

FALSE ALARM CONTRACT ADMINISTRATION AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

09.29.2020



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Distribution List:

For action:	Alison Finch, Public Safety Business Administrator Sheryl Davis-Moore, Police Civilian Division Commander
For information:	Yasmin K. Beers, City Manager Elena Bolbolian, Director of Innovation, Performance and Audit Michele Flynn, Director of Finance Michael Garcia, City Attorney Roubik Golanian, Assistant City Manager Carl Povilaitis, Police Chief Audit Committee City Council

Acknowledgment

Internal Audit would like to thank Police Department personnel for the support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Natalie Minami-Valdivia, Sr. Internal Auditor, or Jessie Zhang, Internal Audit Manager at ipa@glendaleca.gov

This report is also available online at <http://www.glendaleca.gov>

A. Overview

Key Outcomes

The Police Department’s false alarm contract administration encompasses ensuring the contractor’s contract compliance, complete and accurate false alarm program fees collection and recording, and proper safeguarding of customer information. Based upon our review, the Police Department’s false alarm contract administration process can be improved with the implementation of stronger controls to ensure the following:

- Contract extensions are executed timely;
- Contractor compliance with the contract terms and contract provisions include invoicing terms and Payment Card Industry (PCI) document requirements;
- Proper recording of revenues, expenditures, and receivables;
- False alarm bills are issued and collected in a complete and accurate manner;
- System user access is authorized based on job function and periodically reviewed.

Internal Audit identified 11 improvement opportunities related to compliance, cost saving, efficiency, and risk reduction and are further described below. GPD management has reviewed and agreed with all the recommendations and will work with the Contractor, Finance and City Attorney's Office to implement them within the established timeline as outlined in the Action Plan section of this report.

Impact Dashboard

This table summarizes the applicable value-added categories (total 35) for the 11 recommendations based on their priority rankings.

	Value Added Categories				Innovation Opportunities
	Compliance	Cost Saving	Efficiency	Risk Reduction	
Priority 1 2	2	1	2	2	0
Priority 2 9	7	6	7	8	0
Priority 3 0	0	0	0	0	0

(Definitions of Priority Rankings and Value-added impacts are located at Appendix 1)

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 1		
1.	Enforce contract terms or amend them to reflect actual practice. <i>Value added: Risk Reduction, Compliance, Efficiency</i>	December 31, 2020
2.	Communicate updated Citywide fees to PM AM Corporation (Contractor) on an annual basis, or upon any changes. <i>Value added: Risk Reduction, Compliance, Cost Saving, Efficiency</i>	December 31, 2020
Priority 2		
3.	Obtain PCI compliance documentation and ensure that future contracts include PCI compliance language. <i>Value added: Risk Reduction, Compliance</i>	March 31, 2021
4.	Reconcile Glendale Police Department (GPD) Computer Aided Dispatch Record Management System (CAD/RMS) false alarm call records to the Contractor's billed records for completeness. <i>Value added: Risk Reduction, Compliance, Cost Saving, Efficiency</i>	March 31, 2021
5.	Define and document collection responsibilities and properly manage outstanding false alarm fee receivables. <i>Value added: Risk Reduction, Compliance, Cost Saving, Efficiency</i>	March 31, 2021
6.	Notify Contractor that convenience fee charged to customers making online payments is not included in contract terms. <i>Value added: Compliance, Cost Saving, Efficiency</i>	March 31, 2021
7.	Verify the revenue share calculation performed by the Contractor. <i>Value added: Risk Reduction, Compliance, Cost Saving, Efficiency</i>	March 31, 2021
8.	Enhance policies and procedures to provide management oversight over program tasks. <i>Value added: Risk Reduction, Compliance, Cost Saving, Efficiency</i>	March 31, 2021
9.	Adequately train and cross-train staff on contract administrative tasks. <i>Value added: Risk Reduction, Compliance, Cost Saving, Efficiency</i>	March 31, 2021

Ref.	Management Action Plan	Completion Date
10.	Limit user access to the False Alarm Management Solution (FAMS) system to active employees that require access to perform their jobs. <i>Value added: Risk Reduction</i>	December 31, 2020
11.	Assure all primary, supervisory, and back-up staff assigned false alarm contract administrative tasks have CAD/RMS report access. <i>Value added: Risk Reduction, Efficiency</i>	Completed

C. Background

In accordance with Internal Audit's Fiscal Year (FY) 2020-21 work plan, Internal Audit completed an audit of the False Alarm Contract Administration.

The Glendale false alarm program is governed by the False Alarm Ordinance (Glendale Municipal Code 8.12). Glendale residents and businesses are required to obtain a permit for each property that utilizes an alarm system. A false alarm occurs when an alarm system is activated because of a malfunction, mechanical or electrical defect, improper operation or procedure by any person and no fire, crime or other emergency occurred requiring an emergency response by the Glendale Police or Fire Department.

In 2016, the City entered into a contract with the Contractor to perform the City's false alarm billing and collections for a three-year term commencing on August 1, 2016 with the option to renew two times for a period of one year each. The contract is administered by the Glendale Police Department (GPD) Budget and Finance Bureau and is currently in its fifth and final contract year.

The contract costs are based upon an annually tiered revenue share percentage of 14% for revenue generated up to \$250,000 and 18% for revenue generated above \$250,000. For August 1, 2018 to July 31, 2019, the false alarm revenue approximated \$573,000 and the Contractor's revenue share approximated \$93,000.

The false alarm program revenues are generated from permit fees and false alarm response fees invoiced to residential and commercial customers. The Contractor is responsible for billing and collecting false alarm program fees based upon the following information received in customer applications and false alarm response data provided by GPD:

- 1) their account category (commercial/residential);
- 2) whether or not they are a false alarm permit holder; and
- 3) the number of false alarms occurrences in a year (within either their permit year or within one-year from the first reported false alarm).

False alarm program fees are established by the GPD and included within the Citywide Fee Schedule which is approved by the City Council as part of the annual budget process. The FY 2019-20 false alarm fines, based upon the number of false alarm incidents in a permit year, are as noted in the table below.

False Alarm Occurrence	Permitted	Non-Permitted
1	No fine	\$338
2	\$122*	\$447
3	\$250	\$560
4 or more	\$338 each	\$560 each

*Fee may be waived upon completion of an online course.

For FY 2019-20, the registration fee was \$114 for residential and \$170 for commercial locations. All false alarm program permits and response fees are billed through the Contractor's FAMS system.

D. Objective, Scope and Methodology

The objective of this audit is to determine if adequate controls exist to ensure the false alarm contract is appropriately administered and that false alarm program fees are billed, collected, and recorded in an accurate and complete manner.

The scope of this audit covers false alarm program revenue billing, collection, and recording processes for the period of August 1, 2018 to December 31, 2019.

In order to accomplish the audit objective, Internal Audit performed the following:

- Interviewed Police Budget and Finance Bureau, Finance, and the Contractor's staff to gain an understanding of the false alarm contract administration and permit and response fees collection processes.
- Reviewed available City Policies & Procedures, Citywide Fee Schedule, and the City's agreement with the Contractor.
- Conducted detailed test procedures to determine the completeness of the false alarm permit and response fees billing and collection, and the accuracy of the revenue share calculation.
- Performed user access control testing to identify generic user IDs and/or separated employees with access to CAD/RMS reports and FAMS related to the false alarm program billings.

As a result of these audit procedures performed, 11 observations were identified and are detailed in the Observations, Recommendations & Management Responses Matrix starting on the following page.

E. Observations, Recommendations, Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1. Contract Compliance			
Priority 1	<p>The contract terms stipulate that the Contractor must submit “an original, itemized invoice to CITY for approval, before receiving compensation.”</p> <p>Based upon a review of the process, Internal Audit noted that the Contractor does not submit invoices to the City. Instead, the Contractor deducts its revenue share apportionment and remits to the City the balance and supporting documents for review.</p> <p>This practice resulted in established controls being circumvented that led to the following:</p> <ul style="list-style-type: none"> • Contract extension not being renewed in a timely manner and required insurance documents not being obtained. • Revenues and expenses not being properly recorded within the financial statements. 	<p>GPD management perform the following:</p> <ol style="list-style-type: none"> a. Amend the payment terms in the contract to reflect current practice, or enforce the contract invoicing terms. b. Ensure that contracts are renewed or extended in a timely manner. c. Work with Finance to ensure that the false alarm revenues and contract service expenses are appropriately recorded within the City’s financial accounting system. 	<p>Agrees and will implement by December 31, 2020.</p> <p>GPD will perform the following:</p> <ol style="list-style-type: none"> a. (In Process) Work with the City Attorney’s Office to amend the payment terms to allow the Contractor to remit revenues net of the agreed upon revenue share. b. (Completed) Subsequent to the initiation of this audit, the contract extension was executed retroactively and the required insurance documents were obtained. Going forward, contract and insurance expiration dates will be monitored. c. (In Process) Finance and GPD will work together and agree on a procedure to record the proper revenues and expenses. Starting with the month of July 2020, Finance will record the proper revenues and expenses, based on the information provided by GPD on a monthly basis.

Ref	Observation	Recommendation	Management Response
2. False Alarm Program Related Fees			
Priority 1	<p>Based upon detailed review of online information, and interviews performed, the following were noted:</p> <ul style="list-style-type: none"> a. Management did not provide the Contractor with the updated FY 2019-20 Citywide Fee Schedule. As a result, the false alarm program related fees, including alarm permit registrations, appeal, and miscellaneous charges were erroneously billed at the FY 2018-19 rates. This resulted in an under-billing of approximately \$18,500 for the ten-month tested period of July 1, 2019 to April 24, 2020. b. The false alarm information accessed from the City’s webpage, that is maintained by the Contractor, was not updated to reflect the latest adopted fees. c. Short payments for alarm permit registration fees were accepted with a partial year term, but allowed for a free full year auto-renewal for permits without false alarms in the previous partial permit year. d. Credit balances remaining from customer overpayments are not properly refunded and a report to identify these credits is not available. 	<p>GPD management establish and document procedures to perform the following:</p> <ul style="list-style-type: none"> a. Communicate updated false alarm program related fees to the Contractor at least annually or when the Citywide Fee Schedule is changed. Also, perform a review of the permit registrations fees being billed on a monthly basis. b. Verify that the false alarm fee information accessed from the City’s webpage has been properly updated. c. Establish and communicate a written procedure to the Contractor to ensure that the permit registration short payments are consistently addressed. d. Work with the Contractor to create a report to total a customer’s cumulative balance and request that any outstanding credits be refunded. 	<p>Agrees and will implement by December 31, 2020.</p> <ul style="list-style-type: none"> a. (In Process) GPD has communicated the updated false alarm program related fees to the Contractor and will include a procedure to review the permit registration fees billed on a monthly basis. b. (Completed) The City’s webpage information has been properly updated by the Contractor. c-d. (In Process) GPD will work with the Contractor and document a procedure for permit registration short payments and a report of outstanding and/or unapplied credits.

Ref	Observation	Recommendation	Management Response
3. PCI Compliance Requirements			
Priority 2	<p>The Contractor allows credit card payments for false alarm program related fees. However, the current contract does not include language pertaining to PCI compliance requirements.</p>	<p>GPD management perform the following:</p> <ul style="list-style-type: none"> a. Obtain and review PCI compliance documentation. b. Amend the contract to include required PCI compliance language, including submission of the PCI compliance documentation. 	<p>Agrees and will implement by March 31, 2021.</p> <ul style="list-style-type: none"> a. (Completed) GPD requested, obtained, and reviewed the PCI compliance documents from the Contractor and will continue to do so annually. b. (In Process) GPD will include the PCI compliance language in the next contract amendment.

Ref	Observation	Recommendation	Management Response
4.	Billing Completeness		
Priority 2	<p>Based upon discussions with the GPD staff, it was noted that there is currently no reconciliation process performed to ensure that all false alarm calls from the GPD's CAD/RMS are uploaded by the Contractor into FAMS.</p> <p>For the period of August 1, 2018 to July 31, 2019, 101 false alarm response records were not uploaded or could not be located within the FAMS system's Total Alarms report. Internal Audit sub-selected 10 records for detailed review and noted the following exceptions:</p> <ul style="list-style-type: none"> a. 4 were not imported due to a configuration issue. b. 4 were successfully appealed or cancelled and not included within the FAMS system's Total Alarms report, but were included in the permit account detail. c. 1 was listed on the FAMS unmatched report and left unresolved. 	<p>GPD management establish and document procedures to periodically reconcile GPD's CAD/RMS false alarm call records to the records uploaded by the Contractor.</p>	<p>Agrees and will implement by March 31, 2021.</p>

Ref	Observation	Recommendation	Management Response
5. Outstanding Receivables and Collection			
Priority 2	<p>Based upon discussions with GPD staff and the Contractor, it was noted that there are no documented procedures for a) performing follow-up on outstanding receivables, b) performing collection activities, c) recording receivables within the financial statements, or d) writing off uncollectable accounts.</p> <p>Based upon a review of the Contractor's FAMS system report, Internal Audit noted \$710,000 in aged receivables as of September 1, 2020 for the period of January 1, 2015 to September 1, 2020. Of this amount, \$471,000 is greater than 365 days overdue.</p>	<p>GPD management perform the following:</p> <ul style="list-style-type: none"> a. Work with Finance to determine if and how the outstanding false alarm fee receivables should be recorded within the financial statements. b. Work with Finance and the Contractor to establish and document the false alarm related outstanding receivables and collections procedures and define collection responsibilities. This should include, but not be limited to, the number and frequency of collection efforts to be performed by the Contractor, the process for transferring accounts to the City's collection agency and denoting these accounts within the FAMS system, and the Contractor's procedure for payments received after the accounts have been sent to collections. 	<p>Agrees and will implement by March 31, 2021.</p> <p>GPD will perform the following:</p> <ul style="list-style-type: none"> a. Work with Finance to validate the receivables and appropriately record within the financial statements. b. Establish and document procedures related to outstanding receivables and collections procedures, and define collection responsibilities.

Ref	Observation	Recommendation	Management Response
6. Online Payment Convenience Fee			
Priority 2	<p>The contractor's website includes a \$3 convenience charge for all online payments. However, this practice is not permitted by the current contract terms.</p>	<p>GPD management notify the Contractor that the \$3 convenience fee was not specified or agreed upon within the contract terms and request that the fee either be removed or the contract be amended to include this fee.</p>	<p>Agrees and will implement by March 31, 2021.</p>

Ref	Observation	Recommendation	Management Response
7. Tiered Revenue Sharing Calculation			
<p>Priority 2</p>	<p>In June 2018, there was a large adjustment that resulted in negative revenue. This negative adjustment crossed over the \$250,000 tiered revenue sharing threshold by approximately \$1,500. However, when calculating the City’s portion of refund, the Contractor incorrectly calculated the City’s portion of the total amount at 86% rather than taking the tiers into consideration. The City’s portion of the refund should have been calculated at 82% for the revenues above \$250,000 and at 86% for the balance. This resulted in the Contractor overcharging the City \$61.</p> <p>It was also noted that the Contractor has been deducting a \$60 fraud protection fee from the revenue prior to the revenue share calculation since July 2019. No supporting documentation was provided by the Contractor nor requested by GPD for this fee. Per the City Attorney’s Office, this fee is not included within the contract terms and would require a contract amendment if GPD agrees.</p>	<p>GPD management perform the following:</p> <ul style="list-style-type: none"> a. Verify the revenue share calculation performed by the Contractor. b. Request the Contractor reimburse the \$61 adjustment error. c. Notify the Contractor that the \$60 per month fraud protection fee is not permitted by the contract terms and request a refund. 	<p>Agrees and will implement by March 31, 2021.</p>

Ref	Observation	Recommendation	Management Response
8. Policies and Procedures			
Priority 2	<p>The existing false alarm contract management policies and procedures do not include certain key contract administration tasks.</p>	<p>GPD management enhance the existing policies and procedures to include all false alarm program related tasks including, but not be limited to, the following:</p> <ul style="list-style-type: none"> a. Contract compliance oversight and responsibilities, which includes contract and insurance expiration monitoring; b. Monthly invoice/remittance reconciliation; c. Revenue identification and batch deposit; d. Revenue share percentage verification; e. Revenues and expenses recording; f. Management review process. 	<p>Agrees and will implement by March 31, 2021.</p>

Ref	Observation	Recommendation	Management Response
9. Training			
Priority 2	<p>Staff have not been appropriately trained on the false alarm program contract terms to enable them to properly review for contract compliance and accurate revenue share calculations. Additionally, back-up staff have not been cross-trained to perform the false alarm program related tasks.</p>	<p>GPD management perform the following:</p> <ul style="list-style-type: none"> a. Review the contract requirements with staff to ensure their understanding. b. Cross-train staff to perform the false alarm contract related tasks. c. Periodically rotate staff to perform the required tasks. 	<p>Agrees and will implement by March 31, 2021.</p>

Ref	Observation	Recommendation	Management Response
10. FAMS User Access			
Priority 2	<p>Based upon a review of the Contractor’s list of City employees with FAMS access, we noted the following:</p> <ul style="list-style-type: none"> a. Two active City FAMS users separated from their employment with the City in 2018. b. One active City FAMS user no longer requires access to FAMS. c. One employee assigned contract administration back-up responsibilities does not have access to the FAMS system. <p>Additionally, we noted that one active user from the Glendale user list provided by the Contractor was identified as a former Contractor employee.</p>	<p>GPD management perform the following:</p> <ul style="list-style-type: none"> a. Immediately inactivate FAMS user access for City users that do not have an identified need to access the system. b. Establish and document a procedure to ensure that the Contractor and GPD have user access controls in place. This may include requesting the Contractor to periodically provide a user listing for GPD’s review. c. Authorize access for the Public Safety Business Assistant II responsible to serve as the back-up for the false alarm program contract administration responsibilities. 	<p>Agrees and will implement by December 31, 2020.</p> <ul style="list-style-type: none"> a. (Completed) GPD confirmed that the Contractor has inactivated users that no longer need access to FAMS. b. (In process) GPD will establish a procedure to enhance access controls. c. (Completed) GPD has authorized and obtained FAMS access for the Public Safety Business Assistant II.

Ref	Observation	Recommendation	Management Response
11. CAD/RMS User Access			
Priority 2	<p>Based upon a review of the GPD's Budget and Finance Bureau employees with CAD/RMS report access, two employees assigned the false alarm program contract administration back-up or supervisory responsibilities do not have adequate access to the CAD/RMS.</p>	<p>GPD management authorize access to CAD/RMS report for the Public Safety Business Assistant II and Public Safety Business Administrator serving as the back-up and supervision for the false alarm program contract administration responsibilities.</p>	<p>Implemented.</p> <p>GPD has authorized CAD/RMS Web Query access for the Public Safety Business Assistant II and Public Safety Business Administrator.</p>

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduced exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

In addition, the **INNOVATION OPPORTUNITY** category indicates the assistance and consulting services that may be provided by the Innovation and Performance Team in helping address audit observations.