



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



FILE COPY

DARLENE GREEN
Comptroller

Internal Audit Section

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DR. KENNETH M. STONE, CPA
Internal Audit Executive

July 2, 2010

Charles Bryson, Director
Department of Public Safety
1200 Market Street, Room 401
St. Louis, MO 63103-2860

RE: Alarm Registration and False Alarm Management (ARFAM) (Project # 2010-11)

Dear Mr. Bryson:

Enclosed is a report of the special review of the Alarm Registration and False Alarm Management program and contract with APB Services, LLC (contractor) for the period July 1, 2008 through June 30, 2009. The audit objectives were to determine if the contractor and Department of Public Safety (DPS) effectively and efficiently managed risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies, and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Fieldwork was completed on October 27, 2009. Management's responses to the observation and recommendations in the report were received on July 1, 2010, and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, and at the request of the Department of Public Safety.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Respectfully,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive



CITY OF ST. LOUIS

DEPARTMENT OF PUBLIC SAFETY

ALARM REGISTRATION AND FALSE ALARM MANAGEMENT

SPECIAL REVIEW

JULY 1, 2008 THROUGH JUNE 30, 2009

PROJECT #2010-11

DATE ISSUED: JULY 2, 2010

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

Enclosure

cc: Charlene Deeken, Deputy Director, Department of Public Safety
Steve E. Huelskoetter, President / COO, APB Services, LLC

CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC SAFETY
ALARM REGISTRATION AND FALSE ALARM MANAGEMENT (ARFAM)
SPECIAL REVIEW
JULY 1, 2008 THROUGH JUNE 30, 2009

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a special review of the Alarm Registration and False Alarm Management (ARFAM) program. The purpose was to determine if the contractor and Department of Public Safety (DPS) effectively and efficiently managed risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, and contractual obligations
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

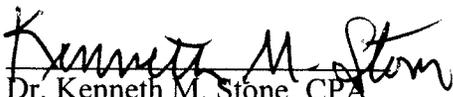
Conclusion

The opportunity exists for the contractor and DPS to improve controls over the program's operational and fiscal activities and comply with contractual obligations. The following is the observation resulting from the review:

1. Opportunity to improve collection procedures

This observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and at the request of the Department of Public Safety.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive

7/12/10
Date

CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC SAFETY
ALARM REGISTRATION AND FALSE ALARM MANAGEMENT (ARFAM)
SPECIAL REVIEW
JULY 1, 2008 THROUGH JUNE 30, 2009

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INTRODUCTION

Background

City Ordinance #66264, enacted May 6, 2004, requires burglar alarms in the City to be registered and sets fees for false alarm violations. The ordinance assigns the Department of Public Safety (DPS) the responsibility for implementing its provisions.

DPS awarded APB Services, LLC (contractor) a five year contract to manage the Alarm Registration and False Alarm Management (ARFAM) program. The contractor is allowed to retain 32.5% of fees collected from burglar alarm receipts plus a fixed amount of \$100,000 per annum for development costs. During the year ended June 30, 2009, the City received \$720,521 in net fees. The contractor received \$446,917, including the development costs.

Purpose

The purpose was to determine if the contractor and DPS effectively and efficiently managed risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, and contract obligations
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Scope and Methodology

The review was confined to evaluating the internal controls over the operational and fiscal activities of the ARFAM program during the period July 1, 2008 through June 30, 2009. The audit procedures included inquiries of management and staff, observations of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws, regulations and contractual obligations. Limited tests of controls and reviews for accuracy of reported revenues, and other procedures as considered necessary were performed. The fieldwork was completed on October 27, 2009.

Exit Conference

The DPS management's response indicated an exit conference is not necessary.

Management's Responses

Management's responses to the observation and recommendations noted in this report were received on July 1, 2010 and have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

There were no prior audits performed by IAS on the ARFAM program. IAS noted the following observations in the State Auditor's report issued November 2009. The status of those observations is as follows:

1. Adequately and effectively monitor the operations of the burglar alarm contractor - **Resolved**
2. Perform an analysis to determine the most cost effective method for managing burglar alarm fees and consider whether to manage or contract for this service - **Resolved**

Summary of Current Observations

Opportunities exist for the DPS and the contractor to improve controls over the program's operational and fiscal activities and comply with the contract terms. The following is the observation resulting from the review:

1. Opportunity to improve collection procedures

This observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Opportunity To Improve Collection Procedures

Based on discussions with the contractor and DPS, there were no procedures in place to collect delinquent false alarm service fines and alarm registration fees.

As of June 30, 2009, total accounts receivable per the aging report were \$221,657, which included \$500 in unpaid registration fees. The account balances ranged from \$25 to \$2,025, with some balances dating back to 2005. Accounts delinquent 31 days or more were \$187,452, or 85% of total receivables.

The contractor's annual report for June 30, 2009, indicated billed and collected fines were \$305,305 and \$262,913, respectively. Based on the current and prior year's reports, uncollected fines averaged 15% of amounts billed, thus increasing the risk of uncollectibles and the City's accounts receivable balance.

Notices were sent by the contractor to the subscribers with delinquent accounts. Ninety-nine percent of the delinquent accounts were suspended or inactive permits. The delinquent accounts were not referred to the City Counselor's Office for collection. The contract required that delinquent reports be generated, but it did not require this information to be reported to DPS.

In addition, amounts unpaid due to bad checks were reported at \$758 as of June 30, 2009. Based on the contractor's report, it appears the contractor did not charge fees for returned or cancelled checks and the accounts were not referred to the City Counselor's Office for collection.

Chapter 3.02.060 of the Revised City Code (Ordinance # 62785) authorized the City to charge \$25 for a bad or returned check. This fee is necessary because it costs the City additional money and time to recover payments. In addition, Article 1, Section C-7 and Section C-32 (m) of the contract requires that the contractor provide a system for billing customers for bad check fees and charges for stop payments. Section C-32 (l) of the contract requires the contractor to provide this information to the City for resolution by the City Counselor's Office.

Establishing collection procedures for delinquent false alarm service fines and registration fees will help to improve collections and adhere to legal requirements. Failure to improve collection procedures and establish standards for delinquent accounts may send a signal of non-commitment to other taxpayers; encourage delinquencies; and may result in loss revenues to the City and add additional costs and time to recover payments.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Continued...

Recommendations

IAS recommends that DPS:

- Require the contractor to submit periodically accounts receivable and aging reports to DPS for review
- Require the contractor to submit periodic reports of all delinquent accounts and returned checks to DPS for review
- Establish a standard procedure in which delinquent accounts (i.e., >90 days and over \$25) be referred to the City Counselor's Office for collection
- Implement the service fee of \$25 on returned and stopped payment checks. This process may also include processing the checks at least twice through the bank

Management's Responses

The Department of Public Safety agrees that the contractor should provide periodic reports on all delinquent accounts, aged accounts receivable and returned checks to our department for potential investigation and referral to the City counselor's Office. We will establish a procedure for delinquent accounts to be referred to the City Counselor's Office. We also agree to implement the service fee on returned checks and stopped payment checks.



FRANCIS G. SLAY
MAYOR

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DEPARTMENT OF PUBLIC SAFETY
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July 8, 2010



CHARLES BRYSON
DIRECTOR

Dr. Kenneth Stone, CPA
Internal Audit Executive
Office of the Comptroller
1114 Market Street, Room 642
Carnahan Courthouse
St. Louis, MO 63101

RE: Alarm Registration and False Alarm
Management

Dear Dr. Stone:

I have reviewed the audit report and I do not believe an exit conference is necessary.

With regard to the current observation and recommendations, management response is as follows:

The Department of Public Safety agrees that the contractor should provide periodic reports on all delinquent accounts, aged accounts receivable and returned checks to our department for potential investigation and referral to the City Counselor's Office. We will establish a procedure for delinquent accounts to be referred to the City Counselor's Office. We also agree to implement the service fee on returned checks and stopped payment checks.

Thank you for your assistance with this audit. We appreciate your input and value your insights. Let me know if you need anything else.

Sincerely,

A handwritten signature in black ink that reads "Charlene Deeken".

Charlene Deeken
Deputy Director of Public Safety

