False Alarm Monitoring System Performance Audit

March 2014

INTERNAL AUDIT DEPARTMENT

CITY OF SANTA FE

Santa Fe: The City Different, The City Prepared

The Internal Audit Department and the role of Internal Auditor were created by City Ordinance No. 2012-32 and amended by City Ordinance No. 2013-34, Section 2-22 Santa Fe City Code (SFCC) 1987. A primary purpose of the Internal Auditor is to share a duty with the members of the governing body to insure that the actions of public officials, employees and contractors of the city are carried out in the most responsible manner possible and that city policies, budgets, goals and objectives are fully implemented. The Internal Auditor is also the City of Santa Fe's liaison to the Audit Committee.

The Audit Committee was created by City Ordinance No. 2013-35, Section 6-5 SFCC 1987. This committee is an advisory committee and consists of five members of the community. Of the five members, one member shall be a certified public accountant, one member shall be a lawyer or have a law enforcement background and one member shall be a management consultant.

The Internal Auditor and the audit committee are structured in a manner to provide independent oversight of the City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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Mission Statement

The mission of the City of Santa Fe Internal Audit Department is to provide independent, objective assurance and review services designed to promote transparency, accountability, efficiency, and effectiveness of City government for the citizens of the City of Santa Fe.

City of Santa Fe – Internal Audit

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Liza A. Kerr, Internal Auditor

Date: March 17, 2014

To: Brian Snyder, City Manager

From: Liza Kerr, Internal Auditor

RE: False Alarm Monitoring System and Public Safety Corporation Audit

Attached is the Internal Audit Department's report of the audit of the false alarm monitoring system. The purpose of this audit was to examine the effectiveness of the implementation of City Ordinances No(s). 2009-33, and 2012-13 which address the issue of false alarms within the City of Santa Fe, the resources to respond to the false alarms, and the necessity of charging fees and fines to alarm owners and companies to cover these costs.

This audit is defined as a performance audit. City Ordinance 2013-35 §2-22.6 (B) and Government Auditing Standards define a performance audit as an engagement that provides assurance or conclusions based on an evaluation of sufficient and appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices.

Opportunities to improve the internal controls around the billing process and the recording of assets in the City of Santa Fe's general ledger have presented themselves. In addition, there are several findings that fall outside of the parameters of the professional services agreement with Public Safety Corporation but within the scope of the City Ordinances and sound governance including the need for formal policies and procedures and a defined collection process.

These weaknesses in internal control and lack of guidance for a collections process are a hindrance to the effectiveness of the program, the intent of which is to reimburse the expenses that the City incurs responding to false alarms. In addition, not recording the activity in the general ledger may result in over or under statements in the City of Santa Fe's financial statements.

If you have questions, please contact Liza Kerr, Internal Auditor, at (505) 955-5728.

cc: John Schaerfl, Deputy Police Chief
Marcos Tapia, Finance Department Head
Javier Gonzales, Mayor
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AUDITORS REPORT

We have completed the audit of the City of Santa Fe's false alarm monitoring system as managed by Public Safety Corporation. The purpose of this audit was to examine Public Safety Corporation's effectiveness in managing this function within the parameters of relevant city ordinances and their professional services agreement with the City of Santa Fe. The role of City of Santa Fe's staff was also reviewed to ensure completeness, that is, that all aspects of the ordinances have been implemented. Lastly, we reviewed applicable Governmental Accounting Standards to ensure that the City of Santa Fe was properly recording transactions as related to fees and fines assessed as a result of this process.

This performance audit is authorized pursuant to City of Santa Fe Ordinance No. 2013-35, §2-22.6 (B). This audit was conducted in accordance with generally accepted governmental auditing standards, except for a peer review. Our audit, performed in accordance with generally accepted auditing standards, is intended only to conclude on the stated objectives of this audit. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit has identified opportunities to improve internal controls as related to the false alarm monitoring process. These weaknesses in internal control and lack of guidance for a collections process are a hindrance to an effective process, the intent of which is to reimburse the expenses that the City incurs responding to false alarms. Issues were found in the areas of 1) lack of ownership/leadership, cohesion and oversight, 2) lack of formal policies and procedures, 3) not pursuing collections, 4) not processing appeals timely, 5) not recording the accounts receivable balance in the general ledger, 6) not recording the bank balance in the general ledger, 7) not all alarm companies are filing monthly reports, and not all alarm users are registered, 8) accuracy of the billings, 9) the integrity and completeness of the accounts receivable journal and underlying detail, 10) billing for late reports from alarm companies, and 11) not assessing fines for all items identified in Ordinance No. 2012-13.

Internal Audit concludes that identified deficiencies in internal control that are significant within the context of the audit objectives are the cause of deficient performance of the program or operations being audited.

Internal Audit extends its appreciation to the staff at the City of Santa Fe and with Public Safety Corporation that assisted with this audit.

Liza Kerr

Liza Kerr, CIA, CISA, CPA, MBA
Internal Auditor

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EXECUTIVE SUMMARY

City Ordinance No. 2009 – 33, §20-5.1 states that the governing body of Santa Fe found that there was an increasing use of alarms in the City of Santa Fe (City) and that 99% of these alarms were false alarms. It was found that the costs to the City were significant, and that at the time the Santa Fe Police Department (SFPD) was spending over $100,000 responding to false alarms. Further, the false alarms were a diversion to the SFPD in performing their regular duties, and provided a benefit only to those who had an alarm system. For these reasons, the governing body felt it was justified to require alarm users to register their alarms and to charge fees and fines for the registration as well as for false alarm incidents. Ordinance No. 2009-33 was subsequently amended by Ordinance No. 2012-13. Included in this ordinance are requirements for alarm companies to obtain a business license, to provide proof of bonding, to do background checks on employees, and to file monthly reports detailing changes in their customer profile. Fees and fines are assessed accordingly **(See APPENDIX A).**

It is important to consider this original intent and to note that the City is 1) covering the expenses allocated to the program with revenue generated from the program, and 2) false alarm incidents are being reduced. Overall financial results as well as the number of calls per year are included in this report **(See APPENDIX B)**. This following table is an excerpt from Appendix B:

SUMMARY	FY[1] 09/10	FY 12/13	Difference	% Difference
Revenue	$64,446	$173,762	$109,316	169.62%
Expense- (Operations)	$0	$2,958	$2,958	100.00%
Expense-(Patrol Officers)	$233,550	$152,526	($81,024)	-34.69%
Total Expense	$233,550	$155,484	($78,066)	-33.43%
NET INCOME	($169,084)	$18,279	$187,363	110.81%
Total Number of Calls	6,817	4,452	($2,365)	-34.69%

In summary, there is a reduction in the number of false alarms, which results in a corresponding reduction in the patrol officer's expenses at 35% each. This combined with the increase in revenue collected results in a positive net income for FY 12/13. However, salary expense was not allocated to the program until FY 13/14. For the first time salary expense for the City's false alarm administrator and for other persons assigned to this program will be included in the operating expenses on a pro-rata basis. If the salary expense had been included in FY 12/13, the program would have shown a loss. Collections will have to be increased to cover these relevant allocable expenses.

In summary these are adequate results as it appears that the objectives of the ordinances are being met. However, as with any new implementation there is opportunity for improvement. This report highlights those opportunities and provides recommendations for improvement in the process. There are many factors that are required in order for this program to run efficiently and effectively, but ownership/leadership is the glue that holds it all together, it is the crucial pillar around which all else revolves. The false alarm monitoring system is working, but could be greatly improved with a single point of ownership that is responsible for all aspects of leadership including coordinating with PSC and all City departments such as finance or legal to comply with the various aspects of the ordinances.

The key findings in the report are related to insufficient internal controls.

[1] FY – Fiscal Year

INTRODUCTION AND BACKGROUND

(SEE APPENDIX C FOR A GLOSSARY OF TERMS)

In order to implement the ordinances the City engaged the services of an experienced contractor. AOT Public Safety Corporation (PSC) was selected and entered into a Professional Services Agreement (PSA) with the City. The contract with PSC was initiated on 10/28/2009, and was set up with an initial term of two years, plus three additional one year options that may be exercised by the City. The PSA states that the contract shall not exceed five years.

The terms of the PSA stipulate that PSC responsibilities include, but are not limited to, the following:

1) Registering and updating alarm permits;
2) Importing into their system on a daily basis, false alarm incident data extracted by the City from the County CAD/911 System;
3) Exporting daily from their system alarm permit status changes;
4) Initializing, maintaining, securing and backing up Program databases including alarm registration and incident data, alarm related financial transactions and accounts receivable;
5) Processing false alarm incident data, including the matching of false alarm incidents with the alarm registration/permit database maintained by PSC;
6) Billing and corresponding with alarm users in accordance with the Alarm Ordinance provisions;
7) Establishing and hosting a dedicated, secure City of Santa Fe Alarm Program web site;
8) Answering telephone inquiries from City alarm users with a provided toll free number;
9) Managing fee / fine payments mailed to and deposited in a mutually agreed, dedicated bank lockbox – including a monthly reconciliation of all payments, and bank deposits in support of the monthly revenue sharing agreement;
10) Providing the City secure, online, on-demand access to alarm management information and reports.

The payment terms to PSC are 32% of collected revenue, net of any bank charges.

SCOPE

The scope of the audit included:

1) The terms of the PSA between the City and PSC;
2) City Ordinances No. 2009-33, and 2012-13;
3) Applicable governmental accounting standards;
4) Accounts receivable balances to date (including recalculating of balances from inception to 10/17/2013);
5) Revenue generated from false alarm billings from 07/01/2012 to 10/17/2013;
6) Appeals; and
7) Collection procedures.

OBJECTIVES

The objectives of the audit were to:

1) Gain an understanding of and test the services provided by PSC as stipulated in their PSA;
2) Gain an understanding of and test the requirements as stipulated in the false alarm ordinance(s), and applicable standards; and
3) Determine if internal controls exist and are effective regarding this process.

Our audit objectives were designed to ensure:

1) Compliance with state and local laws;
2) Compliance with the PSA between the City and PSC, including verification of:
    a. Amounts billed for false alarms being within mandated guidelines; and
    b. Accuracy of revenue paid to the City upon collection of fees and fines;
3) Compliance with governance requirements and best practices as applicable, including verification of:
    a. Proper recording in the City's general ledger of activity associated with this process;
    b. Policies and procedures; and
    c. Collections practices;
4) Compliance with the appeals process.

Accordingly, we used procedures including examination of records, voluntary interviews with appropriate personnel, vendors, and others, and other procedures as deemed necessary to accomplish our objectives.

METHODOLOGY

The following methodology was used:

1) Phase 1 – Walkthrough and Information Gathering
    a. During this phase a physical walkthrough was done to determine how the City interfaces with PSC. This walkthrough included talking with City employees and team members from PSC to understand and document the software interface, billing procedures and payments to the City for revenue generated;
    b. Documentation was obtained and reviewed in regards to applicable ordinances, state law, policies and procedures, and reports generated;
2) Phase 2 - Field Work
    a. During this phase of the audit, information was requested and gathered in order to conduct the audit including detailed backup to support:
        i. Customer billings;
        ii. Revenue payments made to the City; and
        iii. Appeals including balances written off;
    b. Additional test work that becomes apparent during Phase 1 may also be done at this time;
    c. Performing benchmarking of other municipalities regarding the recording of the fines in the general ledger;[2]
3) Phase 3 – Wrap up and Report
    a. During this phase of the audit, all of the gathered information was analyzed; and
    b. A report was presented to management.

[2] Municipalities selected for benchmarking were Denver, CO; Dallas, TX; and El Paso, TX.

RESULTS

Billing Verification

The first part of the audit was focused on recalculating the amounts that are being billed by PSC. A judgmental sample of 25 customers was selected from the accounts receivable journal.[3] The customer base consists of both alarm companies, and individuals who can be either residential or commercial. The focus of the judgmental sample was on accounts with the largest and oldest outstanding balances, while ensuring that both alarm companies and individuals were tested **(See Table 1).**

Table 1

Description	Accounts Receivable (10/17/2013)[4]	Sample	Alarm Companies	Individuals (Business or Residential – i.e. Non-Alarm Companies)
Amount	$876, 720	$471,460	$399,585	$71,875
Percentage Tested		54% of total AR	46% of total AR 85% of sample	8% of total AR 15% of sample
Number Tested		25	16	9

The audit test work included tying the balance in the accounts receivable journal to the following:

1) The City's general ledger;
    a. The City does not record the accounts receivable balance in the general ledger **(See FINDING 5);**
    b. In discussing this issue with City staff we were told that the roles and responsibilities for the recording of the activity into the general ledger had not been clearly defined in formal policies and procedures **(See FINDING 2)**;
2) Account histories, or subsidiary ledgers maintained by PSC, for the sample selected;
    a. It was noted that for 2 of the 25 customers the balances per the detailed account history did not tie to the accounts receivable journal; and
    b. The differences noted were $100, and $750 **(See FINDING 9)**.

[3] Internal audit was granted read-only access to the false alarm monitoring system and all reports were obtained directly from the system.

[4] This is the actual date the reports were run. The system would not allow backdating of the supporting account histories to 09/30/2013. This is mentioned because typically month end would be used as the test date.

Individual Customers

The sample of 25 customers included 9 individuals. In summary, 11 types of fees and fines were tested through recalculation of the accounts receivable balance for the 9 individuals. No findings were noted. No charges other than those specified in the ordinance were noted **(See APPENDIX A)**.

Based on the test work performed the billings as done by PSC for individuals, whether residential or commercial, appear to be in alignment with City Ordinance No. 2012 – 13.

Alarm Companies

The City has 58 active registered alarm companies. The audit tested 16 of 58 companies or 28% or these companies. The test work for the alarm companies was more complicated due to the fee and fine structure. The focus of the billing done by PSC appeared to be on the late filing of reports listing all new alarm systems that the alarm company contracted to install during the previous month, and any cancelled or inactive alarm user accounts. Alarm companies are charged a $10 per day fine if the monthly report is not filed timely. The report is due on the 25th of any given month; however, there is also an additional 5 day grace period. Based on this the fines should begin on the 31st day, and do not stop until the report is filed or an appeal is processed.

Several management letter comments were noted here:

1) The account histories were very difficult to read as the years were not distinguished. For example, if a company was accruing fees for a non-filed September report, it was difficult to tell if it was September from 2010, 2011, 2012 or 2013. All line items simply said September. A request has been made of PSC to add the year to the month to help detect errors **(See MANAGEMENT LETTER COMMENT 1).**
2) A new invoice was created every day for the $10 a day fine. The new invoice had a new invoice number each day, making it very difficult to trace through the system **(See MANAGEMENT LETTER COMMENT 2)**.

Several findings are noted here:

1) PSC did not always start charging fees on the 31st day **(See FINDING 10);**
2) PSC did not always charge fees every (business) day **(See FINDING 10);**
3) On 10/12/2012 duplicate charges were noted in all the companies in the sample tested that had late reports dating through September 2012. These duplicate charges created over billings on affected accounts. For the sample tested, total over billings related to this anomaly amount to $40,150 **(See Table 2) (See FINDING 8).**
4) Most, but not all, of these duplicate charges ***and*** the original charges stopped on 12/12/2012. This resulted in an under billing situation because the original charges, per the Ordinance, should continue until a report is filed. Total under billings related to this anomaly for the sample tested amount to $153,050 **(See Table 2) (See FINDING 8)**.
5) In some instances, even though a report had not been filed, no late charges were ever accrued. In other instances it was noted that late charges stopped with no indication of a report being filed. Both of these situations resulted in under billings in the sample totaling $63,820 **(See Table 2) (See FINDING 8).**
6) Duplicate billings occasionally occurred in months besides October 2012. This resulted in other duplicate billings in the sample totaling $3,710 **(See Table 2) (See FINDING 8)**.

In discussions with PSC and City staff the billing errors detected during the course of the audit had not been previously identified. The focus of any remediation should be on putting adequate internal controls in place to ensure that these types of errors are prevented and that if they occur they are detected timely through systematic and routine monitoring.

Table 2

# Alarm Companies Tested	Total Tested per Invoice	Net Recalc Diff[5]	Total Amount Under billed	Under billed Amount due to 12/12/2012 glitch	Under bill due to missing months / other	Total Amount Over billed	Over bill due to dups from 10/12/2012 to 12/12/2012	Other dups
16	$399,585	($40)	$216,870	$153,050	$63,820	$43,860	$40,150	$3,710
				71%	29%		92%	8%

It is worth mentioning that after the 12/12/2012 incident minimal billing errors were detected in regards to fines for late reports.

Both City and PSC staff brought up the issue of alarm installation and monitoring companies doing business in Santa Fe, but not filing their required monthly reports detailing new alarm users and cancelled accounts. These companies basically work outside of the system. They stated that it was difficult to track these companies and that the customers of these companies were also not being notified that they needed to register their alarm with the City. If a company does not submit reports and they don't notify their customers that they need to register as an alarm user, then the first time the alarm user has a false alarm they are notified by the City that they are not registered and have to pay a $100 fine. In this case the citizens of Santa Fe are paying the price for the negligence of these alarm companies **(See FINDING 7)**.

[5] Internal audit recalculated the accounts receivable balance for the 16 alarm companies. The net difference between the AR balance and the recalculated balance is ($40). This difference is immaterial and further work is not necessary.

During the course of the audit, it was also noted that several items identified in Ordinance No. 2012-13 that should generate fees or fines for alarm companies were not being tracked by either City or PSC staff involved with the false alarm monitoring system **(See Table 3) (See FINDING 11)**. These items are detailed below:

Table 3

Fees and Fines as Established by City Ordinance No. 2012-13 § 20-5.14 that are not being tracked	SF City Code	Alarm Installation Company	Alarm Monitoring Company
Fee - license	18-8.10(A)(3)	$75	$75
Fine – No Employee Background Check	20-5.9(I)	$300	
Fine – Failure to establish procedures for accepting cancellations of alarms and conveying cancellation of alarms	20-5.10(F)		$50
Fine – Continuation of alarm dispatch requests to an alarm site after notification by the alarm administrator that the registration has been revoked	20-5.12(C)		$50

The root cause of this issue appears to be lack of formal policies and procedures detailing roles and responsibilities between the City and PSC **(See FINDING 2)**.

Revenue Verification

This section of the audit included reviewing the internal controls in place regarding revenue collection and recalculating any payments made to the City for monies collected based on the percentages as identified in the PSA with PSC. Basically the City receives 68% of monies collected and PSC receives 32%. These monies are net of bank charges. An excellent internal control is in place for this process as all monies collected go to a lock box account held with third party administrator, Wells Fargo bank. Wells Fargo distributes monies collected to each party based on the above stated terms and net of bank and merchant fees. PSC is required per terms of the PSA to do a monthly reconciliation and to provide that reconciliation to the City. No exceptions were noted for this process.

The next part of this process entailed tying these balances to the City's general ledger. While the net transfer of monies collected was recorded as a cash receipt and booked as revenue the 09/30/2013 bank balance of $53,291 was not recorded in the general ledger. This account belongs to the City and needs to be recorded in the general ledger as an asset **(See FINDING 6)**. In discussing this issue with City staff we were told that the roles and responsibilities for the recording of the activity into the general ledger had not been clearly defined in formal policies and procedures **(See FINDING 2)**.

Appeals / Write-Off Test Work

This test work entailed requesting and reviewing a report detailing all amounts written off through the appeals process, selecting a sample of 25 from that detail, and then requesting support to indicate that the appeal was supported. The purpose of this test work is to provide assurance that balances are written off for a business purpose and follow the guidelines as set forth in City Ordinance No. 2012-13 §20-5.16.

In an interview with the City's false alarm administrator, we were told that an individual or alarm company has 30 days from the time a charge is initiated to file an appeal. If the charge is appealed it falls to the alarm administrator to review the appeal and determine if the appeal is valid per conditions of the ordinance. If the appeal is rejected it can be adjudicated by a hearing officer. The City has 30 days to process this appeal.

Of the 25 appeals that were tested it was found that 22 had been processed, and the amount written off was supported. However, it was found that for 3 of the 25 appeals selected the City had not processed the appeal **(See FINDING 4)**.

Collections

The accounts receivable balance was $876,720 as of 10/17/2013. As mentioned previously the judgmental sample selected included the balances that were oldest and largest while insuring a balance of both individuals and alarm companies. At the time of the audit the City was not pursuing collection activity regarding these accounts **(See FINDING 3)**.

In an interview with the false alarm administrator, we were told that a decision was made by the City several years ago to not pursue collections as the City was moving towards hiring an independent collection agency. Due to turnover within the City the hiring of an outside collection agency has taken longer than anticipated. PSC also mentioned this in a separate interview. In a move towards achieving this objective the City has recently posted a Request for Proposal (RFP) for collections. It should be noted that while the City is able to use a third party to collect these fees, they will still have to pay PSC 32% of any monies collected.

Further, there are no formal policies and procedures regarding collections **(See FINDING 2)**.

FINDING 1 – (City) Lack of Ownership/Leadership, Cohesion and Oversight

Condition

The various issues in this audit illustrate lack of ownership/leadership, cohesion, and oversight for administering the false alarm monitoring system effectively.

Criteria

Ownership/leadership, cohesion and oversight are necessary to assure:

1) Long-term objectives of the program are met efficiently and effectively;
2) Stated objectives of the ordinance are met; and
3) Optimal customer service.

The false alarm monitoring system is working, but could be greatly improved with a single point of ownership that is responsible for coordinating with PSC and all City departments including finance or legal to comply with the various aspects of the ordinances.

Effect

The effect of not having ownership/leadership, cohesion and oversight is seen in the findings as noted in this audit report.

Recommendation

A single point of ownership/leadership is required for coordinating the PSC contract with all City departments such as finance or legal to comply with the various aspects of the ordinances.

City's Response and Implementation Date

As the primary participant and beneficiary of the false alarm initiative, the SFPD shall become the "Primary Owner" of this program. The SFPD currently staffs one full-time civilian position to the Alarm Enforcement Program, and fosters an effective working relationship with other departments within the City. To assist the SFPD in properly adhering to various aspects of the ordinances, we have requested through the City budget preparation process, a civilian expansion position, fully funded by this program and at no cost the City's General Fund. This position will be designated as the responsible program administrator for this program for the SFPD, and in addition, act as liaison with other City participants as well as the contracted company. If authorized, this position will be advertised to be filled at July 1, 2014.

Evaluation of City's Response - The response is adequate.

FINDING 2 – (City) Lack of Formally Documented Policies and Procedures

Condition

There are no formal written policies and procedures defining daily, weekly or monthly activities or the roles and responsibilities of various departments and of PSC.

Criteria

Public sector managers and employees are accountable for the resources entrusted to them for ensuring programs and services are administered effectively and efficiently. A significant component in fulfilling this responsibility is ensuring that an adequate system of internal control exists within City government.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1) Effectiveness and efficiency of operations;
2) Reliability of financial reporting; and
3) Compliance with applicable laws and regulations.

The foundation of an effective internal control environment is formal policies and procedures which should be designed and implemented to ensure that the City's objectives are met. These policies and procedures are the documents that set forth the fundamental principles and methods that employees rely on to do their jobs.

The intent of the false alarm ordinances is to provide broad objectives regarding the false alarm monitoring system. A formal policy would be broader in scope than the ordinance and would use the ordinance to give it authority. Formal written procedures while ideally streamlined and to the point, provide detail in day to day implementation of the policies including clearly defining roles and responsibilities of personnel, departments and third parties. Clearly defined procedures will help to ensure comprehensive implementation of management's directives and the objectives as introduced in the ordinances.

Cause

The root cause appears to be a lack of an internal control environment, including the foundation which is clearly defined policies and procedures. This is a widespread problem with the City and is not limited to this program.

Effect

Lack of an effective internal control environment starting with formal policies and procedures detailing roles and responsibilities negatively impacts the:

1) Efficiency and effectiveness of the City in achieving its intended objectives, including:
    a. Increased risk with turnover or vacation time;
    b. The ability of senior management to make effective decisions regarding staffing and budgeting; and
    c. Collections **(See FINDING 3)**;
2) Completeness and reliability of billing and supporting reports such as the accounts receivable journal, invoices, and account histories **(See FINDINGS 8, 9, and 10)**;

3) Reliability of financial reporting, as is evidenced by:
    a. Not recording the receivables balance in the general ledger **(See FINDING 5)**; and
    b. Not recording the bank balance in the general ledger **(See FINDING 6)**;
4) Ability to comply with the applicable ordinances increasing the risk that the intended objectives are not met **(See FINDINGS 4, 7 and 11)**.

Recommendation

Establish formal written policies and procedures defining daily, weekly or monthly activities and the roles and responsibilities of various departments and of PSC.

City's Response and Implementation Date

The Santa Fe Police Department (SFPD) will generate thorough and complete Standard Operating Procedures (SOPs), which will be added to our Directives Manual. These policies shall be codified in their own chapter entitled "False Alarm Monitoring System". This directive shall include all operational requirements as mandated by City Ordinance No(s) 2009-33, and 2012-13, and shall delineate the responsibilities of each department and division within the City, as they pertain to the False Alarm Reduction Program. In addition the City Finance Department will establish formal Policies and procedures for the following:

- Establishing third party bank accounts;
- Recording third party accounts in the general ledger;
- Recording third party AR billings and payment on a month basis;
- Reconciliation of the bank account on a monthly basis;
- Reconciliation of the Aging accounts receivable on a monthly basis; and
- Procedures for bad debt expenditures and allowance for bad debt.

Estimated time frame for formal written procedures and implementation will be June 30, 2014.

Evaluation of City's Response - The response is adequate.

FINDING 3 – (City) Collections Not Actively Pursued

Condition

The accounts receivable balance for the false alarm monitoring system on 10/17/2013 was $876,720. Of this balance $635,325 or 73% is greater than 180 days old.

In discussions with City and PSC staff we were told that they had been directed not to pursue collections as the City was in the process of implementing a city-wide collection effort. These directives are several years old and while they appear to be well intended the effect is that the balances have continued to grow while waiting for the City to move forward with these efforts.

While the PSA with PSC does not give clear guidance on collections, it does give clear guidance as to the amounts paid to PSC for amounts collected. This amount is 32%.

Criteria

Neither City Ordinance No. 2012-13 nor the PSA with PSC have any stated criteria for collections.

The PSA with PSC states the following:

"12. City of Santa Fe shall support the collection of false alarm fees and fines in accordance with the Alarm Ordinance and at the direction of the Alarm Administrator. If City of Santa Fe directs Contractor to engage a third-party collection organization for delinquent amounts, City of Santa Fe Shall cause the necessary legislative and administrative procedures to be enacted and/or adopted in order to delegate the Contractor and Subcontractor the authority to collect unpaid fees on behalf of the City of Santa Fe."

Based on the wording in the PSA, in order for PSC to move forward with collections it would be advisable to seek the wishes of the Governing Body on the issue. This request would need to be made by the Chief or one of his deputies.

The criterion below are from best practices:

A. Develop a collections procedures manual;
B. Clearly define account ownership and responsibility;
C. Contact the debtor within 30 days of the due date;
D. Contact the debtor by phone;
E. Prepare and send past due collection letters and statements;
F. Use in house collections personnel (in this case City or PSC staff) where possible;
G. Use the services of a collections agency if the use of in-house staff is not practical;
    a. Establish a written contract with said agency;
    b. Accounts should be turned over only after there has been an attempt to notify the debtor of the existence of the debt and the fact that the debt may be assigned to a collection agency for collection if not paid; and
    c. At least 30 days have elapsed from the attempted notice.

Cause

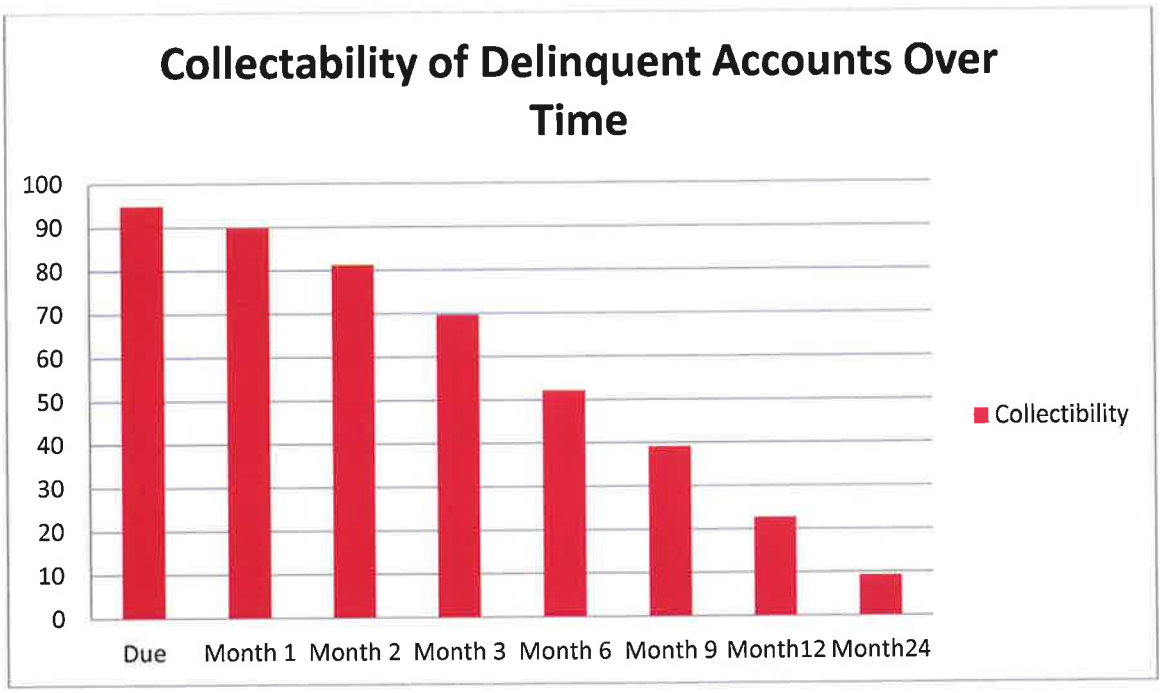
The primary cause is a lack of internal controls including written policies and procedures **(See Finding 1)** to provide guidance to City and PSC staff as to how to handle collections.

The PSA does not include clear guidance as to how to proceed with collections. Based on interviews with City and PSC staff, it appears that PSC is waiting for guidance from the City on how to proceed with collections.

Effect

According to a report published by DAL, Inc.[6] titled *Collections Trends, Commercial Collection Agency Association, Commercial Law League of America* the collectability of debt decreases as the account ages. The report shows that for commercial debt the older an account becomes the less likely the collection.

[6] DAL, Inc. is a commercial collection agency specializing in the recovery and resolution of delinquent accounts in all areas of business. This chart is used for illustrative purposes only, and is not considered an endorsement at any level.



The chart above illustrates that the collectability of accounts ranges from 94.9% if collected when due to 9.3 percent at 24 months. This clearly demonstrates the importance of initiating collection procedures within 30 days of the due date.

Recommendation

Implement formal collection procedures with City or PSC staff as appropriate and / or a 3rd party in accordance with the best practice guidelines as detailed in the criteria. Ensure that adequate internal controls exist to effectively monitor the defined collection procedures.

City's Response and Implementation Date

The City is in the process of selecting a collection agency that will assist the City of Santa Fe in overall department collections. The estimated time line to take the contract to Finance Committee and Council is by June 30, 2014.

Pursuant to the follow-up meetings referenced in the audit findings; City Legal has informed meeting attendees that the City of Santa Fe is continuing to explore their options with regards to an official City-wide collections program. Whatever course of action the City deems appropriate shall be implemented on a City-wide level and shall include collections from any monies owed the City related to the Alarm Reduction Program. The past guidance from Senior Leadership was to go no further than "soft" collections. This includes a phone call reminder and one letter after 30 day past due. No further action was taken or allowed by the current contractor.

Evaluation of City's Response - The response is adequate.

FINDING 4 – (City) Appeals not processed timely

Condition

Based on the test work performed, we found that 3 of the 25 randomly selected appeals had not been processed by the City.

Criteria

City Ordinance No. 2012-13 §20-5.16 (B) and (C) states the following:

B. "A hearing officer appointed by the city manager shall conduct a formal hearing within (30) days of the receipt of the appeal by the alarm administrator. The alarm administrator shall give written notice by certified mail to the appellant at least ten (10) days prior to the hearing.
C. The hearing officer shall make a decision on the basis of the preponderance of evidence presented at the hearing. The hearing officer shall affirm or reverse the decision of the alarm administrator. The hearing officer shall render a decision within thirty (30) days after the date of the hearing and shall forward the decision to the alarm administrator and the appellant."

Cause

Based on interviews with both City and PSC staff there seems to have been some previous guidance to wait on the processing of appeals until decisions were made regarding how to best proceed with the collections process as a whole. Due to turnover within the City, this guidance was never rescinded and the persons responsible for administering the false alarm monitoring system have simply continued to wait for further guidance.

Effect

Due process has not been afforded to the appellants. The City is not in compliance with the stated law.

Recommendation

Appeals need to be processed in accordance with the stated law which currently provides for a 30 day time period. The appeals identified in this audit as well as any other non-processed appeals need to be addressed in accordance with state law.

City's Response and Implementation Date

The Alarm Enforcement Specialist at SFPD Records Division has already been instructed to fully review all pending appeals within the system. Any appeals which are over 30 days old will be closed and any delinquent fees/fines will not be collected. In these cases the City did not conduct a hearing in the allotted 30 day time period. To correct this finding, currently all hearing requests are being scheduled within the 30 day time period and are being reviewed by the Alarm Enforcement Specialist to ensure hearings are scheduled by the appropriate Hearing Officer.

Evaluation of City's Response - The response is adequate.

FINDING 5 – (City) Accounts Receivable Balance Not Recorded in the City's General Ledger

Condition

We found that the City is not recording the false alarm monitoring system accounts receivable balance and related entries (such as allowance for doubtful accounts) in the general ledger. The stated balance at 09/30/2013 was $876,720. However, the results of this audit indicate some issues with the accuracy of the billing, and with collections. Both of which might impact the reportable balance.

Criteria

According to the Government Accounting Standards Board (GASB) fines generated by a government entity are defined as nonexchange revenue. The fines generated from false alarms by definition are nonexchange revenue. When to recognize, and how to report this revenue is detailed in GASB Statement No. 33 Accounting and Financial Reporting for Nonexchange Transactions. In summary, there are a few key factors to consider regarding the recognition and reporting of the nonexchange revenue:

1) Is there a legally enforceable claim;
2) Is it measurable; and
3) Is collection probable?

Conceptually, GASB 33 stipulates that assets and revenues should be reported in the period in which a legally enforceable claim has arisen.[7] City Ordinance No. 2012-13 establishes a legally enforceable claim. The Ordinance also defines the amount of the fines to be assessed making it measurable **(See APPENDIX A)**. Another key issue to consider with nonexchange revenue recognition and reporting is probability of collection.

Internal audit also benchmarked with other local governments[8] regarding this issue. Each of the cities contacted stated that they do record the accounts receivable balance in the general ledger for fines imposed by the false alarm monitoring system in accordance with the nonexchange revenue requirements as stipulated in GASB 33. Please note that the GASB standards are the same whether a City is located in New Mexico or anywhere else in the United States, and the size of the City does not affect whether or not the standards apply. Therefore, location of the City and size are not relevant.

Cause

The root cause is lack of an adequate internal control structure including clearly defined roles and responsibilities in formal policies and procedures.

Effect

The financial statements do not correctly reflect the assets, liabilities, and revenues of the false alarm monitoring system.

Recommendation

The City needs to comply with GASB 33 and record these nonexchange transactions in the City's general ledger.

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[7] GASB Statement No. 33, pg. 35.
[8] Cities selected for benchmarking were Denver, CO; Dallas, TX and El Paso, TX.

In addition:

1) The accounts receivable balance for the false alarm monitoring system needs to be recorded in the City's general ledger, as well as an allowance for doubtful accounts;
2) Prior to posting the accounts receivable balances needs to be trued up;
    a. Decisions need to be made as to how to handle amounts overbilled or underbilled in the past; and
    b. Consideration needs to be given as to how to treat the aged receivables.

City's Response and Implementation Date

City Finance shall confirm data received from the contractor with SFPD Alarm Enforcement Specialist to ensure; the account receivable is legally enforceable, measurable and collection is probable. The City Finance Department is currently reviewing the aging report to determine the validity of the accounts receivable and reconciling the month to month receivables as reported. Estimated completion is Year End June 30, 2014 in preparation for the end of year closing and City financial audit.

Evaluation of City's Response - The response is adequate.

FINDING 6 – (City) Bank Lockbox Balance Not Recorded in the City's General Ledger

Condition

Payments for false alarm fees and fines are made to a lock box. This Wells Fargo lock box had a balance of $53,291 on 09/30/2013. We found that the balance per bank for the lock box was not recorded in the City's general ledger.

Criteria

All bank balances that belong to the City should be recorded as assets in the general ledger.

Cause

The root cause is lack of an adequate internal control structure including clearly defined roles and responsibilities in formal policies and procedures.

Effect

Assets in the general ledger and the financial statements are understated.

Recommendation

This bank balance needs to be recorded in the City's general ledger.

City's Response and Implementation Date

The City has recorded the bank account in the general ledger and is the process of recording all the monthly information from July1, 2013 to current. Estimated completion is March 31, 2014.

Evaluation of City's Response - The response is adequate.

FINDING 7 – (City/PSC) Not All Alarm Companies Are Submitting Monthly Reports, Not All Alarm Users Are Registered

Condition

The ordinance(s) requires alarm installation and monitoring companies to submit a report to the alarm administrator each month detailing any new alarm users. This report should also include any cancelled accounts. In addition, alarm companies are required to provide information to the alarm user about registering the alarm with the City. However, both City and PSC staff stated that they perceived a significant problem with companies that are operating outside of the system and not submitting any reports, nor are they notifying the alarm users that they need to register.

If and when a false alarm is triggered an invoice is sent to the address of the occurrence. This invoice includes charges for not registering the alarm system, if applicable. When the alarm user pays their bill, they become registered and are entered into the system. Per discussion with PSC, the user is asked the name of the alarm company, but no additional contact information is gathered and no follow up work is done by City or PSC staff to ensure the company the alarm user is working with is submitting reports. Following up at this point with the company might help to ensure compliance with the ordinances including submission of monthly reports. Also, if the address was obtained, a bill could be sent to the company that would include the appropriate fines for non-compliance.

Criteria

Alarm companies are required by City ordinance(s) to obtain an annual City business license. Proof of bonding and registration with the construction industries division are required at the time they obtain or renew their business license. In addition, all alarm monitoring and installation companies are required to submit monthly reports detailing new and deleted customers. When they do an installation they are required to notify their customers that they need to register their alarm system with the City.

1) License Fees, annual fee $75.
    a. Ordinance No. 2009-33 §20-5.8 (A) and (B):
        i. "A. All alarm installation and monitoring companies shall possess a current city of Santa Fe business license as provided for in Section 18-1.4 SFCC 1987. Business licenses shall be renewed on an annual basis."
        ii. "B. All alarm and installation and monitoring companies shall possess a valid license issued by the construction industries division of the regulation and licensing department of the state of New Mexico. Said license and proof of bond shall be presented to the city at the time of licensing, renewal of the business license, or upon request of the city."
    b. Ordinance No. 2012-13 §18-1.4 (B) (9) (a) and (a):
        i. "B. In addition to the information required in paragraph A, the following businesses shall also include the following information with their applications:"
        ii. "9. Alarm installation companies and monitoring companies shall submit the following documents as required by Section 20-5.8 SFCC 1987: "
            1. "(a) A copy of a valid license issued by the construction industries division of the regulation and licensing department of the state of New Mexico; and"
            2. "(b) Proof of bonding."
2) Duties of a Monitoring Company
    a. Ordinance No. 2009-33 §20-5.10 Duties of a Monitoring Company (E)

i. "E. Monitoring companies shall provide a monthly report to the alarm administrator by the twenty-fifth day of the month listing all new alarm systems, which the monitoring company contracted to monitor during the previous month. Such monthly report shall also include the cancelled alarm systems, if any...."

3) Duties of an Installation Company
   a. Ordinance No. 2012-13 §20-5.9 (H)(2)(3)
      i. "(2) Alarm installation companies shall provide a monthly report to the alarm administrator by the twenty-fifth day of the month listing all new alarm systems, which the monitoring company contracted to monitor during the previous month. Such monthly report shall also include the cancelled alarm systems, if any...."
      ii. "(3) Alarm installation companies shall assist the alarm administrator by providing the initial alarm registration application to the alarm user and submit such registrations to the alarm administrator within (30) days of the activation of an alarm system."
4) Registration Required
   a. Ordinance No. 2009.33 20-5.2 (C) ((7)(b)
      i. "C. The alarm registration application shall include the following information:"
         1. "(b) The name, address, telephone number and city of Santa Fe business license number of the alarm installation company or companies performing the alarm installation, conversion or takeover; and the name, address, telephone number and city of Santa Fe business license number of the alarm installation company responsible for providing services to the alarm system;"
         2. "(c) The name, address, telephone number and city of Santa Fe business license number of the monitoring company if different from the alarm installation company."
5) The PSA with PSC states the following:
   a. "**PSC Responsibilities** - PSC will be responsible for administering the City of Santa Fe false alarm tracking and billing program ("Program"). This will include but may not be limited to:"
   b. "2. Registering and updating alarm permits in accordance with the City of Santa Fe Alarm Systems Ordinance ("Ordinance")."

Cause

The root cause is lack of an adequate internal control structure including clearly defined roles and responsibilities in formal policies and procedures **(See FINDING 2)**.

Effect

There are several effects that occur:

1) The financial effect s are the following:
   a. Alarm companies are not being billed for late reports and are therefore not paying any fees or fines as decreed by the City ordinance(s);
   b. Alarm companies are not paying licensing fees;
   c. Alarm users are not registering and are therefore not paying their required $25 registration fee;
   d. Alarm users are paying a $100 fine for not registering if / when they trigger a false alarm;

2) The human effect is that the citizens of Santa Fe have no assurance that companies they are doing business with are:
    a. Licensed;
    b. Obtaining bonds;
    c. Obtaining permits; and
    d. Doing employee background checks.

Recommendation

A collaborative effort needs to be made between the City and PSC to discuss this issue and to decide how best to proceed forward. Consideration needs to be given as to how to ensure that all alarm companies are entered into the system, file monthly reports, obtain proper licenses, are bonded and have the required permits if they are doing installations. Educate and inform the public regarding the requirements of the false alarm ordinance. Consideration should be given to a public relations campaign to increase in public awareness of the need for alarm users to register, and for alarm companies doing business in Santa Fe to comply with all aspects of the City ordinance(s).

City and PSC's Response and Implementation Date
PSC Response

• PSC agrees that there needs to be a collaborative effort to address and rectify the issue of non-compliance with regards to monthly reporting and we are willing to participate in such effort. However, business licensing, bonding and background checks fall outside of the scope of services PSC is able to provide. We do not have the proper credentials or the authority to enforce these requirements, let alone the liability exposure that comes with such responsibility. It is customary for municipalities to issue business licenses to entities doing business in that particular municipality. Therefore, it stands to reason, that the division responsible for handling all other business licensing for the City also be responsible for licensing alarm companies and verifying their compliance with regards to bonding and employee background checks.
• PSC also makes several attempts to contact the alarm users by correspondence to register if it's known that there is an alarm system at the location. We suggest that the alarm companies be required to notify their customers when they install the alarm system that the City has an ordinance in place for alarm system registration.

SFPD Response

• SFPD Alarm Enforcement Specialist shall ensure that the contractor is communicating with all alarm companies that the requirement of the monthly report submittal is met. The contractor shall place the responsibility of ensuring all customers are registered with the City, this will be communicated by both the contractor and SFPD staff, we believe this is a matter of education and awareness of the participants. The contractor shall also ensure that all alarm companies are registered to do business within the City. This process will be reviewed on a monthly basis for new participants. The current Users on file are being reviewed; those found not to have a current registration will be given over to the Finance department and Licensing section for licensing and registration. Expected deadline for all Users is June 2014.
The SFPD also recommends a public information release drafted by Finance Department (Business License Renewal Division), and included in the April mailings, informing any potential alarm monitoring customers of the requirement to register their alarms and to ensure that the alarm company they have hired is in fact licensed and registered with the City of Santa Fe.

Evaluation of City and PSC's Response - The response is adequate.

FINDING 8 – (PSC) Billings Not Always Accurate

Condition

In order to determine the accuracy of the billings as produced by PSC, internal audit recalculated past due balances for the sample of 16 alarm companies using criteria as established in Ordinance No. 2012-13.

The following findings were noted:

1) On 10/12/2012 an error occurred that resulted in duplicate billings. These duplicate charges created over billings on affected accounts. For the sample tested, total over billings related to this anomaly amount to $40,150 **(See Table 2**),
    a. Technically, this is not a system error because not every month for every company was affected. For example, in the sample selected one or two months might not duplicate for one company, but they did for another. There was no set pattern, although most months with past due reports dated prior to September 2012 did split and duplicate. It should be noted that not all companies tested had reports past due prior to October 2012.
    b. The exception to the split and duplication of charges was for February 2011 and February 2012. Basically, none of the 4 companies in the sample with past due reports for February 2011 had duplicate billings for that month, also there were no duplicate billings for the 6 companies in the sample that had past due reports for February 2012. So February 2011 and 2012 were consistent across all companies for not splitting and duplicating.
2) Most, but not all, of these duplicate charges and the original charges stopped on 12/12/2012. This resulted in an under billing situation because the original charges, per the Ordinance, should continue until a report is filed. Total under billings related to this anomaly for the sample tested amount to $153,050 **(See Table 2)**,
    a. To illustrate this point, in looking at May through August of 2012, all duplicate and original charges were stopped on 12/12/2012. This affected 7 companies.
    b. For other months tested the results were not always as consistent, for example, November 2011, 4 companies had past due reports and each company was impacted differently. For the first company both duplicate and original billings stop at 12/12/2012, for the second company the duplicate billing stops, but the original billing continues past 12/12/2012, the third company never filed a report for November 2011, but was never billed for it, and the fourth company continued with duplicate and original billings past 12/12/2012 until 09/25/2013 when charges simply stopped. There is no indication of a report having been filed at that time.
3) In some instances, even though a report had not been filed, no late charges were ever accrued. In other instances it was noted that late charges stopped with no indication of a report being filed. Both of these situations resulted in under billings in the sample totaling $63,820 **(See Table 2);**
    a. In the example given above for November 2011, a company was not billed even though the report was never filed. The instances of not billing even though no report was filed appear to be random;
    b. The amount under billed adds up quickly at $10 per day per company;
    c. Instances of billing stopping without any indication of a report being filed were also random and infrequent. An example of this was given in item 2 (b) above.
4) Duplicate billings occasionally occurred in months besides October 2012. This resulted in other duplicate billings in the sample totaling $3,710 **(See Table 2):**

a. One example of this is a company that had duplicate billings for January 2013 starting on 03/04/2013, and duplicate bills for July 2013 starting 7/31/2013; and
b. Another company in the sample has had duplicate billings for October 2012 starting on 11/01/2012.

Criteria

A sufficient internal control environment needs to exist to 1) prevent billing errors from occurring, 2) to detect them if they do occur, and 3) to correct them once detected. Periodic monitoring of existing billing needs to occur to ensure the completeness and integrity of the bills.

Cause

There appears to be insufficient internal controls to prevent billing errors, including a lack of monitoring controls to detect errors if they do occur.

Effect

Billing is not always accurate.

Recommendation

In regards to the existing accounts receivable balance the City and PSC staff need to work together to determine the current balance. Decisions need to be made as to how to true up that balance and / or to determine a sufficient allowance for doubtful accounts.

The focus of this remediation for PSC needs to be on putting adequate internal controls in place to ensure that these types of errors are prevented and that if they occur they are detected timely through systematic and routine monitoring.

PSC's Response and Implementation Date

- PSC agrees to collaborate with the City to determine the correct accounts receivable balance.
- Virtually all of the under and over billings are directly related to the $10 per day late submission fee charged to the alarm companies. The Crywolf program was developed to help reduce false alarm occurrences by tracking and billing for these occurrences while maintaining a current database of alarmed location sites. Crywolf was not intended to track the number of days an alarm company fails to submit a report and while the City of Santa Fe is our only client out of 70 plus that does so, the flexibility of the program allows PSC to accommodate the specific needs of the City through the use of some program modifications coupled with some manual calculations and input. Unfortunately, as evidenced by this audit, these special accommodations are not bullet proof. We've traced virtually all of the under and over billings back to a single individual whom is no longer employed by PSC and ***we have identified the cause as a training issue as well as insufficient oversight and communication. To alleviate the overbillings from occurring in the future we have implemented a log that will indicate when the manual aspect of the process has been completed.*** We also have added an additional control, as we will have the individual working directly with the alarm companies review each of the "AC Fine Late Reports" which summarizes all of the late submission fees assessed on one Alarm Company's account. In the event an overbilling does occur throughout this process the individual will adjudicate any/all fees charged incorrectly at that time prior to the alarm company receiving notification of such charge. ***PSC will also, be more diligent with the quality assurance checks by running***

multiple reports available through Crywolf to ensure the proper billings are taking place. We also currently run a few different reports on the 15th of each month to ensure statuses are changed according to the registration fees, to ensure ones location type is listed correctly and to apply any overpayments to any outstanding fees. This will eliminate the potential for unnecessary mailings and late assessments on the accounts.

- ***Duplicate billings totaling $5,800 have been deleted from the system***.
- PSC is willing to invoice the under billings.
- ***One suggestion is to change the process/approach of billing for the late submissions. We feel that billing for late submissions at the end of each month would be more efficient, economical and accurate than doing so on a daily basis. This would also lead to a much cleaner database by not creating hundreds if not thousands of $10 line items within account histories, billing reports, A/R reports, etc.***

Evaluation of PSC's Response - The response is adequate.

FINDING 9 – (PSC) Accounts Receivable Journal Does Not Always Match Underlying Detail

Condition

For 2 of 25 accounts tested the subsidiary ledgers (account history) maintained by PSC does not tie out to the accounts receivable journal maintained by PSC with differences of $100, and $750 respectively.

Criteria

The underlying account histories for each account should agree with the accounts receivable journal at any given point in time.

Cause

Internal controls pertaining to the integrity and completeness of accounts receivable are not always effective.

Effect

The integrity and completeness of the accounts receivable journal is compromised.

Recommendation

Establish internal controls to ensure that the underlying account histories are accurately reflected in the accounts receivable journal.

PSC's Response and Implementation Date

- We found that if an invoice has a fee assessed and there is not a sent date associated with the letter then this fee will not be reflected on the aging report. For account# 8637, on November 8th, 2012 the account was marked as a "bad address", meaning that the mailing address we have on file for the location is not valid and a correct mailing address has not been established. Three invoices were then generated after this date for a total balance of $750.00. Since this account was marked as a bad address, these three invoices had not been sent to the alarm user.

- For alarm company account #192, there were two hearing requests for $50.00 each for appeal fees. Prior to the amendments made effective February 2012 when an appeal was received from an alarm user the $50 appeal fee was assessed against the hearing request. This is not an actual letter but is simply an action type therefore hearing requests do not generate sent dates so these fees would not be reflected on the aging report. However, an appeal nonpayment letter was sent to the alarm company to notify them of this requirement.
- PSC utilizes bulk mailing software to assist with the large amounts of correspondence sent out daily. This software also matches the responsible party and mailing addresses against the United States Postal Service database and the National Change of Address database. In addition to this PSC also has a continual effort to manually research all correspondence returned in order to obtain a valid mailing address.
- PSC often receives alarmed location information in the false alarm file from the City in which we are only provided with the physical address. Alarmed location information is also received from the alarm companies and in which we are not always provided with a valid mailing address.

Evaluation of PSC's Response - The response is adequate.

FINDING 10 – (PSC) Billing for Late Reports

Condition

Two findings are noted here:

1) PSC did not always start charging fees on the 31st day,

   There were a total of 38 days missed from December 2010 through September 2013.

2) PSC did not always charge fees every (business) day,

   There were a total of 312 days not billed from 12/01/2010 through 10/13/2013.

The days missed would be multiplied by each company that did not file a report, times $10.

Criteria

Ordinance No. 2012-13 §20-5.9(H)(2) states that an alarm company "shall provide a monthly report to the alarm administrator by the twenty-fifth day of the month listing all new alarm systems, which the alarm installation company contracted to install during the previous month. The monthly report shall also include a listing of any cancelled or inactive alarm user accounts." A fine of $10 per day after a five day grace period is to be charged.

Cause

PSC does not typically bill their customers every day.

Effect

The fines for late reports or non-filing of a monthly report for alarm companies are understated.

Recommendation

PSC should create a billing schedule that reflects the fines as established by the Ordinance.

PSC's Response and Implementation Date

- PSC agrees conceptually with the law however from a customer service standpoint it is very difficult for the customers to read and understand the invoice summary with multiple invoices listed.
- As there seems to be an underlying theme related to the deficiencies surrounding the billings for late submission fees, we feel it is important to put things into perspective. Since the beginning of the program PSC has billed out roughly $680,040 in late submission fees) net of the billings references in Finding 7) of which only $17,365 has been paid to date. This yields a collection rate of only 2.55% while the collection rate of all other billed items exceeds 55%. It seems pretty obvious that this aspect of the ordinance is highly ineffective as it is not achieving the desired results regardless of the effort that goes into billing 60+ alarm companies $10 a day. PSC would like to see this part of the ordinance repealed so that PSC's full resources are focused on billing, collecting and reducing false alarms.
- Billing alarm companies on a monthly basis once the five day grace period is up would again be more efficient, economical and accurate than doing so on a daily basis.
- If the late submission fees were assessed on a monthly basis once the five day grace period is over this would be a manual process but a far less complex process that is currently being used due to being a daily fee. By assessing these fees on a monthly basis versus a daily basis this would drastically reduce the risk for duplicating the late submission fees.
- PSC will be implementing a Representative who will be assigned to review and distribute the late report billings to ensure consistency and accuracy with billings associated with the Alarm Companies. If any discrepancies are found at this time, the representative will be able to correctly make those changes before the report is sent to the alarm companies.
- PSC would again suggest that the alarm company's late submission charges be billed at the end of each month to avoid the potential of any duplicate billings from occurring.

Evaluation of PSC's Response - The response is adequate.

FINDING 11 – (City/PSC) All Fees and Fines for Alarm Companies Are Not Being Addressed

Condition

We noted that the following items pertaining to alarm companies were not being monitored, tracked or billed by either City or PSC staff:

1) License fees, 12 of 16 companies tested did not have a City license. There is no communication between the City licensing department and the false alarm administrator, nor is there any communication between the licensing department and PSC. Per discussion with staff at PSC, we were told that when a company calls to register they assume they have the proper license;
2) Employee background checks are required of all alarm company employees, and there is a fine for non-compliance. However, this is not currently being monitored by either the City or PSC;

3) Failure to use enhanced call verification;
4) Establishment of procedures, or fines for not establishing procedures, for accepting cancellations of alarms and conveying cancellation of alarms;
5) Continuation of alarm dispatch requests to an alarm site after notification by the alarm administrator that the registration has been revoked.

Criteria

The items listed above are required per Ordinance No. 2012-13 **(See APPENDIX A).**

1) License Fees, annual fee $75.
    a. Ordinance 2009-33 §20-5.8 (A) and (B)
        i. "A. All alarm installation and monitoring companies shall possess a current city of Santa Fe business license as provided for in Section 18-1.4 SFCC 1987. Business licenses shall be renewed on an annual basis."
        ii. "B. All alarm and installation and monitoring companies shall possess a valid license issued by the construction industries division of the regulation and licensing department of the state of New Mexico. Said license and proof of bond shall be presented to the city at the time of licensing, renewal of the business license, or upon request of the city."
    b. Ordinance No. 2012-13 §18-1.4 (B) (9) (a) and (a)
        i. "B. In addition to the information required in paragraph A, the following businesses shall also include the following information with their applications:"
        ii. "9. Alarm installation companies and monitoring companies shall submit the following documents as required by Section 20-5.8 SFCC 1987: "
            1. "(a) A copy of a valid license issued by the construction industries division of the regulation and licensing department of the state of New Mexico; and"
            2. "(b) Proof of bonding."

2) Employee background checks, fine for noncompliance $300.

    Ordinance No. 2012-13 §20-5.9 (J) "Each alarm installation company shall pay a fine in accordance with Section 20-5.14 SFCC 1987 for each and every installation conducted in whole or in part by an employee who lacks the required background investigation or identification card."

3) Failure to use enhanced call verification, fine for noncompliance $300.
    a. Ordinance No. 2009-33 §20-5.10 (B) (2) "A monitoring company shall: Use enhanced call verification for every alarm signal, except for duress or holdup alarm activation, before initiating an alarm dispatch request."
    b. Ordinance No. 2009-33 §20-5.11 "(A) The alarm administrator shall obtain reports from the regional emergency communications center that include:"..."(3) Verification that the monitoring company used enhanced call verification when the alarm dispatch request was made."

4) Failure to establish procedures for accepting cancellations of alarms and conveying cancellation of alarms, fee for noncompliance $50.

Ordinance No. 2009-33, §20-5.10 (F) "A fine, in accordance with Section 20-5.14 SFCC 1987, shall be assessed to a monitoring company that fails to establish procedures for accepting cancellations from alarm users and for promptly conveying cancellation notification to the regional emergency communications center or for failure to perform any of the duties of this section."

5) Continuation of alarm dispatch requests to an alarm site after notification by the alarm administrator that the registration has been revoked, fine for noncompliance $50.
    a. Ordinance No. 2009-33 §20-5.12 (C) "A monitoring company commits an offense if it continues alarm dispatch requests to an alarm site after notification by the alarm administrator that the registration has been revoked and is subject to enforcement and penalties as set forth in Section 20-5.14 SFCC 1987."

Cause

The primary cause is a lack of internal controls including formal written policies and procedures to provide guidance to City and PSC staff as to how to monitor and enforce the above criteria.

Effect

The Citizens of Santa Fe are at risk of doing business with alarm companies that may not be bonded, and may not be requiring background checks. In addition, not enforcing the requirements of alarm companies having to use enhanced call verification, or establishing policies regarding accepting cancellations of alarms and conveying cancellation of alarms, and continuation of alarm dispatch requests to an alarm site after notification by the alarm administrator that the registration has been revoked create inefficiencies within the system which end up costing the City, and ultimately the Citizens of Santa Fe, money.

Additionally, the City is not collecting revenue for required licenses, permits or inspections.

Recommendation

Implement adequate internal controls, including formal policies and procedures, to ensure that the following requirements are met, and that fees and fines are assessed accordingly:

1) Business licenses, proof of license with the construction industries division, and bonding are obtained prior to an alarm company being allowed to register with PSC, and are renewed annually;
2) Employee background checks are being done prior to employment for all alarm company personnel;
3) Enhanced call verification has been implemented;
4) Procedures for accepting cancellations of alarms and conveying cancellation of alarms have been implemented; and
5) Fines are assessed if an alarm dispatch request is made to a site after notification from the alarm administrator that a registration has been revoked.

City and PSC's Response and Implementation Date

PSC's Response

- Virtually all of the under and over billings are directly related to the $10 per day late submission fee charged to the alarm companies. The Crywolf program was developed to help reduce false alarm occurrences by tracking and

billing for these occurrences while maintaining a current database of alarmed location sites. Crywolf was not intended to track the number of days an alarm company fails to submit a report and while the City of Santa Fe is our only client out of 70 plus that does so, the flexibility of the program allows PSC to accommodate the specific needs of the City through the use of some program modifications coupled with some manual calculations and input. Unfortunately, as evidenced by this audit, these special accommodations are not bullet proof. We've traced virtually all of the under and over billings back to a single individual whom is no longer employed by PSC and we have identified the cause as a training issue as well as insufficient oversight and communication. To alleviate the overbillings from occurring in the future we have implemented a log that will indicate when the manual aspect of the process has been completed. We also have added an additional control, as we will have the individual working directly with the alarm companies review each of the "AC Fine Late Reports" which summarizes all of the late submission fees assessed on one Alarm Company's account. In the event an overbilling does occur throughout this process the individual will adjudicate any/all fees charged incorrectly at that time prior to the alarm company receiving notification of such charge. PSC will also, be more diligent with the quality assurance checks by running multiple reports available through Crywolf to ensure the proper billings are taking place. We also currently run a few different reports on the 15th of each month to ensure statuses are changed according to the registration fees, to ensure ones location type is listed correctly and to apply any overpayments to any outstanding fees. This will eliminate the potential for unnecessary mailings and late assessments on the accounts.

- Duplicate billings totaling $5,800 have been deleted from the system.
- PSC is willing to invoice the under billings.
- One suggestion is to change the process/approach of billing for the late submissions. We feel that billing for late submissions at the end of each month would be more efficient, economical and accurate than doing so on a daily basis. This would also lead to a much cleaner database by not creating hundreds if not thousands of $10 line items within account histories, billing reports, A/R reports, etc.

City's Response

The Finance Department will revise the requirements for issuances of annual business license to all alarm installation and monitoring alarm companies to require a valid license issued by the construction industries division of the regulation and licensing department of the state of New Mexico, and proof of bonding before renewal. The accounts receivable unit is currently verifying these companies have current and valid licenses issued by the State of New Mexico, and proof of bonding. The City will submit all information to PSC. SFPD will provide a checklist of all required criteria listed in the ordinance and forwarded to Land Use/Finance staff for use as an alarm company checklist. This is expected to be completed by June 30, 2014.

The SFPD also recommends a public information release drafted by Finance Department (Business License Renewal Division), and included in the April mailings, informing any potential alarm monitoring customers of the requirement to register their alarms and to ensure that the alarm company they have hired is in fact licensed and registered with the City of Santa Fe.

Evaluation of City and PSC's Response - The response is adequate.

Management Letter Comments

During our audit there were certain issues involving internal controls or operating efficiencies that came to our attention, but do not rise to the level of an audit finding. These issues have been shared with PSC management and are referred to as management letter comments. Improvements in these areas are intended to improve internal controls or to result in other operating efficiencies and are summarized as follows:

MANAGEMENT LETTER COMMENT 1 – (PSC) Years Not Identified in Billing

During the review of the alarm companies account histories we noted that when a company was being fined for multiple years of a missing report, for example 2010, 2011, 2012, 2013 for a given month, there was no way to distinguish a given month.

Recommendation

PSC should add the year to the month in the billing system. This will increase the efficiency of detecting errors and therefore enhances the internal control environment.

PSC's Response and Implementation Date

An email received from PSC, dated 01/07/2014, states the following "I have updated the action type to indicate the year going forward (starting 1/2014) but I am unable to update the actions that were previously notated on the accounts."

Evaluation of PSC's Response

This response is adequate. The problem has been resolved. This management letter comment is cleared.

MANAGEMENT LETTER COMMENT 2 – (PSC) Invoice Number Changed Every Day

An issue noted with the account histories for the alarm companies was that a new invoice was created every day for every late report. For example, a September 2012 (August activity) report would start accruing fees on approximately 10/01/2012 if a report was not filed and an original invoice with a unique number would be created. The next day a new invoice would be created for the 10/02/2012 late fee and a new invoice number would be generated. This made it very difficult to trace a single invoice through the system.

Recommendation

The same invoice number should be used every day for a given month's late report.

PSC's Response and Implementation Date

Unfortunately the program will not allow this. Each action, or item, has a unique record identifier assigned to it and the program uses this unique record identifier as the invoice number. So every time a daily late submission fine is entered the system will automatically create a new invoice number. In order to consolidate onto one invoice with one invoice number we would need to enter the data once a month for the entire month. ***As mentioned previously, changing the billing for late submissions to once a month may be beneficial in many regards.***

Evaluation of PSC's Response - PSC's response is adequate.

APPENDIX A - Fees and Fines - Per Ordinance No. 2012-13

	Santa Fe City Code Section	Alarm User	Alarm Installation Company	Alarm Monitoring Company
Fee – Registration of Alarm System	20-5.5(B)	$25		
Fee – Renewal of Alarm System	20-5.5(B)	$25		
Fee – Late Registration	20-5.6	$10		
Fee – Reinstatement	20.5.13(A)(1)	$50		
Fee – Appeal[9]	20-5.16(D)	$50		
Fine – First False Alarm	20-5.11(D)(4)	$0		
Fine – Second False Alarm	20-5.11(D)(4)	$0		
Fine – Third False Alarm	20-5.11(D)(4)	$150		
Fine – Fourth False Alarm	20-5.11(D)(4)	$150		
Fine – Fifth False Alarm	20-5.11(D)(4)	$150		
Fine – Sixth or more False Alarms	20-5.11(D)(4)	$300		
Penalty - for 11 or more false alarms in a 12 month period	20-5.12(A)	Suspend and revoke registration		
Fine – Operating an alarm system during a period of revocation	20-5.12(C)	$100		
Fine – non-registered alarm system, per alarm ordinance	20-5.5(A) 20-5.6	$100		
Fee - license	18-8.10(A)(3)		$75	$75
Fine – No Employee Background Check	20-5.9(I)		$300	

[9] Paid only if appeal is decided in favor of the City

Fine - Late Report (names and addresses of users)	20-5.9(G)(2) 20-5.10(E)		$10 per day after 5 day grace period	$10 per day after 5 day grace period
Fine – Failure to establish procedures for accepting cancellations of alarms and conveying cancellation of alarms	20-5.10(F)			$50
Fine – Continuation of alarm dispatch requests to an alarm site after notification by the alarm administrator that the registration has been revoked	20-5.12(C)			$50
Fine – Failure to use enhanced call verification	20.5.10(B)(2)			$300

APPENDIX B – Summary of Revenue and Expenses by Year

(Unaudited)

Source: Nancy Jimenez, Fiscal Administrator, Santa Fe Police Department

Revenue

Alarm Fees	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14 to 01/31/14 (6)	FY 13/14 Budgeted (7)
Fees and Fines (1)	$ 64,466	$ 217,031	$ 230,088	$ 173,762	$ 73,748	$ 168,700

Expenditures

Alarm Services Fees	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14 through 01/31/14	FY 13/14 Budgeted
32% Paid to PSC (2)	N/A	N/A	N/A	N/A	N/A	N/A
Salaries and Benefits (8)	$ -	$ -	$ -	$ -	$ 89,080	$ 156,038
Professional contracts (3)	$ -	$ 2,705	$ 1,352	$ 676	$ -	$ 10,000
Operating Expenses (4)	$ -	$ -	$ -	$ 2,281.99	$ 13,549.00	$ 8,000.00
Subtotal Expense	**$ -**	**$ 2,704.68**	**$ 1,352.34**	**$ 2,958.16**	**$ 102,628.82**	**$ 174,038.00**
Patrol Officers Response to False Alarms	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14 to 01/31/14	
# of calls per FY	6817	5623	4853	4452	2820	
Cost for Alarm Calls (5)	$ 233,550	$ 192,644	$ 166,264	$ 152,526	$ 96,613	
Total Expense	$ 233,550	$ 195,349	$ 167,616	$ 155,484	$ 199,242	
Net Income	$ (169,084)	$ 21,682	$ 62,472	$ 18,279	$ (125,494)	

1) Fines for false alarms and registration fees are recorded net of bank and merchant charges as well as the 32 % paid to PSC. License fees for alarm companies of $75 are paid in the business licensing department and are recorded in the general fund;
2) At the time of the audit the amount recorded for the revenue is net of the 32% fee paid to PSC; the expense is already deducted from income;

3) Professional contracts are for the alarm hearing officer;
4) Operating expenses include office supplies, copy machine paper, and a shredder;
5) Cost for alarm calls is the cost of sending 2 patrol officers to the alarm site at an average of 45 minutes per call (1.5 hours X $22.84 average salary);
6) The amounts from 07/01/2013 to 01/31/2014 were included to fully disclose program results for as much of the current fiscal year as possible. The current fiscal year is FY 13/14, 07/01/2013 through 06/30/2014;
7) Budgeted amounts are included to show expected results for FY 13/14;
8) FY 13/14 is the first year that salaries are being allocated to the false alarm program. The inclusion of salaries will give a better overall picture of actual expenses related to the program. Based on the current results, collections will have to be increased to cover current year expenses.

APPENDIX C – Glossary of Terms

1) **Public Safety Corporation (PSC)** – outside contractor engaged to assist with implementation and management of the false alarm monitoring system. PSC has a five year contract with the City which was initiated on 10/28/2009;
2) **Professional Services Agreement (PSA)** - this refers to the professional services agreement with PSC;
3) **Governmental Accounting Standards Board (GASB)** - Issues applicable governmental accounting standard;
4) **Alarm companies** are required to file monthly reports detailing any changes including new or discontinued users. Alarm companies include;
    a. Alarm installation companies,
    b. Alarm monitoring companies;
5) **Alarm users** are assessed fines for not registering their alarm, and for false alarms per the ordinance. Alarm users include;
    a. Individual – typically a private home;
    b. Businesses, these are businesses other than alarm companies, such as a restaurant or retail store that has an alarm;
6) **Customers** – as referred to in the results section are customers of the City's False Alarm Monitoring System. Customers can be either an alarm company or an alarm user, each customer is assigned an unique account.
7) **Debtor** – as referred to in Finding 3, is a customer with a past due accounts receivable balance.