



GARLAND

INTERNAL AUDIT

Safelight Program

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Authorization

We have conducted an audit of the Safelight Program. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objectives

1. Are financial controls in place for the City to verify accuracy of the contractor's revenue reporting, debt reporting and monthly fees?
2. Has the contract been updated with recent changes, such as implementation of Scofflaw (a vehicle registration hold process), enforcement of right turn violations, and increase in City's internal cost?
3. Is the program (citation process, collections, deposits and payments) operating as efficiently and effectively as possible?

Scope and Methodology

Our audit period for review was from November 1, 2007 thru February 28, 2011.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This included compliance with the Texas Transportation Code and Automated Red Light Enforcement Service Agreement.

While we report to the Mayor and City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff and line management functions we are auditing. Therefore, this Audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

To adequately address the audit objectives, we:

- Reviewed Automated Red Light Enforcement Service Agreement and Amendments By and Between ACS State & Local Solutions, Inc and the City of Garland (Obj.1&2)
- Reviewed the Texas Transportation Code Chapter 707 (Obj.1)

- Reviewed the process flow chart (Obj.3)
- Obtained and analyzed ACS invoices and payments (Obj.1)
- Compared City's revenue to ACS payment (Obj.1)
- Compared City's revenue to program cost (Obj.1)
- Calculated City's Debt balance (Obj.1)
- Verified City's revenue reconciliation accuracy (Obj.1)
- Analyzed timeliness and accuracy of bank deposit (Obj.3)
- Reviewed capital investment fees (Obj.1)
- Requested performance measurement reports (Obj.3)
- Interviewed ACS personnel (Obj.1&3)
- Interviewed the City Attorney, City Secretary, Finance, Municipal Court and Police personnel (Obj.1,2&3)
- Reviewed the Photographic Enforcement Systems - Regional Trauma Account Reports and verified accuracy (Obj.1)
- Obtained requirements from the State Comptroller's Office (Obj.1)
- Reviewed third party Statement of Auditing Standards (SAS 70) audits (Obj.1)

Overall Conclusion

The City of Garland's Automated Red Light Enforcement program needs to be monitored closely. The City's review and verification of Safelight revenue, costs, debt balance and accounting methodologies needs improvement.

Background

The City of Garland's (City) Automated Red Light Enforcement (Safelight) Program officially began on September 16, 2003. The focus of the program, as well as outreach efforts and community education campaigns, is to encourage drivers to reduce red light violations.

According to the Transportation Code Section 707.002, the governing body of a local authority by ordinance may implement a photographic traffic signal enforcement system and provide that the owner of a motor vehicle is liable to the local authority for a civil penalty if, while facing only a steady red signal displayed by an electrically operated traffic-control signal located in the local authority, the vehicle is operated in violation of the instructions of that traffic-control signal. Also, in Section 707.003, it states "a local authority that implements a photographic traffic signal enforcement system under this chapter may contract for the administration and enforcement of the system."

The currently effective agreement with ACS State and Local Solutions, Inc (ACS) was initiated on June 24, 2006. ACS is responsible for the purchase, installation, maintenance and operation of equipment required by or necessary

for the proper operation of the Program. They are also responsible to issue the violation notice (citation) to the registered owner of the vehicle upon approval of the violation by the City Police Department. Currently, there are twelve intersection approaches installed and operated under this program. The City agreed to pay ACS a monthly base fee of \$4,950 per intersection approach. The initial term of the agreement was for 8 years. Since the execution of the Service Agreement, it has been amended twice.

Amendment Agreement Number 1 was executed on August 28, 2006 for ACS to provide revenue enhancement and collection services for the City. The City agreed to pay ACS a contingency fee of 15% for delinquent photo enforcement collections. The term of the agreement was co-terminous with the Service Agreement.

Amendment Agreement Number 2 was executed on May 29, 2009 to reflect the following changes to the original Service Agreement:

- The term of the Service Agreement shall be twenty eight (28) years commencing on January 24, 2006, unless sooner terminated, in whole or in part, as otherwise provided in this Service Agreement.
- The monthly base fee of \$4,950 per intersection approach set forth in Section 4(B) of the Service Agreement shall increase: 5% effective January 24, 2014, an additional 5% effective January 24, 2019, an additional 5% effective January 24, 2024, and an additional 5% effective January 24, 2029.
- ACS agrees to install new, updated digital camera systems to replace the program's currently installed Gatsometer camera systems on a mutually agreeable schedule in 2014.
- ACS agrees to install new, updated digital camera systems to replace the program's then installed camera systems on a mutually agreeable schedule in 2024.

It must be noted that, since the execution of the Service Agreement, other arrangements (related to the Safelight Program) were also made between the City and ACS. These include a \$7,000 per month allotment for internal City program costs, relocation of cameras, enforcement of right turn violations, registration hold process (Scofflaw), etc.

According to the Transportation Code Section 707.007, the civil and administrative penalty may not exceed \$75 and a late payment penalty may not exceed \$25. Safelight collection and ACS payment during the audit period (Nov/07 - Feb/11) totaled \$2.93 M and \$2.19 M respectively. As of July 8, 2011, \$4.82 M worth of citations (# of citations = 49,274) are unresolved.

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

Finding # 1 (Obj. 1)

Condition (The way it is):

Internal Audit’s review of the ACS camera location issuance analysis (citations issued/locations) reports revealed the following:

- Three of the twelve Safelight intersection approaches (NE Parkway @ Centerville Rd, SB Centerville @ Miller and EB Walnut @ Jupiter) were decommissioned from service in August 2007.
- These three cameras were moved to NB Shiloh @ I90, NB S First St. @ Ave B and SB Broadway Blvd @ I30. However, they were not commissioned until April 2009.

Our verification of ACS invoices revealed that ACS was charging a monthly fee on the original cameras even when they were decommissioned. According to management, the cameras were to be moved to new TXDOT locations. However, TXDOT approval was delayed. The amount billed to the City totaled approximately \$282K.

# of cameras		# of months		monthly fee		Total
3	X	19	X	\$4,950	=	\$282K

According to Section 4(B) of City’s agreement with ACS, “The City agrees to pay ACS a monthly fee for the acquisition and installation of the Units and all associated equipment and supplies, for the implementation, maintenance, operations,

and on-going management and monitoring of the Program, and for all such other and further services as may be contemplated in this Agreement a monthly base fee as follows: \$4,950 per intersection approach per month for the twelve (12) intersection approaches to be installed and operated under the program.”

The original installation costs (\$59,700/approach – as mentioned in the Agreement (Section 6(B)) of the three decommissioned cameras were already paid off by August/2007). Since cameras were not operational, managed or monitored during the nineteen months, Internal Audit is unclear as to what the City received for \$282K.

It must also be noted that, for the movement of the three decommissioned cameras, the City has incurred an additional cost of \$216K in relocation fees from ACS. The City started making a monthly payment of \$1,264 (per intersection) in May/2009 towards this debt and will pay them off by Feb/2014.

# of cameras		# of months		monthly fee		Total
3	X	57	X	\$1,264	=	\$216K

The monthly fee of each of the three new cameras has increased from \$4,950 to \$6,214 to accommodate this fee.

Our review of the City’s contract with ACS did not provide any assistance in regards to camera relocation terms and conditions.

Criteria (The way it should be):

City’s contract with ACS clearly defines terms and conditions in regards to relocation cost of cameras, the purpose of monthly fee and a provision for downtime.

Cause (Difference between condition and criteria):

Contract terms and conditions are not clearly defined.

Effect (So what):

The City spent approximately \$282K. We can't determine the application for the use of \$282K or the return on investment.

Recommendation:

A) The City should consider amending the contract to include:

- terms and conditions in regards to relocation costs of cameras
- the purpose of monthly fees
- a provision for down time

B) In future negotiations with ACS, the City should discuss the fact that we paid \$282K and received nothing in return, and the City requests a financial adjustment.

Management Response:

Management Concurs

Action Plan:

The City is currently negotiating a number of modifications to the existing contract with ACS, the City having identified several points of discussion prior to the inception of this audit.

Those points include:

- An elimination of collection fees after it was determined that the collection fees were producing little value for the amount being paid and that the collection process was generally unhelpful to the affected violator.
- The creation of an on-line return on investment report to allow the City to track the cost-effectiveness of its registration hold (scofflaw) program.

- Implementation of a pay-by-web fee.
- Clarifying and quantifying the amount of retained internal costs and capital costs for re-built intersections.
- Performance standards expected of ACS in terms of a violation-to-NOV issuance ratio.
- Wind-down provisions relating to the decommissioning of camera locations to establish a pre-agreed, verifiable cost of decommissioning a camera location.

Implementation Date:

Management has been awaiting the finalization of the audit prior to finalizing the modifications.

Auditor's Comment:

N/A

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
2 (Obj.1)	<ol style="list-style-type: none"> 1. The City did not track and reconcile the debt amount it owes to ACS. At the end of Feb 2011, the debt amount totaled approximately \$335K in monthly fees and \$145K in capital costs. 2. During the months when Safelight program revenue exceeded the expenses, the City did not apply the excess revenue to its cumulative balance due (debt). (See Appendix 1) 3. The City did not record the ACS liability in its Comprehensive Annual Financial Report (CAFR). 	<ol style="list-style-type: none"> 1. The debt the City owes to ACS can increase or decrease on a monthly basis depending on the revenue collection, payments and expenses. Monthly reconciliation will identify errors and provides accuracy. Also, it will increase management awareness of the debt balance and possible resolution to pay off debts. 2. According to Section 4C of the agreement, "If the program revenue exceed the monthly base fee payment, the excess program revenue shall be applied first to any cumulative balances due to ACS until all shortfall balances due are paid in full." 3. The CAFR is published to provide detailed information concerning the 	Lack of monitoring and reconciliation.	<ol style="list-style-type: none"> 1. Without proper monitoring and reconciliation the City: <ul style="list-style-type: none"> • could loose track of its debt and expend the program revenue for other purposes. • may end up paying more or less than the actual debt. 2. The City may not be in compliance with the terms of the agreement. 3. The amount of liability recorded on the financial statement is under stated.

financial condition of the City to its citizens and the financial community. The City has the responsibility to publish an accurate and complete report.

Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
<p>Management should ensure that:</p> <ul style="list-style-type: none"> • continuous debt monitoring and reconciliation are performed. • excess program revenue is applied to any cumulative balances due to ACS until all shortfall balances are paid in full. • the City includes debt in order to give a more complete and accurate Financial Statement. 	<p>Management concurs.</p>	<p>Monthly reconciliation of income and expenses is performed.</p> <p>All excess program revenue is being applied to any cumulative balances due to ACS.</p> <p>The ACS liability will be recorded in the FY 2011 Comprehensive Annual Financial Report. Financial Services will reconcile debt schedules prepared by the Police Department quarterly beginning with December 31, 2011.</p>	<p>Immediate</p>	<p>N/A</p>

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
3 (Obj.1)	Internal Audit could not reconcile the calculations used to determine "net revenue" for the Safelight program.	Management should consider accounting methods generally preferred by governmental review entities.	Management is applying a "net revenue" calculation methodology which they believe is consistent with Section 707.008 of the Texas Transportation Code, but which is not consistent with accounting standards.	<p>According to Section 707.008 of the Texas Transportation Code, "If under Section 133.059, Local Government Code, the Comptroller conducts an audit of a local authority and determines that the local authority retained more than the amount authorized by this section or failed to deposit amounts as required by this section, the Comptroller may impose a penalty on the local authority equal to twice the amount the local authority:</p> <ol style="list-style-type: none"> 1. retained in excess of the amount authorized by this section; or 2. failed to deposit as required by this section". <p>We believe if the State audited the Safelight</p>

Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
<p>Management should reevaluate the mechanics of filling out the Comptroller report.</p>	<p>Although the term "net revenue" is not used in Section 707.008(a), Texas Transportation Code, the statute contemplates the sharing of net - not gross - revenues produced by the operation of the program. Section 707.008(b) allows the City to retain, out of the revenue derived from civil penalties collected under the program, an amount necessary to cover certain program costs. The City has an outstanding liability to ACS for two component amounts – (1) A true-up debt for operational months in which revenues received through the program were insufficient to pay even the minimum amount due for the ACS monthly fee (which is and has always been a function of the revenue-neutral provisions of the service agreement), and (2) a capital cost reimbursement debt for the costs of installing. The expenses that constitute both</p>	<p>The City will footnote or otherwise supplement its annual reports to the Comptroller to highlight the controlling nature of the statute versus what accounting standards might suggest to be a better methodology for reporting net revenues, if any. When the City's debt to ACS is paid, any revenue generated by the program above the expenses that may be retained by the City pursuant to law will be paid in accordance with Sec. 707.008.</p>	<p>Immediate</p>	<p>program, the accounting methodology would be called into question. N/A</p>

	<p>of those components qualify, under Sec. 707.008(b), Texas Transportation Code, as expenses that may be retained from civil penalties collected through an automated red light enforcement program before the 50 percent calculation required by Sec. 707.008(a) is applied.</p>			
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Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
4 (Obj.1)	On May 2010, ACS charged the City for \$622 in duplicate credit card processing fees, and the City paid this amount without proper verification.	All charges must be properly reviewed to ensure accuracy and compliance before payments are processed to the vendor.	Management failed to properly review all charges before payments were processed to the vendor.	Loss of money
Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
<p>Management should ensure that all third party vendor charges are properly reviewed for accuracy and compliance before payments are processed.</p> <p>Note: Upon IA's notification, ACS credited the City for \$622 on the April/2011 monthly statement.</p>	Management Concur	ACS credited the City for \$622 on the April/2011 monthly statement.	Immediate	N/A

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
5 (Obj.1)	<p>During the audit period, the City was charged by ACS over \$18,000 (Average monthly fee in FY/11 = \$500) in credit card transaction fees. Transfirst Health and Government Services (Transfirst) provides credit card transaction services for ACS. To verify the accuracy of these charges, Internal Audit ("IA") requested a credit card transaction detail report (with related City citation numbers) from ACS. They failed to provide one. Instead, IA received a credit card transaction report from Transfirst. However, this report did not include the related citation numbers for IA to tie the charges back to Garland citations. Without this data IA is unable to confirm that the credit card transaction fees charged to the City are for City of Garland citations.</p>	<p>The City should be able to verify the accuracy of all credit card transaction fees it was charged for.</p>	<p>ACS was unable to generate a credit card transaction detail report with the related City citation numbers.</p>	<p>Credit card transaction fees charged to the City may not be accurate.</p>

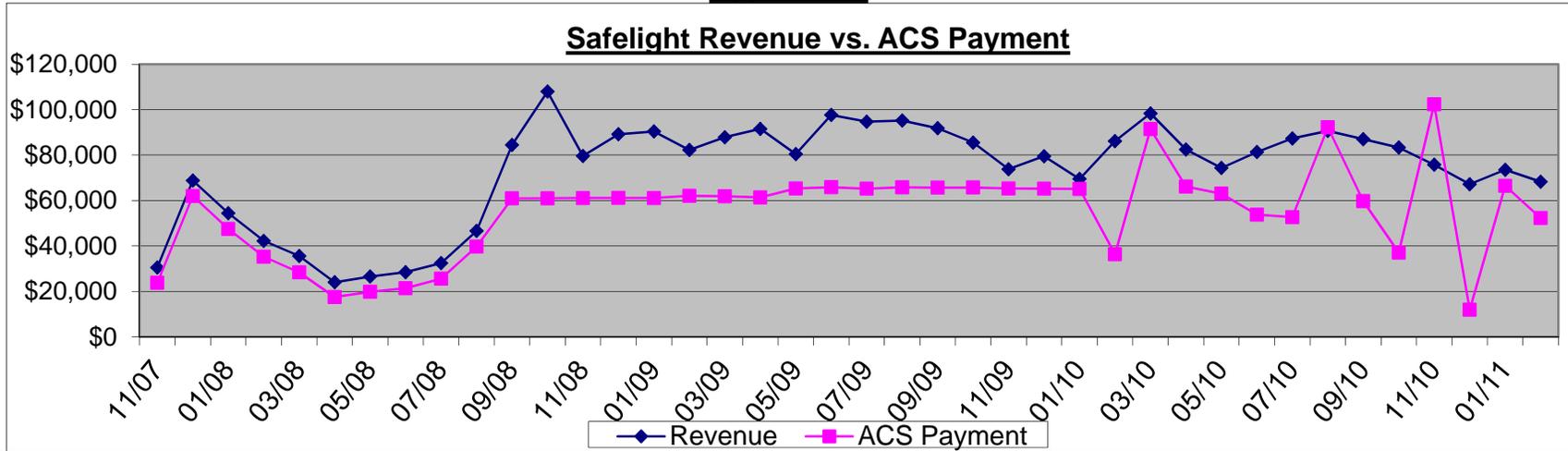
Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
<p>Management should request ACS to develop a detailed credit card transaction report (with related City citation numbers) for the City to verify the accuracy of charges on a monthly basis.</p>	<p>Management Concur.</p>	<p>The Department is working with ACS to develop a detailed report to match credit card transaction reports with specific ACS violation numbers to accurately reconcile monthly credit card fees.</p>	<p>In progress</p>	<p>N/A</p>

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
6 (Obj.2)	<p>On a monthly basis, the City subtracts its actual internal program costs (\$11,500 - average/month in FY/11) from Safelight revenue before payments are processed to ACS. This practice is contradictory to City's agreement with ACS. Based on the agreement, the City shall only subtract \$7,000 per month for its internal costs.</p> <p>Note: According to the agreement, this practice can be applied even if the monthly revenue is less than the ACS invoice total. Any monthly shortfalls will carry forward as a debt and must be paid when there are surpluses in the future months.</p>	The Service Agreement is updated to reflect the current practice.	City's monthly cost is higher than the estimated \$7,000.	City may not be in compliance with the terms of the current agreement.
Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
The City should negotiate and update the monthly internal cost allotment terms in the agreement with ACS.	Management concurs.	An amendment to the contract is being written to reflect the actual internal program expenses deducted from revenue prior to payment to ACS.	In progress	N/A

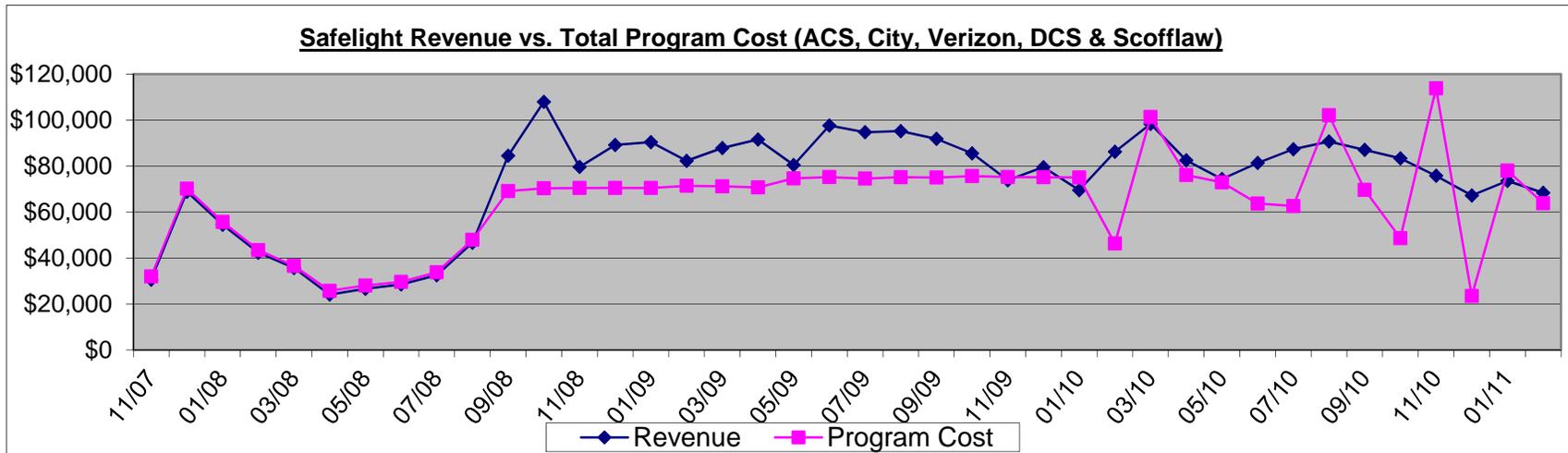
Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
7 (Obj.1)	There was no Statement of Auditing Standards No. 70 (SAS No. 70) audit obtained from ACS or its third parties by the City during the audit period. SAS No. 70 was a widely used compliance audit for assessing the internal control framework on service organizations that provide critical outsourcing activities for other entities. As of June 2011, SAS-70 is replaced by Statement on Standards for Attestation Engagements #16 (Service Organization Control 2)	Third party SAS No. 70 or SSAE No.16 (SOC-2) audit is obtained and reviewed on a yearly basis to ensure that third parties have appropriate internal controls in place, and certain sensitive personal information are managed in such a way to provide reasonable assurances against fraud, identity theft or other potential damaging acts.	Management did not obtain the SAS No. 70 audit from ACS or its third party vendors.	In the absence of this audit review, the City could not ensure ACS or its third parties have proper internal controls in place.
Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
Management should ensure that they request and review ACS' and its third parties' SSAE-16 (SOC 2) audits on a yearly basis.	Management concurs.	An amendment to the contract with ACS is being written to include a requirement for ACS and its third parties' SSAE-16 (SOC2) audits annually.	In progress	N/A

Appendix 1

Safelight Revenue vs. ACS Payment



Safelight Revenue vs. Total Program Cost (ACS, City, Verizon, DCS & Scofflaw)



Source: City General Ledger & Finance Reconciliation Document