



MANAGEMENT ACTION PLAN PROGRESS REPORT

DATE: April 7, 2016

TO: Jim Gray, Mayor

Cc: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Ronnie Bastin, Commissioner of Public Safety
William O'Mara, Commissioner of Finance and Administration
Mark Barnard, Chief of Police
Rusty Cook, Director of Revenue
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Jasie Curtis, CFE, Internal Auditor

RE: False Alarm Fee Collection Audit MAPPR

EXECUTIVE SUMMARY

On April 10, 2015 the Office of Internal Audit issued the False Alarm Fee Collection Audit. The 2015 report contained several findings related to the proper collection procedures for the false alarm fees and registration fees. Findings included the need to produce a formal policy or Standard Operating Procedures; maintaining appropriate collection documentation; the need for segregation of duties in the billing and collection procedures; an overstatement of revenue from fees collected; and the lack of compliance



with LFUCG ordinances by alarm system companies.

This review is provided for management information only. It is not an audit and no opinion is given regarding controls or procedures.

A summary of the findings from the original audit report and a summary of the results of our follow-up are provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the **ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS** section of this report.

Finding	Summary of Original Finding	Follow-Up Results
Finding #1 High Priority	Process Needed to Actively Pursue Collection of Past Due Accounts	New capabilities were added to the software FARU uses which will allow aged receivables to be tracked. However, the software updates are still in testing phase. A write-off process has been agreed upon with Revenue, but this process is not formally documented and actual write-offs had not begun as of the beginning of audit fieldwork. A comprehensive SOP for the administration of false alarm fees has not been developed.
Finding #2 High Priority	Sufficient Documentation Maintained	Collection Not Applications are now imaged and stored on the server. Physical checks are stored for the appropriate 45 day period and imaged checks can be obtained from the bank at any time. Applications now have a box with the check number/cash paid, amount, and date received. Checks also have the permit number so an employee could trace from check to application. This finding is resolved.



Finding #3 High Priority	Segregation of Duties Needed in Billing and Collection Process	The department is now fully staffed with three employees. Tasks have been assigned between the three employees so as to achieve sufficient segregation of duties. This finding is resolved.
Finding #4 High Priority	Revenue for False Alarm Fees Overstated	FARU staff is aware of the written documentation requirement for PeopleSoft corrections. However, this process is still not documented in an SOP.
Finding #5 High Priority	False Alarm Ordinance Not Being Complied With by Some Alarm System Companies	Beginning in April 2016, customers will begin to receive invoices directly from FARU, which will transfer fee responsibility directly to the customer. This is a reasonable approach to solving the compliance issues experienced with some alarm system companies. The Alarm Advisory Board has not been fully staffed, which lessens oversight of the FARU function and delays the development of a fees and fines appeals process for alarm system customers.

ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

Original Finding #1: Process Needed to Actively Pursue Collection of Past Due Accounts

Priority Rating: High

Condition:

We were informed by FARU personnel that uncollected billings were not being actively monitored due to the limitations of the billing system contained in the AS400 computer. We also noted during our test work that 6 of 35 (17%) outstanding invoices ranged from 60 to 446 days old. At our request, Police CIS personnel produced an Invoice Aging



Report from the AS400. The report identified \$51,415 in receivables that were thirty days old or less, and \$295,035 in receivables that were more than 90 days old. This report identified uncollected alarm system user billings dating back to March 2008.

We also noted that the AS400 system used by FARU to manage all alarm permit and false alarm accounts is not designed to function as a genuine accounts receivable program. Current AS400 accounts receivable limitations include the absence of functions such as a readily available Account Aging Report, a report listing unregistered alarms, and batch controls features. In addition, the AS400 will automatically generate FARU invoices once a month to bill unregistered false alarms that FARU personnel must manually intercept before they are mailed in order to first send the owners a notice stating that their alarms are unregistered and give them the option of paying the \$15 registration fee to have the fine annulled.

Effect:

Failure to promptly follow up on uncollected receivables increases the likelihood the associated revenue will become uncollectible. The absence of a genuine accounts receivable program limits FARU's ability to manage the collections of a program budgeted to collect \$400,000 during FY 2015.

Recommendation:

The collection of past due receivables should be activity pursued, starting with the past due account information contained on the Aging Report we obtained from Police CIS. FARU management should also establish written procedures to monitor all outstanding invoices, address past due accounts, and establish a past due account write-off process. A management decision is needed to determine how far back to pursue existing past due accounts and which accounts to write off.

The Division of Police is considering the purchase of false alarm management software that would address the account management weaknesses of the current AS400 program. In the interim, Police CIS should continue to produce the Aging Report on a monthly basis to aid FARU personnel in the identification and resolution of past due accounts.

Chief of Police Response:

The Lexington Police Department will continue to seek funding for and review available alarm management software for the False Alarms Reduction Unit. However, since we are also currently exploring options for new records management software our alarm management software decision may be delayed.



Until a new system is in place we will continue to use our New World alarms module to monitor Alarm accounts, including those that are past due. To increase efficiency in the collection of past due accounts, we have established a procedure to automatically generate the Invoice Aging Report on a monthly basis. This report will identify and track delinquent accounts.

Additionally, we have created a new designation in the alarms module for write-offs. This designation will be applied to close out invoices that have been designated as uncollectable.

Regarding the establishment of an appropriate "write-off" process; we are working with Rusty Cook and Laura Harris in the Division of Revenue. As a division of government we have never established or worked with a write-off process, and have therefore requested guidance on establishing an acceptable standard practice.

While we do have a False Alarms Manual, it is not adequate to serve as a written Standard Operating Procedure. We have begun the process of developing an appropriate written standard operating procedure that will include the changes implemented as a result of the audit recommendations. Once completed, we will provide a copy of that procedure where appropriate.

Commissioner of Public Safety Response:

I concur with Chief Barnard's plan.

Follow-Up Detail Results:

The New World Alarms Module that was already in place has had new features added which will allow for aged receivables to be tracked. This report is currently still in a testing phase and has not yet been put into use. A write-off process has been decided on by FARU management with approval by the Division of Revenue, but it is not formally documented and accounts deemed uncollectible had not been written off as of the beginning of audit fieldwork. The Standard Operating Procedure included in management's response to the original audit has not been completed.

We recommend FARU management complete the testing of the New Worlds Alarm Module as soon as possible so that the tracking and management of aged receivables can begin. The write-off process should be documented and accounts deemed uncollectible should be written off to improve the management of



accounts. The comprehensive SOP for the administration of false alarm fees included in management's original audit response should be completed as soon as possible to provide documented guidance for the false alarm fees process.

Chief of Police Response:

New World's Alarms Module with additional programming developed by CIS has been tested and is now working. FARU was able to write-off unpaid invoices created prior to 2014. This system has allowed FARU to write-off the oldest invoices while still retaining other valuable account information for those affected permits.

Additionally, FARU is now tracking aged invoices more efficiently and is able to direct local collections efforts toward the oldest invoices. Now that FARU has written off invoices from 2013 and earlier, we will offer an amnesty program to customers who have invoices older than 180 days. Each of these customers will receive an offer to bring their account current by paying 50% of their outstanding account balance. This offer will serve as an isolated opportunity to clean up old invoices that were created in the previous operating processes.

Going forward, we will use the process outlined below;

- 30 days past due; FARU will issue a past due notice.
- 60 days past due,
 - FARU will issue a past due notice
 - Attempts will be made to contact the customer by phone, email or other available means.
 - If contact is made, we will provide the customer with available payment options.
- 90 days past due,
 - FARU will issue a past due notice
 - Attempts will be made to contact the customer by phone, email or other available means.
 - If contact is made, FARU will provide the customer with available payment options.
 - If contact is unsuccessful and the permit remains in past due status, the permit will be placed in a "Cancelled" status and FARU will write-off that account's unpaid invoices.



- If the customer attempts to reestablish the account, all past due fees will be collected before the account is placed back into an active status

The instructions for these processes are included in the FARU manual which will be completed within the next thirty days, to assist in addressing any future write-off or past due situations.

Commissioner of Public Safety Response:

Chief Barnard's response is reasonable, practical and meets the objective outlined in the audit.

Original Finding #2: Sufficient Collection Documentation Not Maintained
Priority Rating: High

Condition:

FARU does not maintain any backup documentation to support collections posted into the AS400. Checks received for registration and/or false alarm fees are scanned directly into the bank's deposit system. The physical checks are maintained by FARU personnel for 45 days from the date of receipt, after which time the checks are destroyed as recommended by the bank. Any corresponding documentation submitted and/or used in identifying the correct alarm user account is discarded.

During fieldwork, we selected samples of deposits to trace to the related alarm user accounts. The only available supporting documentation sufficient to confirm posting of the payments to the correct alarm user accounts were checks that had not yet been destroyed, and some of those checks were written by companies or individuals who were paying for alarms at locations other than the payer's address. Therefore, we were not able to consistently verify that payments were posted to the correct alarm user account without input from FARU personnel. The FARU relies heavily on the memory of one employee who performs the majority of the collection duties to know the account where each payment has been posted.

Effect:

There is insufficient documentation to consistently validate the correct posting of payments to alarm user accounts. This could impact FARU's ability to sufficiently investigate disputed account balances.



Recommendation:

FARU is responsible for the operation of a billing process and should retain the original documentation that supports related payments. Due to the volume of paper transactions, electronic scanning should be explored as a possible option to reduce storage requirements. The documentation should be maintained in accordance with the LFUCG records retention plan.

Chief of Police Response:

In response to this recommendation, we have implemented new procedures to enable us to record and track payments. In addition to the record entry into the New World Alarms Module, we are also including the permit number, account information, payer information, check number, amount, and date received to our permit applications. (Example attached)

These applications will be scanned electronically and stored electronically in a folder on our server. Additionally, all permit numbers will be written on the hard copies of checks received, prior to scanning. This will allow payments to be searched manually using the check or the permit.

A sample of the permit application with this additional information has been included in this response. This process will be incorporated into the written procedure when it is completed.

Commissioner of Public Safety Response:

I concur with Chief Barnard's plan.

Follow-Up Detail Results:

All alarm applications are now scanned and stored on the G:Drive on the server and can be accessed at any time. Applications now include the permit number, check number/cash payment, payment amount, and date received which allow for payments, applications, and permits to be easily matched to each other. Physical checks are noted with the permit number, and are stored for the appropriate 45 days. Older checks can be accessed via online banking if they still need to be viewed. A sample of transactions was tested to ensure these controls were functioning. All sampled items appropriately traced to the correct account, payment, and application. The only item noted was that one of two cash payments tested was not entered into the cash receipts book.



This finding is resolved. No management response required.

Original Finding #3: Segregation of Duties Needed in Billing and Collection Process

Priority Rating: High

Condition:

Two employees in FARU have the capability to create invoices for false alarm penalties, receive payments for registration fees and false alarm penalties, post payments to the alarm user accounts, and process payments via check through the check scanner (thereby creating a deposit). These processes are typically completed by one employee.

Effect:

This represents an incompatible series of billing, recording, and collection duties and therefore creates the risk of cash misappropriation.

Recommendation:

FARU management should separate these duties so that one person is not responsible for billing, recording, and collection processes.

The possibility of eventually having the Division of Revenue assume FARU's check processing and deposit functions should also be considered. Division of Police senior management informed us that Division of Revenue personnel cannot be granted access to some of the Division of Police files necessary to manage false alarm billings due to access restrictions under the Criminal Justice Information Systems Security Policy (CJIS). However, Division of Police is considering the purchase of false alarm management software that could allow Revenue access to alarm user accounts without violating CJIS. If Police does purchase this software, Division of Revenue management should be consulted about the possibility of Revenue taking over the FARU collection process. This would remove the segregation of duties issue noted in this finding.

Chief of Police Response:

Historically this unit has been staffed by two or more personnel, and the billing and collection processes were segregated. At the time of this audit, the unit had recently reduced in size to one person. The billing and collection processes were both being handled by this employee.



Since the audit, we have staffed the vacant position in the unit and are in the process of reallocating an additional position within the division to this unit. Once the currently vacant position is filled, the unit will be staffed by three employees.

We have currently tasked one individual with the collection of registration fees and false alarm penalties and with the posting of these payments to the user account. The second employee is currently responsible for the invoicing of false alarm penalties and for the processing of deposits. These various duties will be further separated once the third employee is in place.

We have met with Revenue to explore the possibility of moving the collections function to the Revenue office; further separating our billing and collection functions. At this time, it has not been decided if the employee assigned to Revenue will remain part of this division or be reassigned to Revenue. Currently, the thought is the employee would remain a Division of Police employee but function within the Revenue offices.

The above adjustments should drastically improve accountability, oversight, and efficiency.

Commissioner of Public Safety Response:

I concur with Chief Barnard's plan.

Follow-Up Detail Results:

The department is now fully staffed with three full-time employees. One employee is responsible for invoicing and posting deposits in PeopleSoft. The other two employees receive the actual payments and post them to the proper accounts in the AS400 account program. In the event of an absence, one of the other two employees will assume the other duties while forgoing their own, if necessary, to ensure segregation of duties still exists.

This finding is resolved. No management response required.



Original Finding #4: Revenue for False Alarm Fees Overstated**Priority Rating: High****Condition:**

FY 2014 revenue for false alarm fees appears to have been overstated by \$8,585. We noted two instances where FARU personnel had entered deposit amounts incorrectly into PeopleSoft during FY 2014. FARU personnel can post deposits in PeopleSoft but cannot remove any erroneous postings. For one deposit, an incorrect amount of \$6,020 was entered by FARU personnel and a request for reversal of the error was sent to the Division of Revenue. Division of Revenue management informed us that the reversal did not post due to an issue in a PeopleSoft posting process, and the correction would now be made. Another incorrect entry in the amount of \$2,565 was also posted by FARU personnel, and this erroneous posting would also need to be corrected by Revenue. In this instance, we could not determine if a request for a reversal of the error had been sent to the Division of Revenue.

Effect:

FY 2014 revenue for false alarm fees appears to have been overstated by \$8,585.

Recommendation:

The Division of Revenue should post a prior period adjustment to correct the FY 2014 overstated revenue. The Division of Revenue should also consult with the Division of Enterprise Solutions regarding the circumstances surrounding the unsuccessful completion of the reversing entry process to determine if such a reoccurrence can be prevented.

Director of Revenue Response:

The revenue account is part of the General Fund. After conferring with the Director of Accounting, we have determined that the amount in question (\$8,585) does not meet the materiality level to require a prior period adjustment. The Division of Revenue has implemented a new procedure in which the employees in the Division of Revenue responsible for completing any reversals/adjustments now request all reversals/adjustments be in writing (email) and will respond to FARU back in writing (email) that the reversal/adjustment has been completed. In addition to the changes implemented in the Division of Revenue, DES has implemented a process that will provide automatic email notification if a system process fails, and Division of Accounting will document in writing all reconciliation items each month.



Commissioner of Finance & Administration Response:

I concur.

Chief of Police Response:

Revenue for false alarm fees was overstated by \$8,585 due to incorrect entries into PeopleSoft by employees of the False Alarms Unit.

Unit personnel can post to PeopleSoft but, once submitted, cannot remove any erroneous postings. The expectation in these instances is that a written request, usually email, is sent to Revenue requesting their assistance with the correction. However; in the two cases reported, telephone contact with Revenue personnel was used instead. Although they received verbal confirmation of the intent to correct the error, we did not receive written confirmation for our records. We have contacted management in the Division of Revenue and have requested documentation of these previously submitted requests for corrections.

Also, unit personnel have been instructed to only use written forms of communication to correct data entry errors in PeopleSoft. All communications concerning these matters will be permanently retained for future reference.

This procedure will also be incorporated into the written policy governing this unit.

Commissioner of Public Safety Response:

I concur with Chief Barnard's plan.

Follow-Up Detail Results:

Department staff is aware of the requirement that Revenue must be informed of errors in writing to document their occurrence and improve accountability over the correction process. We were informed that no PeopleSoft posting errors have occurred since the prior audit. However, there is no written policy in place to document this process. We recommend this process be included in a policy or SOP as stated in the prior audit's management response.

Chief of Police Response:

As part of the FARU instruction manual, guidance is provided for the handling of accounting errors. Primarily, FARU will communicate account discrepancies through email, to ensure a record is kept to document the communication.



Commissioner of Public Safety Response:

Chief Barnard's plan appears to meet the objective highlighted in the audit.

Original Finding #5: False Alarm Ordinance Not Being Complied With by Some Alarm System Companies

Priority Rating: High

Condition:

There are more than 100 alarm system companies registered with the Division of Revenue to operate within Fayette County, ranging from large corporations to small companies that appear to be sole proprietorships. Ordinance 56-2005 tasks all of these companies with several duties, including collection of an annual \$15 administrative fee from alarm system users (their customers) and remitting this fee along with the registration form to FARU. FARU personnel stated they have made numerous attempts through the years to ensure companies are aware of the registration fee collection requirement, but still experience significant lack of compliance from some alarm system companies.

FARU personnel stated that as of August 2014 the alarm system company with the largest customer base in Fayette County began complying with the registration requirements of the Ordinance. This should result in a substantial increase in registration fee collections for this company's expired or previously unregistered customers. FARU personnel stated that obtaining compliance from some other alarm system companies continues to be problematic.

Effect:

This results in uncollected administrative fees due the LFUCG, and creates an administrative burden on FARU personnel who then have to pursue the payment of these fees and obtain valid permits.

Recommendation:

Section 13-72.3 of the LFUCG Code of Ordinances (Ordinance 56-2005-Application for Alarm Business License) specifically states, "In addition to the causes listed in section 13-72.1, any license issued under this section may be suspended or revoked by the alarm administrator for any violation of sections 13-71 through 13-74. However, before any action is taken to suspend or revoke a license, a licensee shall be entitled to notice, a hearing before the alarm advisory board and any other protection required by law."



FARU personnel may want to consider exercising this option against alarm system companies that continue to fail to comply with the Ordinance.

Chief of Police Response:

The projected personnel levels for the False Alarms Unit will allow the unit to work more closely with alarm companies to increase awareness and education, with the overall goal of increasing compliance with the Ordinance. Unfortunately at the present time, and short of suspension of their business licenses, there are no penalties for alarm companies under the current Ordinance. Suspension of larger companies' licenses could dramatically affect the service and compliance of their customers. In some cases, this could impact thousands of alarm holders.

We will work to improve our efforts to enforce this Ordinance when appropriate, and will continue to pursue efforts for new legislation aimed at imposing fines for initial offenses by alarm companies. We will also work with the Alarm Advisory Board, when fully seated, to develop additional ideas and methods to address these issues.

Commissioner of Public Safety Response:

I concur with Chief Barnard's plan.

Follow-Up Detail Results:

FARU management explained that it remains difficult to enforce alarm companies' adherence to the Ordinance; therefore, beginning in April 2016 all alarm system customers will begin to receive annual fee invoices directly from FARU, thereby transferring payment responsibility directly to the customer and away from the alarm companies. In our opinion, this is a reasonable approach to solving an ongoing compliance issue.

The option of suspending business licenses for Ordinance non-compliance is still available, but is considered by management to be a last resort due to the significant impact this would have on an alarm company's customers. In our opinion, this is also a reasonable approach in the management of an ongoing compliance issue.

We also noted that the Alarm Advisory Board is not fully seated and functional, which lessens the oversight of this function and delays the development of an appeals process for alarm system customers regarding fees and fines.



We recommend every effort be made to bring the Alarm Advisory Board into active status.

Chief of Police Response:

The Police Department is working with the Office of the Mayor to reestablish the Alarms board. Five new members have been identified and their applications are being forwarded to the Office of the Mayor for approval and appropriate processing.

Commissioner of Public Safety Response:

Chief Barnard is making good progress in reestablishing the Alarms Board.

