



Lexington-Fayette Urban County Government  
OFFICE OF INTERNAL AUDIT

## **INTERNAL AUDIT REPORT**

DATE: April 10, 2015

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  
Teressa Gipson, CFE, Internal Auditor

RE: False Alarm Fee Collection Audit

### **Background**

Ordinance 56-2005 requires all Fayette County residents and businesses that operate an active alarm system to be registered with the False Alarm Reduction Unit in the Division of Police (FARU). Alarm users must maintain a valid user permit for a period of twelve months. The permit is issued by FARU for a \$15 nonrefundable administrative fee. Alarm system companies that are properly registered to do business in Fayette County are required to follow the ordinance by notifying their customers both of the permit requirement and the annual renewal date. The ordinance also requires that the alarm system companies collect

from each of its alarm users the initial and renewal nonrefundable \$15.00 administrative fee and remit the fees to FARU with the completed alarm user permit application and renewal applications. If the alarm system company fails to notify their customers and Police receives an alarm dispatch to a location that does not have a valid permit, FARU will issue a warning notice to the customer stating they have 10 days to respond to the notice and pay the permit registration fee or they will be responsible for paying the false alarm fine.

Alarm permit holders having continued false alarms are subject to civil fines ranging from \$25 to \$300 for the fourth through ninth violations. The FARU administers all false alarm fines generated from false alarm calls that come to the Division of Police. FARU also collects and processes payments for all false alarm civil fines, and for most of the permit fees. FARU personnel estimated that the Division of Police receives approximately 10,000 false alarm calls from businesses and residents every year. FARU is budgeted to collect \$400,000 during FY 2015.

### **Scope and Objectives**

The general control objectives for the audit were to determine that:

- The false alarm penalty fee is billed within 30 days of occurrence
- The false alarm penalty fees are consistent with the number of false alarms
- Unbilled or uncollected fees and false alarm penalties are identified and addressed in a timely manner
- Permit fees and false alarm penalties are correctly posted to the accounts and the funds are deposited in a timely manner
- Alarm system companies are in compliance with the city ordinance

The scope of the audit included false alarm collection activity for the period July 1, 2013 through November 30, 2014.

### **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary

to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

### **Audit Opinion**

In our opinion, the controls and procedures provide reasonable assurance that most of the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

### **Priority Rating Process**

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

## **SUMMARY OF AUDIT FINDINGS**

### **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.

**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.

**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.

**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.

**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.

SAMPLE

Permit Number

12345

### LFUGG ALARM USER PERMIT APPLICATION

Lexington Division of Police  
False Alarm Reduction Unit  
150 E. Main St  
Lexington, KY 40507

Phone: (859)425-2364 Fax: (859)258-3574  
Email: alarms@lexingtonpolice.ky.gov Website: www.lexingtonky.gov/alarms



**A PERMIT FEE OF \$15.00 PER YEAR MUST BE SUBMITTED WITH THIS APPLICATION  
IN THE FORM OF CHECK OR MONEY ORDER MADE PAYABLE TO LFUGG  
PERMITS ARE NOT TRANSFERABLE TO A NEW ADDRESS OR OWNER**

Please type or print clearly. All sections must be completed. Incomplete applications will be returned.

Type of Application: (check one)

New       Renewal       Update only (no fee)

Type of Permit: (check one)

Commercial       Residential       Exempt (State, Federal, & Local Gov. agencies)

#### PERMIT APPLICANT INFORMATION

Business Name: (if applicable)

Business Phone #

Resident/Homeowner Name #1:

JOHN Q SAMPLE

Home Phone #

555-1234

Cell Phone #

123-4567

Work Phone #

Resident/Homeowner Name #2:

Home Phone #

Cell Phone #

Work Phone #

Alarm Location Address and Suite or Apt #:

101 E. MAIN ST

City: LEXINGTON

State: KY

ZIP Code: 40507

#### MAILING/BILLING ADDRESS (if different from above)

Business/Corporate Name or Person Name:

Address and Suite or Apt #:

City:

State:

ZIP Code:

#### EMERGENCY CONTACTS

(List two people, other than the owner, who can respond to alarm activation within 30 minutes)

Contact #1:

SUE SAMPLE

Home Phone #

987-6543

Cell Phone #

Contact #2:

Home Phone #

Cell Phone #

#### ALARM COMPANY AND/OR MONITORING COMPANY

Alarm Company:

ADT

Phone #

188-8888

Monitoring Company (if different from Alarm Co):

Phone #

#### ACKNOWLEDGEMENT

I have read the completed application and know the same is true and correct and hereby agree that if a permit is issued, I will comply with all the provisions of the city of Lexington, Fayette County Code of Ordinance No 56-2005 with applicable State laws. I accept responsibility for payment of all fines and fees that may result from the operation of the alarm system serving the above premise. Permit/Registration of an alarm system is not intended to, nor will it, create a contract, duty, or obligation, either expressed or implied, of response. Any and all liability and consequential damage resulting from the failure to respond to a notification is hereby disclaimed and governmental immunity as provided by law is retained. It is the alarm owner's responsibility to prevent false alarms, and assure that all users of the system are trained on the proper use of the system. Also to notify the False Alarm Reduction Unit along with your alarm company of any changes to this information.

Signature of applicant:

*John Q Sample*

Date:

3-26-15

Mail To:

Lexington Division of Police  
False Alarm Reduction Unit  
150 E. Main St.  
Lexington, KY 40507

#### For Department Use Only

CK/MO#

1234

AMT:

\$15.00

DATE REC:

3-26-15

Paid By:

JOHN CALIPARI

Annual renewal of security alarm systems is required by Lexington-Fayette County Ordinance #56-2005. Higher fines may be imposed for failure to renew your alarm system registration.