarm permit fees.

We recommend the San Antonio Police Department Police Chief:

- Develop alarm permit and service fees rates using a comprehensive process that includes all relevant costs.
- Develop a process to ensure the 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. Also, begin billing and collecting past due fees.
- Ensure the staff complies 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.

SAPD Management's verbatim response is in Appendix C on page 9.

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Background

Since 1988, the City of San Antonio has adopted Ordinances regulating alarm systems. The Ordinances require that all entities (residential, commercial, governmental, etc.) operating an alarm system within the City of San Antonio obtain a permit from the San Antonio Police Department (SAPD). The Ordinances establish fees for alarm permits, excessive false alarms and operating without a valid permit. For Fiscal Year (FY) 2009 to FY2010, the residential alarm permit fee increased from \$35 to \$40 and the commercial alarm permit fee increased from \$70 to \$100. Also for FY2010, City Council voted to cap alarm permit fees at \$35 for residents age 65 or older who qualify for a homestead exemption.

The SAPD Alarm Investigations Office (AIO) manages daily operations such as issuing alarm permits, monitoring false alarm occurrences, and collecting alarm permit and false alarm fees for robbery, burglary, and fire alarm systems. The fire alarm calls are taken by the fire dispatch and should then be provided to AIO. The AIO currently consists of nine staff members. During FY2009, the AIO issued approximately 4,300 new alarm permits and 50,400 permit renewals. During the first half of FY2010, there were 2,000 and 24,000 new and renewal permits issued, respectively. The Police Department dispatch center received 66,049 false alarms in FY2009 and 31,292 false alarms in the first half of FY2010.

AIO's gross revenue was approximately \$3.2M for FY2009, consisting of \$2.5M from new and renewed permits and \$0.7M from false alarm and operating without a permit service fees. For the first half of FY2010, gross revenue was approximately \$1.9M, consisting of \$1.5 M from new and renewed permits and \$0.4M from service fees.

Audit Scope and Methodology

The audit scope included AIO's revenue and operations from October 2008 to March 2010.

We interviewed personnel from the AIO operations and Fiscal areas. We also observed processes and reviewed relevant documentation such as City Ordinances, Texas Local Government Code, San Antonio Municipal Code and written policies and procedures to obtain an understanding of the operations.

We evaluated computer-processed data in the City's accounting system to review AIO's revenue and expenditures to perform a cost analysis of alarm fees and service fees.

In addition, we evaluated computer-processed data in the AIO's alarm permitting system to determine accuracy of the billing function. We performed direct tests on the data rather than evaluate 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 administered a control questionnaire to determine the sufficiency of internal controls over the cash handling operations. In addition, we verified the change fund amount on hand was in agreement with the amount stated in the City's accounting system.

We examined source documents for waived permit transactions to ensure proper approval. Using the statistical attribute sampling methodology with a 90 percent confidence level and a 10 percent margin of error, we evaluated the propriety of fees waived by selecting 61 transactions from a population of 699 transactions. We reviewed delinquent account collection receipts and subsequent end of day deposits to ensure the collection process was operating effectively.

We conducted this audit from May 2010 to October 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Alarm Fee Development

The Alarms Investigations Office does not have a comprehensive process in place to develop alarm permit and service fees. The current process for setting fees includes researching two components: a.) comparing San Antonio fees with other Texas cities such as Dallas and Houston and b.) ensuring fees are less than the state mandated maximums. This process does not take into account the actual costs incurred to provide alarm permits and respond to false alarms. For example, alarm fee rates do not consider administrative costs to provide alarm permits. In addition, AIO does not consider police and fire response costs for each false alarm call when setting the service fee rates. An effective process is needed to ensure the optimal permit and service fee rates are provided to the permit holders. Without an effective process, management does not have the necessary information to set appropriate rates. We performed a cost analysis comparing revenue generated to costs incurred. See **Appendix A** for the cost analysis.

Recommendation:

We recommend the SAPD Police Chief:

- Develop alarm permit and service fees rates using a comprehensive process that includes all relevant costs.

B. Billing Accuracy

B.1 Alarm Permit and Service Fees

City Council approved rate changes were not timely implemented. Effective October of fiscal year 2009 and 2010, City Council authorized ordinances that increased alarm permit and service fee rates for both residential and commercial permit holders. An ordinance authorized a FY2009 increase of residential permit fees from \$25 to \$35 and commercial fees from \$50 to \$70. Additionally, an ordinance authorized for FY2010 increased residential permit fees from \$35 to \$40 and commercial fees from \$70 to \$100. New rates are effective October 1 of the fiscal year. However, permits issued in FY2009 and FY2010 were inconsistently processed at both old and new rates from November 2009 through March 2010. As a result, \$96,000 in alarm permit fees and \$27,000 in service fees revenue was not billed or collected as shown below:

Fiscal Year	Permit Fees	Service Fees	Total
2009	\$79,500	\$25,500	\$105,000
2010	\$16,500	\$1,500	\$18,000
Total	\$96,000	\$27,000	\$123,000

B.2 Reduced Alarm Permit Fee for Senior Citizens

The AIO did not timely inform existing permit holders age 65 or older of their eligibility for discounted alarm permit fees. Permit holders receive a renewal form every year thirty days prior to permit expiration that includes any changes to the alarm-permitting program. Effective October 2009, renewal forms should have been updated to explain the approval of an ordinance that stated a fee of thirty-five dollars shall be charged for each permit issued to a person age 65 or older that is eligible for a homestead exemption. However, renewal forms were not updated to reflect the discounted rate for senior citizens until February 20, 2010. As a result, some senior citizens may have overpaid for an alarm permit.

B.3 False Fire Alarm Service Fees

The AIO did not bill permit holders for false fire alarm service fees. Before November 2008, the Fire Department's IT system was integrated with AIO's alarm permitting system and data for billing was electronically exchanged. This allowed for automatic billing of false fire alarms fees. However, in November 2008, the Fire Department received an upgraded IT system that is not integrated with AIO's alarm permitting system. Consequently, AIO did not receive the false fire alarm service fee data needed to bill permit holders for false fire alarms. Based on an historical analysis of false fire alarm service revenue, we estimate that AIO did not bill permit holders approximately \$200,000 of false fire alarm service fees for the period November 2008 through September 30, 2010.

Recommendations:

We recommend the SAPD Police Chief:

- B.1 and B.2 Develop a process to ensure the SAPD's permitting system and forms are timely updated after City Council approves new alarm permits and service fee rates.
- B.3 Develop a process to enable accurate billing for excessive false fire alarm fees including past unbilled fees.

C. Internal Controls over Cash Handling

The AIO staff has not fully implemented internal controls in compliance with the City's Administrative Directive 8.1 Cash Handling. Controls over cash and checks require strengthening in the areas of receiving and processing, safeguarding of assets, management oversight, department policies and procedures, training and change fund accountability. AIO handles approximately \$3.2M in cash and checks annually. The absence of appropriate controls could result in the misappropriation of liquid assets. Specifically, we noted the following:

Receiving and Processing

- Cashiers process collections without the use of locked cash drawers. *
- Alarms Investigators perform on-site collections. *
- Cashiers did not apply restrictive endorsements on checks upon receipt. *
- Overages/shortages are not documented.

Safeguarding of Assets

- Safe access is not restricted.
- Receipt books are not tracked or safeguarded. *
- A sign is not posted providing contact information in case the customer does not receive a transaction receipt. *

Management Oversight

- System access to waive fees is not restricted.
- Supervisors do not perform periodic cash counts.

Policies and Procedures

- Departmental policies and procedures are not available for AIO employees.

Training

- Four of 11 employees have not attended required cash handling training*.

Change fund

- Change fund accountability is not established. *

* Observation noted was corrected by the AIO staff during the audit.

Recommendation:

We recommend the SAPD Police Chief:

- Ensure the staff complies with the City's Administrative Directive 8.1 Cash Handling procedures.

D. Appropriateness of Fee Waivers

Internal controls for fee waiver transactions do not provide for appropriate segregation of duties. Of the 61 waiver transactions reviewed, we identified 23 (38%) transactions waived by department staff without documentation of proper supervisor approval. Projecting the results of this statistical sample indicates that between 195 and 332 waiver transactions did not have documentation of proper supervisor approval. In addition, we identified 14 of the 61 (23%) transactions not supported with proper documentation. Projecting the results of this statistical sample indicates that between 101 and 220 are not supported with proper documentation. All staff members and the supervisor in AIO had the ability to waive fees in the alarm permitting system without management oversight. As a result, the process lacks appropriate segregation of duties and is susceptible to potential inappropriate waiver transactions. However, we did not find evidence of inappropriately waived fees based on our testing of transactions and the related documentation.

Recommendation:

We recommend the SAPD Police Chief:

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

Appendix A – Fee Cost Analysis

Fiscal Year 2009 Revenues and Expenditures¹

Permit Fee Program

Permit Issuance Revenue		
Permit renewals	\$2,032,275	
New permits	<u>433,700</u>	\$2,465,975
Permit Issuance Expenditures		
Alarm Office Costs	<u>298,318</u>	(298,318)
Net Permit Issuance Revenue		<u>\$2,167,657</u>

Service Fee Program

Service Fee Revenues		
Burglary false alarms	\$335,125	
Non-permit fees	213,475	
Robbery false alarms	147,250	
Fire false alarms	<u>48,500</u>	\$744,350
Police Department Expenditures		
Patrol Officer Response Costs	\$1,082,374	
Alarm Office Costs	215,942	
Dispatch Costs	421,918	
Indirect Costs	<u>358,223</u>	(2,078,457)
Fire Department Expenditures		
Fire False Alarm Response Costs	\$3,436,847	
Indirect Costs	<u>176,110</u>	(3,612,957)
Net Service Fee Loss		<u>(\$4,947,064)</u>

Total Net Revenue **(\$2,779,407)**

¹ Amounts used for this analysis include all revenues and costs reported in the City's financial accounting system as well as additional costs provided by the following City Departments: Finance, Police, Fire, and Management and Budget.

Appendix B – Staff Acknowledgement

Barry Lipton, CPA, DABFA, Deputy City Auditor
Danny Zuniga, CPA, CIA, Auditor-in-Charge
Tanya Rodriguez, CPA, Auditor

Appendix C – Management Response



CITY OF SAN ANTONIO

P. O. BOX 839966
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April 21, 2011

Kevin Barthold, CPA
Deputy City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of SAPD Alarms Investigations Office

San Antonio Police Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	Alarm Fee Development				
A	Recommendation: Develop alarm permit and service fees rates using a comprehensive process that includes all relevant costs.	3	Partially Accept	William McManus, SAPD Police Chief	Ongoing
	Action Plan: The current cost analysis reflects a net loss from operations. Using a comprehensive process that includes all relevant costs would necessitate increasing false alarm fees significantly. Service fees for false burglar alarms are already set at the maximum rate allowed by State law. Fees for false robbery alarms could be increased; however, these fees, mostly paid by businesses, already range from \$200-\$500. A more appropriate consideration would be to review opportunities to change the method for responding to false alarms.				
B	Billing Accuracy				
B.1	Recommendation: Regarding alarm fee changes, develop a process to ensure the SAPD's permitting system and forms are timely updated after City Council approves new alarm permits and service fee rates.	4	Accept	Stephen Gaffigan, Assistant Police Director	September 2010
	Action Plan: The Computer Aided Dispatch/Records Management System recently implemented included a False Alarm Management System (FAMS). FAMS' capability exceeds the previous software in processing permits, billing, reporting and implementing changes to the Alarm Code. With this improved capability, new fee schedules can be programmed in less time, as well as changing procedures, such as not allowing any permits to renew in October. This procedural change will prevent the overlap of renewal notices with the old fee schedule and the new fee schedule. Permits scheduled for renewal in October will renew in November. The combination of these actions will allow the mailing of renewal notices with the correct fee schedule.				
B.2	Recommendation: Regarding reduced alarm permit fee for senior citizens, develop a process to ensure the SAPD's permitting system and forms are timely updated after City Council approves new alarm permits and service fee rates.	4	Accept	Stephen Gaffigan, Assistant Police Director	September 2010
	Action Plan: Procedures have been updated and staff has been trained to ensure that senior citizens receive the discounted rate when they apply or renew their alarm permit. All renewal applications are screened against the Bexar County Appraisal District records to ensure senior citizens are eligible for the discounted rate. Senior citizens, who were eligible in FY10, are given a \$5 credit to their account. As of this date, there have been 7,618 senior citizens who have received this discount. The Alarms Investigations Office staff continually reviews each renewal application to ensure new senior citizens receive this discounted rate.				

Appendix C – Management Response (Cont)

Continuation: Management's Corrective Action Plan for the Audit of SAPD Alarms Investigations Office

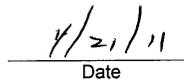
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
B.3	Recommendation: Develop a process to enable accurate billing for excessive false fire alarm fees including past unbilled fees.	4	Accept	Rodney Hitzfelder, Deputy Fire Chief	On going
<p>Action Plan: Alarms Investigations Office has recently obtained from the SAFD Fire Prevention Office the locations that should have fire alarm permits. This information, in addition to the complete transfer of false alarm logs, will be integrated into FAMS. Both actions will allow Alarms Investigations Office to submit invoices for fire alarm permits, service fees and unpermitted alarms.</p>					
C Internal Controls over Cash Handling					
C	Recommendation: Ensure the staff complies with the City's Administrative Directive 8.1 Cash Handling procedures.	5	Accept	Stephen Gaffigan, Assistant Police Director	August 2010
<p>Action Plan: All Alarms Investigations Office employees have attended and completed cash handling class. Procedures recommended by the auditors have been implemented and all Alarms Investigations Office personnel are adhering to all cash handling procedures according to AD 8.1. To improve cash handling procedures, the Department's Fiscal Services Office will conduct unannounced cash handling inspections of all Police Department cash handling sites. In addition, all SAPD cash handling staff members will be required to attend a half day cash handling refresher training annually. This program will commence during the third quarter of FY11.</p>					
D Appropriateness of Fee Waivers		6			
D	Recommendation: 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.		Accept	Stephen Gaffigan, Assistant Police Director	August 2010
<p>Action Plan: All requests for fee waivers received by an Alarms Investigator are now presented to the Alarms Investigations Office Supervisor who makes a decision to waive or not waive the fee. This decision is documented by the supervisor, and the waiver documentation is maintained in the individual Alarm Record within FAMS.</p>					

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

Sincerely,



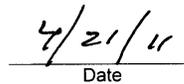
William P. McManis
Chief of Police
San Antonio Police Department



Date



Erik Walsh
Assistant City Manager
City Manager's Office



Date