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Office of the City Auditor

Audit Report

**AUDIT OF SERVICE CONTRACT
MONITORING CONTROLS**
(Report No. A08-026)

September 26, 2008

City Auditor

Craig D. Kinton

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Executive Summary

The City of Dallas follows Administrative Directive 4-5, *Contracting Policy*; however, the City does not have uniform contract monitoring guidance to assist departments responsible for managing and monitoring contracts. Additionally, the four departments included in this audit generally did not have formal documented contract monitoring procedures. As a result, the effectiveness of contract monitoring varied both among and within the departments reviewed.

While each department designated monitoring personnel, an important contract monitoring control, the absence of uniform guidance and documented procedures contributed to inconsistent:

- Clarity in contract terms
- Documentation of contract monitoring procedures, including contract extensions

Although there are opportunities to improve contract monitoring guidance, with the exception of the Parking Management Services Contract, in which Contract Year 2 Penalty 1 revenue did not appear reasonable, nothing came to our attention to indicate that the City did not receive the appropriate amount of revenue as specified in each of the contracts included in this review.

Contract Monitoring

Monitoring the performance of the contractor is a key function of proper contract administration. The purpose is to ensure that the contractor is performing all duties in accordance with the contract and for the agency to be aware of and address any developing problems or issues.

Source: *State of Texas Contract Management Guide*

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This audit included a review of five contracts managed by four departments as follows:

Table 1

Contract Highlights				
Department	Contracted Services	Contractor	Contract Period	Anticipated Revenue at Contract Initiation
Public Works and Transportation (PWT)	Parking Management	ACS State and Local Solutions, Inc.	07/01/2005 to 6/30/2015	\$5,900,000 (Minimum Annual Guarantee)
	Red Light Camera	ACS State and Local Solutions, Inc.	01/01/2007 to 12/31/2012	\$14,486,286 (Budgeted for FY2006-2007)
Development Services (DEV)	Kiosks Advertising	CBS Outdoors Group, Inc.	20 year Primary Term Starts at the Commencement Date	\$21,325,000 (Estimate for contract term)
Business Development and Procurement Services (BDPS)	Auctioneer	Lone Star Auctioneers, Inc.	11/01/2003 to 10/30/2006	\$4,706,104 (Annual estimate)
			5 years beginning on an unspecified commencement date (Execution Date 3/12/2007)	\$4,318,588 (Annual Estimate)
Court and Detention Services (CTS)	Collection	Linebarger, Goggan, Blair, and Sampson, LLP	4/01/2002 to 3/31/2007 ¹	\$5,470,512 (Annual Estimate)
			4/1/2007 to 7/31/2012	\$48,001,923 (Minimum guarantee for contract term)

¹ Linebarger, Goggan, Blair, Pena, and Sampson, LLP was the contractor during this period.

Summary of Recommendations

We recommend that PWT, DEV, BDPS, and CTS improve contract monitoring procedures by:

- Working with the City Attorney's Office and City management to develop uniform contract monitoring guidelines
- Documenting formal contract monitoring procedures and following those procedures to ensure that revenues are periodically reconciled to deposits, that the review of contractor support for revenue and expense eligibility is thorough and timely, and that extended contracts are properly documented

We also recommend the Director of PWT:

- Work with ACS State and Local Solutions, Inc. to identify the cause(s) of the decrease in Penalty 1 revenue and determine whether the revenues have been recorded and reported accurately

In addition, we recommend that PWT, DEV, BDPS, and CTS address the contract monitoring issues specific to each contract as noted in this report.

Summary of Management's Response

The Directors of PWT, DEV, BDPS, and CTS prepared the responses applicable to each of the recommendations identified in this report. They agreed with eight recommendations and partially agreed with three recommendations. The complete responses are included as Appendix III to this report.

Summary of Objective, Scope and Methodology

Our audit objective was to determine whether the service contracts were effectively monitored. The audit scope included a review of contract related issues and transactions between January 1, 2005 and May, 31, 2007.

To accomplish the audit objective, the following procedures were performed:

- Reviewed the contracts and related documents
- Developed a contract risk assessment
- Developed a questionnaire based upon the contract terms and the risk assessment
- Interviewed management personnel
- Reviewed and tested selected monitoring controls
- Reviewed and tested whether the City had been paid in accordance with the contracts for the selected periods

Audit Results

Overall Conclusion

The City of Dallas does not have uniform contract monitoring guidance to assist departments responsible for managing and monitoring contracts. Additionally, the four departments included in this audit generally did not have formal documented contract monitoring procedures. As a result, the effectiveness of contract monitoring varied both among and within the departments reviewed.

With the exception of the Parking Management Services Contract, in which Contract Year 2 Penalty 1 revenue did not appear reasonable, nothing came to our attention to indicate that the City did not receive the appropriate amount of revenue specified in each contract.

Section 1: Overall contract monitoring

Departments do not have formal documented monitoring procedures

The four departments, Public Works and Transportation (PWT), Development Services (DEV), Business Development and Procurement Services (BDPS), and Court and Detention Services (CTS), responsible for monitoring the five contracts reviewed generally did not have formal documented monitoring procedures. During the course of this audit, CTS began to draft monitoring procedures for the second Collection Service Contract. Formal documented monitoring procedures guide the monitoring process and help ensure that the key contract requirements are identified, the monitoring procedures are appropriate for the contract's complexity, and that the departments are routinely conducting the monitoring procedures necessary to determine that the contractor complied with key contract requirements. Without formal contract monitoring procedures, City departments cannot ensure that the contractor is performing all duties in accordance with the contract and that the departments are aware of and addressing any developing problems or issues.

Departments have designated monitoring personnel

All four departments had designated monitoring personnel. Assigning designated monitoring personnel is an important contract monitoring control because it establishes the scope of authority, provides clear lines of communication and reporting, and specifies the individuals who will interact directly with the contractor.

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Contract extension procedures are not specific and departments do not consistently document extensions

The City does not have specific procedures for a department to follow when contracts are extended. Two of the five contracts reviewed included provisions allowing the department director to extend the original contract end dates. The City Attorney's Office encourages departments to follow certain formal procedures, such as obtaining written extension agreements and issuing Administrative Actions when contracts are extended. Departmental practice for contract extensions and the associated documentation varied between the contracts reviewed.

Table 2 on the following page provides additional detail on the contract monitoring review results for the five contracts.

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Table 2

Contract Monitoring Review Results					
	Public Works and Transportation	Development Services ¹	Business Development and Procurement Services	Court and Detention Services ¹	
Contracts:	Parking Services	Red Light Camera	Kiosks	Lone Star Auctioneer	Collection Services
<u>Monitoring Procedures</u>					
Clearly written contract terms	No	Yes	No	Yes	No ⁵
Formal documented monitoring procedures	No	No	No	No	No
Designated monitoring personnel	Yes	Yes	Yes	Yes	Yes
Periodic revenue reconciliation to deposits	Yes	Yes	N/A	Yes	Yes ⁶
Review of contractor support for the following:					
- Accuracy	Yes	Yes	N/A ²	Yes	No ⁷
- Calculations verified	Yes	Yes	N/A	Yes	Yes
- Completeness	Yes	Yes	N/A	No	No ⁷
- Expense eligibility	Yes	Yes	N/A ³	N/A ³	N/A ³
- Timeliness	Yes	Yes	No	Yes	Yes
Periodic field visits	Yes	Yes	No	Yes	No ⁸
Monitoring contracts to execute new contracts timely or formally extend existing contracts	Yes	N/A ⁴	N/A ⁴	Yes	Yes

1. DEV and CTS stated that they conducted certain monitoring procedures noted in Table 2 above; however, no documentation of the monitoring procedures was provided for audit verification purposes.
2. The Kiosks contract was not in the Primary Term so revenue provisions were not yet in effect. As a result, the review of contractor support was considered not applicable (N/A) for the audit tests.
3. These contracts do not have provisions that allow reimbursement for contractor expenses.
4. The Kiosks and Red Light Camera contracts were new; therefore, the departments' procedures for monitoring contract renewals were not reviewed.
5. Contract changes affected CTS monitoring capabilities because contract performance criteria were deleted due to the City's Fine Amnesty Program.
6. Although CTS conducts reviews of daily deposits; monthly reconciliations of the contractor's billing statements to the collection detail is not performed.
7. CTS's review of contractor support for accuracy and completion was considered inadequate because CTS did not perform monthly reconciliations of the contractor's billing statements to the collection detail.
8. After attending a conference in Austin, Texas, CTS personnel visited the contractor's San Antonio operations site; however, no documentation of the purpose or results of the visit were available for audit verification purposes.

Recommendation:

We recommend that PWT, DEV, BDPS, and CTS improve contract monitoring procedures by:

- Working with the City Attorney's Office and City management to develop uniform contract monitoring guidelines
- Documenting formal contract monitoring procedures and following those procedures to ensure that revenues are periodically reconciled to deposits, that the review of contractor support for revenue and expense eligibility is thorough and timely, and that extended contracts are properly documented

Management's Response:

Public Works and Transportation

Agrees. PWT agrees with the first recommendation and will work with the City Attorney's Office (CAO) and City management to develop monitoring guidelines that are uniformed with other departments for the current two contracts.

Although PWT currently has measures in place to monitor and ensure current revenue reporting through multiple revenue and performance reports, PWT will work with the CAO to develop and document additional contract monitoring procedures and document them in a Contract Management Manual.

PWT is already monitoring contract end dates and has plans to renegotiate contracts prior to their expiration. The Red Light Camera Enforcement Contract is scheduled for its first contract renewal December 2013. Prior to the audit process, plans were already in place to begin the renewal process in December 2012. The Parking Management Services Contract is scheduled for its first contract renewal under the same management team in May 2010. Prior to the audit process, plans were already in place to begin renegotiation efforts in May 2009. To prevent a lapse in contract, PWT included a clause in the current parking contract that would allow for an additional one-year contract extension if renegotiation efforts are delayed. According to Table 1 in the audit report titled "Contract Monitoring Review Results," PWT is already monitoring contract end dates.

Implementation Date: PWT estimates a nine month time period to formally develop uniform contract monitoring guidelines and procedures for the Parking and SafeLight programs. PWT will work with CAO and City management to develop and document the procedures into a Contract Management Manual. Implementation would begin immediately thereafter.

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Responsible Managers: Zena Ayala-Fernino, Division Manager, SafeLight/Parking Management; Paul Curington, Program Manager, Parking Enforcement; Sylvia Littleton, Program Manager, SafeLight Enforcement

Development Services

Agrees. DEV will work with others who have successful contract monitoring guidelines in place and will develop monitoring procedures that will allow us to accurately record and reconcile revenues and ensure that contract requirements are being met.

Implementation Date: October 1, 2008

Responsible Managers: Bonnie Meeder, Interim Assistant Director, Real Estate Division; David Cossum, Assistant Director, Current Planning Division; Peer Chacko, Assistant Director, Long-Range Planning Division

Business Development and Procurement Services

Partially Agrees. BDPS follows the Administrative Directive (AD) 4-5 to ensure compliance with contract management procedures. AD 4-5 is the document which details specific guidelines for contract administration and is available to all departments. BDPS collaborates with the City Attorney's Office to ensure the AD 4-5 is revised as procurement and contracting laws change. The AD 4-5 revision process includes a review by all department Directors. BDPS will collaborate with Directors who have contracting and non-contracting authority to ensure their familiarity with contracting guidelines as specified in AD 4-5.

Contract monitoring is conducted according to the requirements set forth in the specifications which are incorporated as part of the formal contract. In all contracts, the specifications are the governing document which dictates the specific performance and deliverables specified for each respective contract.

Although BDPS relies on the specifications of the contract to administer deliverables, vendor performance, and compliance with the terms and conditions set forth, BDPS does not have a detailed instructional document which details the day-to-day administration of contracts. BDPS will collaborate with departments to establish a document which will enhance and standardize the day-to-day contract management activities of each contracting department.

Although BDPS was not found to be in violation of any revenue reconciliation or depositing policies, BDPS will work with department Directors to ensure documentation is in place for contract administrators.

Implementation Date: December 20, 2008

Responsible Manager: BDPS Assistant Director

In response to the draft finding on page 23 which indicates "Inventory controls do not ensure accountability over all auction items", BDPS will work with departments to ensure proper documentation is generated when changes are made to an inventory list which has officially been submitted to BPDS for auction purposes.

Court and Detention Services

Agrees. CTS concurs with working with the City Attorney's Office and City management to develop uniform contract monitoring guidelines.

CTS will update contract monitoring requirements for the new delinquent collections contract to align contract review and documentation requirements with the City Auditor's Office recommendations. This will include the following:

- Continue daily reconciliation of cash deposits and posting collections to appropriate revenue sources and balance sheet accounts.
- CTS will implement procedures to improve recordkeeping of all written and verbal corrections and adjustments and to fully annotate changes on hard copies of internal monthly reports and spreadsheet files to reflect the results of research into discrepancies reflected on Linebarger commission billing, such as returned checks, recalled cases, and citizen disputes. CTS will also request Linebarger to expand documentation on existing reconciliation spreadsheet for commission billing.
- Continue to maintain daily communication with Linebarger on citation payment and placement issues and citizen disputes in response to Linebarger collection letters, including the amount due.
- Continue to monitor and report compliance with new minimum annual revenue guarantee (MAG) requirements for fine and fee collections and minimum case placement requirements. CTS developed reports that clearly detail fines and fees collected monthly by citation whether the case was paid in full or in part to clearly document MAG compliance. The contract provides for an annual review of MAG collections to be administered by the City Controller to confirm annual MAG collection targets are met. The annual review for the first year of the MAG, for the period ending July 31, 2008, is currently in process. Procedures for monitoring the new contract will be amended, as needed, based on the independent review, City Auditor, and future CTS reporting and analysis requirements.

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Implementation Date: October 1, 2008

Responsible Manager: Ruby Smith, Business Manager

Section 2: Public Works and Transportation

The Department of Public Works and Transportation (PWT) manages and monitors the Parking Management Services Contract and the Red Light Camera Enforcement Contracts. PWT does not have formal documented monitoring procedures for either contract. In addition, the lack of clarity in certain Parking Management Services contract terms contributed to the two issues discussed below.

Parking Management Services

Purpose – To provide the overall parking ticket administrative services and operation of parking meter services

Red Light Camera Enforcement

Purpose – To improve public safety by increasing enforcement of red light laws

Contractor – ACS State and Local Solutions for both contracts

Parking Management Services Contract

PWT does not monitor parking citation revenue reasonableness and Penalty 1 revenue decreases raise questions

**City Code
Section 28-130.9**

Penalty 1 – increases the fine by the fine amount when the vehicle owner / agent fails to pay or answer the charge within 15 calendar days from the date of the parking citation.

**City Ordinance
No. 26309**

Boot fee - increased from \$55 to \$100

Penalty 2 – added a \$20 penalty for accounts with fines, fees, and penalties remaining unpaid after 31 days.

PWT reviews ACS State and Local Solutions, Inc. (ACS) reported parking citation revenue details; however, PWT does not have a methodology to monitor revenue reasonableness. Parking revenue can fluctuate due to overall collection rates and penalty waivers granted during the adjudication process; however, PWT does not determine if these fluctuations are reasonable. When revenue reasonableness is not routinely monitored, the City cannot be sure that it receives the appropriate revenue amount or that revenue reporting discrepancies are resolved timely.

In Contract Year 2, after the City increased the boot fee and added an additional \$20 penalty (Penalty 2) for overdue accounts, gross revenues declined by 1.56 percent. Although this overall decline does not appear significant, when the revenue categories are analyzed in more detail the decline in Penalty 1 revenue raises questions that the information provided by ACS did not answer.

In Contract Year 2, ACS reported a 6.76 percent decrease in revenue from Fines Paid and a **28.51 percent decrease in Penalty 1 revenue**. As anticipated, ACS

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reported a significant increase in revenue for Penalty 2 and fees as a result of the City Council's actions to increase the boot fee and add a \$20 late penalty.

Further analysis showed that ACS collected 9,000 (5.77 percent) fewer tickets in Contract Year 2; however, the decrease in the number of tickets collected does not explain the **28.51 percent** decrease in Penalty 1 revenue. Penalty waivers granted through the adjudication process reduce Penalty 1 revenue; however, no explanation was given as to why penalty waivers would increase so significantly in Contract Year 2.

Recommendation:

We recommend the Director of PWT:

- Work with ACS to identify the cause(s) of the decrease in Penalty 1 revenue and determine whether the revenues have been recorded and reported accurately
- Implement adequate monitoring procedure(s) to ensure contract revenues reported by the contractor are reasonable and variances are justifiable. These procedures should be documented for future review and reference.

Management's Response:

Partially Agrees. The audit report shows a concern at the decrease of revenue from Penalty 1 in Contract Year 2 versus Contract Year 1. It is not unreasonable that Penalty 1 revenues would decrease significantly between the two contract years. The likely reasons are:

1. There was a significant effort in the first contract year to collect tickets that were issued between 1995 and 2005. All of these tickets would have been assessed the Penalty 1 – supporting data is being developed.
2. There was an increase in payments made within the first 15 days from citation issuance between the first and second contract years – preliminary data indicates that there was a seven percent increase.
3. There was an increase in Penalty 1 dismissals through the Administrative Adjudication process between the first and second contract years – preliminary data indicates that there was an 11 percent increase.

These reasons were identified during the audit process. PWT will work with ACS to provide the necessary documentation to explain the reduction in Penalty 1 collections.

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PWT agrees that fluctuations occur in the collections of different revenue categories. Although PWT disagrees with the auditor's report that these fluctuations are not monitored, PWT will work with City Attorney's Office (CAO) to establish and document specific monitoring procedures to identify fluctuations and assess their reasonableness. These monitoring procedures will be included in the Contract Management Manual.

PWT currently monitors monthly performance, trends and fluctuations to identify and address issues related to revenue collections and service levels. The following are examples of reports that are reviewed:

- Citation Issuance and Citation Processing
- Collection Percentage Rate
- Noticing Effectiveness
- Credit Bureau Reporting
- Call Center Effectiveness
- Citation Revenue Collections
- Meter Revenue Collections
- Permit Issuance and Revenue Collections
- Meter Repair Report
- Meters Collected Report
- Effectiveness in Addressing Issues
- Aged Receivables
- Expenses
- Refunds Report

Implementation Date: PWT estimates a nine month time period to formally document contract monitoring guidelines for the Parking Program. PWT will work with CAO to develop the procedure manual and implementation should begin immediately thereafter.

Responsible Managers: Zena Ayala-Fernino, Division Manager, SafeLight/Parking Management; Paul Curington, Program Manager, Parking Enforcement

Auditor's Follow-Up Comment

PWT does not have a methodology to monitor revenue reasonableness for the Parking Management Contract with ACS. Penalty 1 revenue declined **\$321,389** or **28.51 percent** between Contract Year 1 and Contract Year 2. During this same time period, total tickets collected declined 5.77 percent. A 5.77 percent decline in revenue between Contract Year 1 and Contract Year 2 would have been **\$65,045**. PWT did not demonstrate or provide documentation to show that PWT monitoring procedures identified, analyzed or investigated why a \$321,389 decline occurred.

The City Auditor's Office recommends that PWT continue working with ACS and

analyzing the “preliminary data” to determine the reason Penalty 1 revenue decreased by **28.51 percent**. The City Auditor’s Office also recommends that PWT incorporate this type of analysis into its contract monitoring procedures for all revenue categories.

Minimum Annual Guarantee was based upon unattainable ticket issuance projections and contractor collection efforts were not specified

The City is unlikely to ever receive the original \$5,900,000 Minimum Annual Guarantee (MAG) (Tier 1 revenue) because the annual contract revenue guarantees were based upon an unattainable ticket issuance projection of meeting or exceeding 198,000 tickets. When this projection is not met, the MAG is reduced and the other revenue tiers are adjusted accordingly.

In addition, the contractual revenue provisions between the City and the contractor do not ensure that the relationship between ticket issuance on the part of the City and collection efforts on the part of the contractor correspond. Therefore, the City is penalized when it does not meet the original 198,000 annual ticket issuance projection. ACS is not penalized when ticket collections decrease because ACS receives a minimum fixed amount of \$2,500,000 for its services (Tier 2). The contract also established additional revenue sharing between the City and ACS; however, ACS’s performance is based upon the value of the tickets collected not the number of tickets collected. As a result, if the City increases fines and penalties ACS can increase revenue even when its overall collection efforts are decreasing.

Original Revenue Schedule

- 1st Tier** – \$0 – 5,900,000 (MAG)
(100% to the City)
- 2nd Tier** – \$5,900,000 - 8,400,000
(100% to ACS)
- 3rd Tier** – \$8,400,001 - 9,900,000
(80.5% to City, 19.5% to ACS)
- 4th Tier** – \$9,900,001 - \$11,150,000
(84.5% to City, 15.5% to ACS)
- 5th Tier** – \$11,150,001 – greater
(88.5% to City, 11.5% to ACS)

For example, in Contract Year 2 the City issued 1,422 more tickets than it did in Contract Year 1; however, the City’s penalty for not issuing the required 198,000 tickets increased from \$525,859 to \$576,237 resulting in a 4.016 percent decline in the City’s revenue. In contrast, ACS collected 9,000 fewer tickets (5.77 percent) in Contract Year 2, but its overall revenue increased by \$123,543 – a 4.56 percent increase.

Contractual revenue sharing provisions that ensure that the MAG is based on reasonable performance projections and that both the City’s and the contractor’s performance expectations are well defined and measurable help to ensure that the contract objectives are achieved more equitably through the efforts of both parties to the contract.

Recommendation:

We recommend the Director of PWT work with the City Attorney's Office and ACS to establish an ACS ticket collection performance measure and to require ACS to provide the information needed to evaluate its collection efforts.

Management's Response:

Partially Agrees. PWT agrees with the City Auditor that the City is unlikely to receive the original \$5.9 million annual revenue guarantee based on an unattainable ticket issuance projection of 198,000 tickets. However, this ticket issuance projection was based on sound PWT records that were founded on the five years annual average of 209,000, this along with the addition of a parking enforcement officer that was added in FY 2004-05.

The primary reason that the ticket projection has not been met was due to a change in Police Department priorities in late 2005 that led to a reduction in DPD-written parking tickets from about 32,000 to 12,500 annually.

The audit report also misstates the contract provisions to penalize the City when ticket issuance does not meet the 198,000 goal, while ACS is not penalized if ticket collections decrease. PWT disagrees with this finding. The contract is set up such that the City's guarantee is paid first, followed by ACS \$2.5 million service fee and, thereafter, the City and ACS share any additional revenues. If ACS were to perform poorly, it would affect their payment while the City would still get its revenue guarantee. ACS performance is based on (1) their collection methods and service levels as identified in the City's RFCSP and Proposal which were both made a part of the contract; and, (2) the incentive to build revenues into the range where they and the City share the additional revenue.

The ticket collection performance measure suggested in the findings is included in the contract as the total revenue collected with the level of success being indicated by the amount of shared revenue available at the end of the year.

Implementation Date: Not applicable

Responsible Managers: Zena Ayala-Fernino, Division Manager, SafeLight / Parking Management; Paul Curington, Program Manager, Parking Enforcement

Auditor's Follow-Up Comment

The City Auditor's Office disagrees that the report misstates the contract provisions.

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The report states that the contractual provisions between the City and the contractor do not ensure that the relationship between ticket issuance on the part of the City and collection efforts on the part of the contractor correspond.

The City Auditor's Office agrees that the contract provides a revenue sharing schedule between the City and ACS; however, the contract does not provide a method to measure ACS's actual ticket collection efforts because ACS's performance is based upon **the value of the tickets collected** not the number of tickets collected. As noted in the report, when the City increases fines and penalties ACS can increase revenue even when its overall ticket collection efforts are decreasing.

Red Light Camera Enforcement Contract

Preliminary contract monitoring appears reasonable, but procedures are not formally documented

PWT's preliminary contract monitoring appears reasonable; however, PWT does not have formal documented contract monitoring procedures. At the time of the audit, the contract had only been effective for four months. Therefore, there was limited contract monitoring information to review. PWT, however, reconciles revenue and expenses to verify that the contract revenue received is accurate and that service charges claimed by the contractor are eligible expenses. PWT also indicated that periodic reports are reviewed to determine that the contractor is meeting performance requirements, such as meeting minimum collections and responding to service requests timely.

Formal documented monitoring procedures guide the monitoring process and help ensure that:

- key contract requirements are identified
- monitoring procedures are appropriate for the contract's complexity
- the department is routinely conducting the monitoring procedures necessary to determine that the contractor complied with key contract requirements

Without formal contract monitoring procedures PWT cannot adequately ensure that the contractor is performing all duties in accordance with the contract and that the department is aware of and addressing any developing problems or issues.

Recommendation:

We recommend the Director of PWT develop and document contract monitoring

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procedures to oversee the revenue, contractor's performance, and other contractual provisions required in the Red Light Camera Enforcement Program Contract.

Management's Response

Agrees. According to the audit report, the current monitoring procedures appear reasonable, but not formally documented. PWT will work with the CAO to document the necessary procedures and to implement them into a Contract Management Manual.

Implementation Date: PWT estimates a nine month time period to formally document contract monitoring guidelines for the Red Light Camera Enforcement Contract. PWT will work with the CAO to develop the procedure manual and implementation would begin immediately thereafter.

Responsible Managers: Zena Ayala-Fernino, Division Manager, SafeLight / Parking Management; Sylvia Littleton, Program Manager, SafeLight Enforcement

Section 3: Development Services

The Department of Development Services (DEV) manages and monitors the Kiosks Contract. DEV does not have formal documented monitoring procedures. In addition, the contractor controlled the timing of key contract revenue provisions. DEV's kiosk tracking system did not include information needed to determine when payments from CBS were due and DEV used an informal process to approve the type or concept of advertising copy displayed on the kiosks.

Kiosks Contract

Purpose – The purpose of the contract is to receive revenue for the sale of advertising on kiosks located within the City's public right-of-way

Contractor – CBS Outdoor, Inc.

Kiosks Advertising Contract

The contractor controls the kiosk contract revenue provisions

Key Contract Provisions

The City's MAG for the twenty-year contract is \$21,325,000 which is based upon the installation of 300 advertising faces.

Interim Term – Begins on the effective date of the contract (January 03, 2006) and continues until the Primary Term begins

Primary Term – Begins when 150 kiosks (300 advertising faces) are installed

The contractor controls when the "Minimum Annual Guarantee" (MAG) requirement and other revenue provisions of the contract begin. The contract does not specify the contractor's financial obligations to the City during the "Interim Term." The City does not receive the MAG or the opportunity for additional revenue until the "Primary Term" begins. (As of June 9, 2008, the Primary Term was still pending).

Even though the contract was effective on January 3, 2006, the contract does not specify a definite date when the Primary Term begins. Instead, the Primary Term begins when 150 kiosks are installed. The contract does not require the contractor to identify and seek approval for a specific number of kiosk locations within a specified period of time after the contract was effective. Therefore, with the exception of the City's approval of the kiosk locations, the contractor controls the pace and progress of the kiosk program.

Without a definite date for the beginning of the Primary Term the City is not assured when the City will receive the value anticipated from the kiosk program. For example, if CBS Outdoor, Inc. (CBS) chooses to delay requests for kiosk approval and the 150 kiosks are not installed for several years, the City is still bound by the contract at a set rate for 20 years after the Primary Term begins. The contract does require CBS to make four advance payments for a total of \$5,000,000. As of

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December, 2007, the City had received one advance payment of \$1,250,000. Two advance payments totaling \$2,500,000 were received in February 2008, and the final advance payment was still pending as of June 9, 2008.

Recommendation:

We recommend the Director DEV work with the City Attorney's Office on future contracts to ensure that contract terms are more specific. More specific contract terms will ensure that the City can determine when it will receive the MAG or opportunities for additional revenue.

Management's Response

Agrees. The DEV agrees they should work with City Attorney's Office on future contracts to ensure that contract terms are more specific. More specific contract terms in the Kiosk Advertising Contract could have allowed the City to be more in control of when the MAG was received and securing opportunities for additional revenue. Currently the contract requires CBS to make four advance payments for a total of \$5,000,000. As of July 2008, the City received a total of \$5,000,000 from CBS for this contract and the primary term became effective.

Implementation Date: October 1, 2008

Responsible Managers: Bonnie Meeder, Interim Assistant Director, Real Estate Division; David Cossum, Assistant Director, Current Planning Division; Peer Chacko, Assistant Director, Long-Range Planning Division

The DEV's kiosk tracking system did not include kiosk installation dates and the current status of approved kiosks

DEV's kiosk tracking system did not include kiosk installation dates and the current status of approved kiosks. Since the advanced payments to the City are based upon the number of approved kiosks and the opportunity to receive additional revenue is dependent upon the installation of 150 kiosks, the omission of this information from the tracking system meant that the City could not determine when CBS payments are due. During the course of the audit, DEV management began implementing a process to require CBS to notify DEV when kiosk installations are completed.

In response to an audit confirmation request, CBS verified that as of December 18, 2007, it had received City approval to install 96 kiosks, 58 kiosks were installed (3 installed kiosks were later removed), and 38 kiosk installations were in-progress. Except for the advanced payments, no revenue has been paid to the City for the installed kiosks since all major payment provisions of the contract were applicable only to the Primary Term (after 150 stands / 300 faces installed). According to the

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contract, the City does not share revenue from advertising sales from the installed kiosks during the Interim Term. As noted above, the Primary Term was pending as of June 9, 2008.

Recommendation:

We recommend the Director of DEV continue implementing a process to require CBS to notify DEV when kiosk installations are completed.

Management's Response

Agrees. DEV concurs that there has not been a formal written tracking system for CBS to notify DEV of when kiosk installations are completed. However, CBS does report when kiosks have been installed and has done so since the contract's inception. Now that the contract has entered into the primary term, CBS will send monthly updated reports that contain kiosk installation dates. DEV will create a tracking system to capture the installation dates.

Implementation Date: September 22, 2008

Responsible Managers: Bonnie Meeder, Interim Assistant Director, Real Estate Division; David Cossum, Assistant Director, Current Planning Division

DEV uses an informal process to determine whether advertising complies with the contract

None of the 16 kiosk files reviewed contained any documentation to demonstrate that DEV reviewed the type or concept of advertising copy as required by the contract. In addition, DEV stated that periodic site visits to verify advertising complies with the contract are not necessary.

According to DEV management, CBS and City staffs have conversations about the type and content of advertising copy, but DEV does not actually review the final advertising copy before it is installed on a kiosk. DEV management stated that staff would only review the final advertising copy when there is a question as to whether the content is in compliance with provisions of the contract.

Contract Section 5.1

"The Development Services Real Estate Assistant Director shall review any type or concept of advertising copy proposed at the kiosk location **before its placement** solely to ensure compliance with the standards set forth in this Article.

If the type or concept of advertising changes at an existing kiosk location, the Development Services Real Estate Assistant Director shall approve any new type or concept of advertising **before its placement** to ensure compliance with the standards set forth in this Article."

**An Audit Report on
Service Contract Monitoring Controls**

Article V, Section 5.8 of the contract has eight specific restrictions on advertising content, such as restricting content that promotes or relates to the following: (1) Any sexually oriented business; (2) Illegal goods, services, or activities; (3) Contains obscenity or other forms of speech or expression that are not protected by the Constitutions of the United States or the State of Texas.

When the type and content of advertising copy is approved by DEV without review, DEV cannot ensure that the advertisement complies with the contract provisions. In addition, unless DEV received a complaint from a citizen, DEV would not be aware that the advertising copy did not comply with the contract terms.

Recommendation:

We recommend the Director of DEV require DEV personnel to follow the contract requirement to review the type or concept of advertising copy before it is installed on a kiosk and ensure that the review is documented.

Management's Response

Agrees. DEV concurs that not all advertising copy is reviewed by City staff prior to installation. CBS forwards copy to seek determination from DEV staff as to whether the proposed copy would be in compliance with the contract if they have a question. We agree that there needs to be a system in place to ensure that all advertising copy is in compliance with the provisions of Article V of the contract prior to installation. Along with implementing a procedure for advance review, DEV will establish a system of documenting that the review has been completed.

Implementation Date: September 22, 2008

Responsible Manager: David Cossum, Assistant Director, Current Planning Division

Section 4: Business Development and Procurement Services

The Department of Business Development and Procurement Services (BDPS) manages and monitors the Auctioneer Services Contract. BDPS does not have formal documented monitoring procedures. In addition, BDPS can improve auction change documentation and inventory controls.

Auctioneer Services Contract

Purpose – The purpose of the contract is to provide professional auctioning services for the disposal of unclaimed and seized vehicles, surplus City property, surplus City-owned vehicles and heavy equipment, and on-line auctioning

Contractor – Lone Star Auctioneer, Inc.

Auctioneer Services Contract

Inventory controls do not ensure accountability over all auction items

BDPS and the Dallas Police Department's (DPD) Auto Pound can improve inventory controls to ensure accountability over all auction items. Without proper inventory controls, the City cannot guarantee that it receives the appropriate amount of revenue from each auction and that unsold items are returned to inventory and are available for sale at subsequent auctions.

Estimated Annual Revenue Lone Star Auctioneer Contract

The City will receive approximately \$4,318,588 in revenue for each year of the five year contract term.

(Estimated revenue of \$4,564,064 less the \$245,476 estimated sales tax and commission to the contractor).

BDPS contract management personnel reconcile the auction bank deposits with supporting information, such as the Invoice Summary Report, the Final Statement - Sold at Auction, and the Sales Tax Report, provided by LSA; however, this supporting information relates only to the items sold. Items that were not sold at the auction or items where the sales transaction was not completed because the winning bidder "walked away" are not included in the reconciliation.

BDPS personnel stated that they rely on the Auto Pound's inventory controls to ensure accountability over all inventory items; however, the Auto Pound does not have a process for adequately tracking the number of items scheduled for an auction, the items that are removed from the original auction "Line-up" list, and the number of items that remain unsold after the auction is completed.

Each Friday, Auto Pound personnel produce an inventory "Line-up" list for the items scheduled for auction on Monday; however, the "Line-up" list generally changes

**An Audit Report on
Service Contract Monitoring Controls**

between Friday and the start of the auction. For example, prior to the auction the owner may claim an item or DPD may convert an item for its use. When changes to the "Line-up" list are necessary, Auto Pound personnel amend the original list by crossing through items or making handwritten notations; however, there is nothing documented to indicate the personnel who made these changes, whether they were authorized to make the changes, or the date of the change.

For three separate auctions, the total number of items sold was one item less than the number of items available for sale after considering voided sales. Specifically:

- Two items were marked as "No Sale", one on the June 5, 2006 and another on the February 5, 2007 auction "Line-up" lists; however, these two items were not shown on reports provided by LSA. According to Auto Pound personnel, the two items were in very poor condition and no purchase offers were made during the auctions. As a result, the Auto Pound destroyed the items; however, Auto Pound could not provide any supporting documentation.
- One item was marked "missing" on the February 20, 2007 auction "Line-up" list. The inventory system showed that this item was released to an individual on January 3, 2007; however, the automated system did not accurately reflect the inventory status change. As a result, the same item was shown as available for sale for the February 20, 2007 auction. Auto Pound personnel did not explain why the inventory status was not accurately reflected in the automated system or how cash was reconciled on January 3, 2007.

Excluding unsold items from the reconciliation process and allowing Auto Pound personnel to make manual adjustments to the auction "Line-up" lists without proper documentation makes it difficult to properly account for all inventory items. In addition, a partial reconciliation process creates opportunities for inventory errors to remain undetected.

Recommendation:

We recommend the Director of BDPS work with:

- LSA and the Auto Pound to properly account for and reconcile all auction inventory items before and after each auction
- Work with DPD Auto Pound and require all manual changes to the auction "Line-up" list be made only by authorized personnel. In addition, manual changes should include the name of the person making the change and the date of the change.

Management's Response

Agrees. The current process consists of DPD submitting a list of inventory items (to be auctioned) to BDPS. BDPS and the contract auctioneer review the list for accuracy before beginning the auction process. BDPS will collaborate with DPD Auto Pound staff to ensure any changes made to the official inventory "Line-Up" list are documented and authorized approval signatures are obtained.

Implementation Date: October 1, 2008

Responsible Manager: BDPS Manager

Section 5: Court and Detention Services

The Department of Court and Detention Services (CTS) manages and monitors the Collection Services Contract. CTS did not have formal documented monitoring procedures for the Collection Contract. During the course of this audit, CTS began to draft monitoring procedures for the second Collection Service Contract.

Collection Service Contract

Purpose - To collect delinquent fines and fees for traffic, City ordinance and state law violations, excluding parking violations

Contractor - Linebarger, Goggan, Blair, Pena and Sampson, LLP

Collection Services Contract

Contract Changes Affected Monitoring Capabilities

Supplemental Agreement No. 1

Contract provisions governing performance monitoring, compensation, and penalties were deleted.

The City's Fine Amnesty Program was effective from August 19, 2002 to September 27, 2002.

CTS did not monitor the initial collection contract appropriately because the contract performance criteria were withdrawn four and one-half months after the five year contract began due to the City's Fine Amnesty Program. As a result, CTS did not have the performance criteria needed to monitor the contractor's performance for the remainder of the 55 month contract term and the City had to completely rely on the contractor's good faith to fulfill the contracted services.

A key factor in the City's evaluation of the bids for the initial collection contract was the bidders' proposed collection rate or performance level. Linebarger, Goggan, Blair, Pena and Sampson, LLP (Linebarger) proposed a 16 percent to 17 percent collection rate. When the contract was awarded to Linebarger, this collection rate was included in the contract. The collection rate was to be used by the City as a minimum performance level so that commissions paid to the contractor could be reduced when the collection rate fell below the performance level for two consecutive months. Actual monthly commissions paid to Linebarger were based on a percentage of the collected amount, as specified in the original contract.

Without contractual performance criteria, CTS did not have the tools needed to hold the contractor accountable and ensure that the City received the best value for the commissions paid to the contractor. The contractor was not required to meet any specified performance levels.

Recommendation:

We recommend the Director of CTS work with the City Attorney's Office to ensure that revised contracts include performance levels so that the department can appropriately monitor the contractors' performance.

Management's Response

Agrees. CTS concurs.

Implementation Date: October 1, 2008

Responsible Manager: Gloria Lopez-Carter, Director

Background, Objective, Scope and Methodology

Background

Four City departments manage and monitor the five service contracts selected for audit.

Public Works and Transportation

Parking Management Services Contract

The Parking Management Services Contract is managed and monitored by the Public Works and Transportation Department (PWT). The Parking Management Services Contract between the City and ACS State and Local Solutions, Inc. (ACS) commenced on July 1, 2005. The contract has a ten-year term with a one-year renewal option.

The purpose of the contract is to provide:

- A Parking Management Information System for ticket processing and ticket collections and its related functions formed together to provide the overall parking ticket administrative services
- Meter Operation that includes meter collection, meter maintenance, meter operations, parking lot maintenance, and parking lot operations and its related functions formed together to provide the overall operation of parking meter services

ACS agrees to collect all gross parking revenues and guarantees the City a Minimum Annual Guarantee (MAG) of \$5,900,000 annually to be paid quarterly. ACS receives 100% for the revenue above \$5,900,000 up to \$8,400,000. The City and ACS will share the revenue that exceeds \$8,400,000. The MAG is reduced if the City does not issue 198,000 tickets.

On April 26, 2006, the City Council passed Ordinance Number 26309 that authorized the boot fee to be increased from \$55 to \$100 and an additional penalty of \$20 for delinquent accounts.

Red Light Camera Enforcement Contract

The Red Light Camera Enforcement Hosted System Contract is managed and monitored by PWT. The Turnkey System Outsourcing Agreement was signed by the

**An Audit Report on
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City and ACS on October 31, 2006 and took effect in January, 2007. The contract has a five-year term with one five-year renewal option.

The purpose of the contract is to improve public safety by increasing enforcement of red light laws. The City currently has 60 cameras installed and 42 are actively monitoring high-risk intersections. The City agreed to pay ACS a \$3,799 monthly fee per camera that includes camera installation services, ongoing maintenance services, telecommunication fees, initial event processing, name and address acquisition, online police review, notice mailing, telephone service, lockbox processing, walk-in service, correspondence imaging, and public relations support. ACS agreed that in no case shall the City pay more to ACS than 90 percent of the actual gross collections from this program less appeal fees. In the event that program revenues are not sufficient to make the full monthly base fee payment due to ACS, the deficit or balance due shall be carried forward to the next month until paid in full.

Development Services

Kiosks Advertising Concession Contract

The Kiosks Advertising Contract is managed and monitored by the Development Services Department (DEV). On August 24, 2005, the City Council approved a contract with Viacom Outdoor Group, Inc. (now CBS Outdoor, Inc.). The contract was signed and became effective on January 03, 2006 and has a twenty-year term. The purpose of the contract is to receive revenue for the sale of advertising on kiosks located within the City's public right-of-way.

The following are key contract definitions that determine the timing of the revenue the City receives from CBS Outdoor, Inc.:

Interim Term – begins on the effective date of the contract (January 03, 2006) and continues until the Primary Term begins.

Primary Term – begins when 150 kiosks (300 advertising faces) are installed and shall continue for a period of twenty (20) years thereafter.

The City should receive a total of \$5,000,000 in advance payments in four installments which are based upon the number of approved kiosks locations. During the Primary Term, the City receives an amount which is the greater of (i) the MAG, or (ii) a Percentage Payment of 37 percent of Concessionaire's Annual Gross Revenues.

Business Development and Procurement Services

Auctioneer Service Contract

The Lone Star Auctioneers, Inc. (LSA) contract is managed and monitored by the Business Development and Procurement Services Department (BDPS). LSA has provided auction services for the City of Dallas since 1995. The current auction services contract has a five-year term and was executed on March 12, 2007. The previous contract had a three-year term which ended on October 31, 2006.

The purpose of the contract is to provide professional auctioning services for the disposal of unclaimed and seized vehicles, surplus City property, surplus City-owned vehicles and heavy equipment, and on-line auctioning. The auctions will provide an opportunity for the general public to bid and items will be sold at a fair and reasonable return to the City. The City receives the sales proceeds and pays LSA commissions as specified in the contract.

Court and Detention Services

Collection Service Contract

The Collection Service Contract is managed and monitored by the Court and Detention Services Department (CTS). On February 27, 2002, the City Council authorized the Contract for Collection Service of Delinquent Fines with Linebarger, Goggan, Blair, Pena and Sampson, LLP (Linebarger). The contract had a five-year term from April 01, 2002 to March 31, 2007.

The purpose of the contract is to collect delinquent fines and fees for traffic, City ordinance and state law violations, excluding parking violations. Linebarger agreed to meet a 16 percent to 17 percent performance collection level on assigned cases with a corresponding commission rate of 30 percent on fines collected. On August 14, 2002, the City Council authorized the Supplemental Agreement No. 1 in response to the City's Fine Amnesty Program that lasted from August 19, 2002 to September 20, 2002. The Supplemental Agreement deleted the contract provisions related to the performance collection level.

The prior Collection Service Contract expired on March 31, 2007. The City's current Collection Service Contract is with Linebarger, Goggan, Blair, and Sampson, LLP. The contract began on August 01, 2007 and will end on July 31, 2012. The current contract has a Minimum Annual Guarantee requirement for each of the five years.

Objective, Scope and Methodology

This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with generally accepted government auditing standards.

The objective of the audit was to determine whether the service contracts were effectively monitored. The audit scope included review of contract related issues and transactions between January 1, 2005 and May, 31, 2007; however, certain other matters, procedures, and transactions occurring outside that period may have been reviewed to understand and verify information related to the audit period.

To accomplish the audit objective, the following procedures were performed:

- Reviewed the contracts and related documents
- Developed a contract risk assessment
- Developed a questionnaire based upon the contract terms and the risk assessment
- Interviewed management personnel
- Reviewed and tested selected monitoring controls
- Reviewed and tested that the City had been paid in accordance with the contracts for the selected periods

Major Contributors to this Report

Carol Smith, CPA, CIA, CFE, Assistant City Auditor
Jing Xiao, CPA, Project Manager
Thandee Kywe, Auditor
Theresa Hampden, CPA, Quality Control Manager

Management's Response

Memorandum

RECEIVED

SEP 05 2008

CITY AUDITOR'S OFFICE



DATE: September 5, 2008

TO: Craig D. Kinton, City Auditor

SUBJECT: Management Response to Audit Report:
Audit of Service Contract Monitoring Controls

Public Works and Transportation (PWT) provides the following responses to the audit report recommendations:

Recommendation:

We recommend that PWT improve contract monitoring procedures by:

- Working with the City Attorney's Office and City Management to develop uniform contract monitoring guidelines
- Documenting formal contract monitoring procedures and following those procedures to ensure that revenues are periodically reconciled to deposits and that the review of contract support for revenue and expense eligibility is thorough and timely
- Monitoring contract end dates and renegotiating contracts before existing contracts expire

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

PWT agrees with the first recommendation and will work with the CAO and City Management to develop monitoring guidelines that are uniformed with other departments for the current two contracts.

Although PWT currently has measures in place to monitor and ensure current revenue reporting through multiple revenue and performance reports, PWT will work with CAO to develop and document additional contract monitoring procedures and document them in a Contract Management Manual.

PWT is already monitoring contract end dates and has plans to renegotiate contracts prior to their expiration. The Red Light Camera Enforcement Contract is scheduled for its first contract renewal December 2013. Prior to the audit process, plans were already in place to begin the renewal process in December 2012. The Parking Management Services Contract is scheduled for its first contract renewal under the same

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Craig D. Kinton, City Auditor
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management team in May 2010. Prior to the audit process, plans were already in place to begin renegotiation efforts in May 2009. To prevent a lapse in contract, PWT included a clause in the current parking contract that would allow for an additional 1-year contract extension if renegotiation efforts are delayed. According to Table 1 in the audit report titled "Contract Monitoring Review Results," PWT is already monitoring contract end dates.

Implementation Date

PWT estimates a nine month time period to formally develop uniform contract monitoring guidelines and procedures for the Parking and SafeLight programs. PWT will work with CAO and City Management to develop and document the procedures into a Contract Management Manual. Implementation would begin immediately thereafter.

Responsible Manager

Zena Ayala-Fernino, Division Manager, SafeLight/Parking Management, 214-948-5337
Paul Curington, Program Manager, Parking Enforcement, 214-948-5348
Sylvia Littleton, Program Manager, SafeLight Enforcement, 214-948-5339.

Recommendation:

We recommend the Director of PWT:

- Work with ACS to identify the cause(s) of the decrease in Penalty 1 revenue and determine whether the revenues have been recorded and reported accurately
- Implement adequate monitoring procedure(s) to ensure contract revenues reported by the contractor are reasonable and variances are justifiable. These procedures should be documented for future review and reference

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

The audit report shows a concern at the decrease of revenue from Penalty 1 in Contract Year 2 versus Contract Year 1. It is not unreasonable that Penalty 1 revenues would decrease significantly between the two contract years. The likely reasons are:

1. There was a significant effort in the first contract year to collect tickets that were issued between 1995 and 2005. All of these tickets would have been assessed the Penalty 1 – supporting data is being developed.
2. There was an increase in payments made within the first 15 days from citation issuance between the first and second contract years – preliminary data indicates that there was a 7% increase.

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3. There was an increase in Penalty 1 dismissals through the Administrative Adjudication process between the first and second contract years – preliminary data indicates that there was an 11% increase.

These reasons were identified during the audit process. PWT will work with ACS to provide the necessary documentation to explain the reduction in Penalty 1 collections.

PWT agrees that fluctuations occur in the collections of different revenue categories. Although PWT disagrees with the auditor's report that these fluctuations are not monitored, PWT will work with CAO to establish and document specific monitoring procedures to identify fluctuations and assess their reasonableness. These monitoring procedures will be included in the Contract Management Manual.

PWT currently monitors monthly performance, trends and fluctuations to identify and address issues related to revenue collections and service levels. The following are examples of reports that are reviewed:

- Citation Issuance and Citation Processing
- Collection Percentage Rate
- Noticing Effectiveness
- Credit Bureau reporting
- Call Center Effectiveness
- Citation Revenue Collections
- Meter Revenue Collections
- Permit Issuance and Revenue Collections
- Meter Repair Report
- Meters Collected Report
- Effectiveness in Addressing Issues
- Aged Receivables
- Expenses
- Refunds Report

Implementation Date

PWT estimates a nine month time period to formally document contract monitoring guidelines for the Parking Program. PWT will work with CAO to develop the procedure manual and implementation should begin immediately thereafter.

Responsible Manager

Zena Ayala-Fernino, Division Manager, SafeLight/Parking Management, 214-948-5337
Paul Curington, Program Manager, Parking Enforcement, 214-948-5348.

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Recommendation:

We recommend the Director of PWT work with the City Attorney's Office and ACS to establish an ACS ticket collection performance measure and to require ACS to provide the information needed to evaluate its collection efforts.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

PWT agrees with the Auditor that the City is unlikely to receive the original \$5.9 million annual revenue guarantee based on an unattainable ticket issuance projection of 198,000 tickets. However, this ticket issuance projection was based on sound PWT records that were founded on the five years annual average of 209,000, this along with the addition of a parking enforcement officer that was added in FY2004-05.

The primary reason that the ticket projection has not been met was due to a change in Police Department priorities in late 2005 that led to a reduction in DPD-written parking tickets from about 32,000 to 12,500 annually.

The audit report also misstates the contract provisions to penalize the City when ticket issuance does not meet the 198,000 goal, while ACS is not penalized if ticket collections decrease. PWT disagrees with this finding. The contract is set up such that the City's guarantee is paid first followed by ACS \$2.5 million service fee and thereafter the City and ACS share any additional revenues. If ACS were to perform poorly, it would affect their payment while the City would still get its revenue guarantee. ACS performance is based on (1) their collection methods and service levels as identified in the City's RFCSP and Proposal which were both made a part of the contract, and (2) the incentive to build revenues into the range where they and the City share the additional revenue.

The ticket collection performance measure suggested in the findings is included in the contract as the total revenue collected with the level of success being indicated by the amount of shared revenue available at the end of the year.

Implementation Date

Not applicable.

Responsible Manager

Zena Ayala-Fernino, Division Manager, SafeLight/Parking Management, 214-948-5337
Paul Curington, Program Manager, Parking Enforcement, 214-948-5348

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Service Contract Monitoring Controls**

Craig D. Kinton, City Auditor
PWT Audit Report
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Recommendation:

We recommend the Director of PWT develop and document contract monitoring procedures to oversee the revenue, contractor's performance, and other contractual provisions required in the Red Light Camera Enforcement Program Contract.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

According to the audit report, the current monitoring procedures appear reasonable but not formally documented. PWT will work with the CAO to document the necessary procedures and to implement them into a Contract Management Manual.

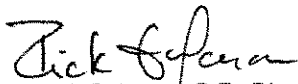
Implementation Date

PWT estimates a nine month time period to formally document contract monitoring guidelines for the Red Light Camera Enforcement Contract. PWT will work with CAO to develop the procedure manual and implementation would begin immediately thereafter.

Responsible Manager

Zena Ayala-Fernino, Division Manager, SafeLight/Parking Management, 214-948-5337
Sylvia Littleton, Program Manager, SafeLight Enforcement, 214-948-5339.

If you have additional questions, please contact me.



Rick Galcerart, P.E., Director
Public Works and Transportation

Attachments

- c: John C. Brunk, P.E., Assistant Director, Public Works and Transportation
- Zena Ayala-Fernino, Division Manager, SafeLight and Parking Management
- Paul Curington, Program Manager, SafeLight and Parking Management
- Sylvia Littleton, Program Manager, SafeLight and Parking Management

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Service Contract Monitoring Controls**

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SEP 19 2008

CITY AUDITOR'S OFFICE



Memorandum

DATE: September 18, 2008
TO: Craig D. Kinton, City Auditor
SUBJECT: Management Response to Audit Report:
Audit of Service Contract Monitoring Controls

Development Services (DEV) provides the following responses to the audit report recommendations:

Recommendation:

We recommend that DEV improve contract monitoring procedures by:

- Working with the City Attorney's Office and City management to develop uniform contract monitoring guidelines
- Documenting formal contract monitoring procedures and following those procedures to ensure that revenues are periodically reconciled to deposits and that the review of contract support for revenue and expense eligibility is thorough and timely

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Development Services will work with others who have successful contract monitoring guidelines in place, and will develop monitoring procedures that will allow us to accurately record and reconcile revenues and ensure that contract requirements are being met.

Implementation Date

October 1, 2008

Responsible Manager

1. Bonnie Meeder, Interim Assistant Director, Real Estate Division
2. David Cossum, Assistant Director, Current Planning Division
3. Peer Chacko, Assistant Director, Long-Range Planning Division

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Recommendation:

We recommend the Director of DEV work with the City Attorney's Office on future contracts to ensure that contract terms are more specific. More specific contract terms will ensure that the City can determine when it will receive the MAG or opportunities for additional revenue.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

We agree that DEV should work with City Attorney's Office on future contracts to ensure that contract terms are more specific. More specific contract terms in the Kiosk Advertising Contract could have allowed the City to be more in control of when the MAG was received, and securing opportunities for additional revenue. Currently the contract requires CBS to make four advance payments for a total of \$5,000,000. As of July 2008, the City received a total of \$5,000,000 from CBS for this contract, and the primary term became effective.

Implementation Date

October 1, 2008

Responsible Manager

1. Bonnie Meeder, Interim Assistant Director, Real Estate Division
2. David Cossum, Assistant Director, Current Planning Division
3. Peer Cossum, Assistant Director, Long-Range Planning Division

Recommendation:

We recommend the Director of DEV continue implementing a process to require CBS to notify DEV when kiosk installations are completed.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

We concur that there has not been a formal written tracking system for CBS to notify DEV of when kiosk installations are completed. However, CBS does report when kiosks have been installed and has done so since the contract's inception. Now that the contract has entered into the primary term, CBS will send monthly updated reports that contain kiosk installation dates. DEV will create a tracking system to capture the installation dates.

Implementation Date

September 22, 2008

Responsible Manager

1. Bonnie Meeder, Interim Assistant Director, Real Estate Division
2. David Cossum, Assistant Director, Current Planning Division

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Recommendation:

We recommend the Director of DEV require DEV personnel to follow the contract requirement to review the type of concept of advertising copy before it is installed on a kiosk and ensure that the review is documented.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Development Services concurs that not all advertising copy is reviewed by city staff prior to installation. CBS forwards copy to seek determination from Development Services staff as to whether the proposed copy would be in compliance with the contract if they have a question. We agree that there needs to be a system in place to ensure that all advertising copy is in compliance with the provisions of Article V of the contract prior to installation. Along with implementing a procedure for advance review, Development Services will establish a system of documenting that the review has been completed.

Implementation Date

September 22, 2008

Responsible Manager

David Cossum, Assistant Director, Current Planning Division



Sincerely,

Theresa O'Donnell
Director of Development Services

C: David Cossum, Assistant Director – Development Services
Bonnie Meeder, Interim Assistant Director – Development Services

**An Audit Report on
Service Contract Monitoring Controls**

Memorandum

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SEP 22 2008



DATE: September 18, 2008

CITY AUDITOR'S OFFICE

TO: Craig D. Kinton, City Auditor

SUBJECT: Management Response to Audit Report:
Audit of Service Contract Monitoring Controls

Business Development and Procurement Services (BDPS) provides the following responses to the audit report recommendations:

Section 1: Page 5, Overall contract monitoring.

Recommendation:

Recommendation:

We recommend that PWT, DEV, BDPS, and CTS improve contract monitoring procedures by:

- Working with the City Attorney's Office and City management to develop uniform contract monitoring guidelines
- Documenting formal contract monitoring procedures and following those procedures to ensure that revenues are periodically reconciled to deposits, that the review of contractor support for revenue and expense eligibility is thorough and timely, and that extended contracts are properly documented

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Recommendation 1; BDPS follows the Administrative Directive 4-5 (AD 4-5) to ensure compliance with contract management procedures. The Administrative Directive 4-5 (AD 4-5) is the document which details specific guidelines for contract administration and is available to all departments. BDPS collaborates with the City Attorney's office to ensure the AD 4-5 is revised as procurement and contracting laws change. The AD 4-5 revision process includes a review by all department Directors. BDPS will collaborate with Directors who have contracting and non-contracting authority to ensure their familiarity with contracting guidelines as specified in AD 4-5.

Contract monitoring is conducted according to the requirements set forth in the specifications which are incorporated as part of the formal contract. In all contracts, the specifications are the governing document which dictates the specific performance and deliverables specified for each respective contract.

Although BDPS relies on the specifications of the contract to administer deliverables, vendor performance, and compliance with the terms and conditions set forth, BDPS does not have a detailed instructional document which details the day-to-day administration of contracts. BDPS will collaborate with departments to establish a

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An Audit Report on Service Contract Monitoring Controls

document which will enhance and standardize the day-to-day contract management activities of each contracting department.

Recommendation 2; Although BDPS was not found to be in violation of any revenue reconciliation or depositing policies, BDPS will work with department Directors to ensure documentation is in place for contract administrators.

Implementation Date

12/20/08

Responsible Manager

BDPS Assistant Director

In response to the draft finding on page 16 which indicates "Inventory controls do not ensure accountability over all auction items". BDPS will work with departments to ensure proper documentation is generated when changes are made to an inventory list which has officially been submitted to BPDS for auction purposes.

Recommendation:

We recommend the Director of BDPS work with:

- LSA and the Auto Pound to properly account for and reconcile all auction inventory items before and after each auction
- Work with DPD Auto Pound and require all manual changes to the auction "Line-up" list be made only by authorized personnel. In addition, manual changes should include the name of the person making the change and the date of the change.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

The current process consists of DPD submitting a list of inventory items (to be auctioned) to BDPS. BDPS and the contract auctioneer review the list for accuracy before beginning the auction process. BDPS will collaborate with DPD Auto Pound staff to ensure any changes made to the official inventory "Line-Up" list are documented and authorized approval signatures are obtained.

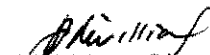
Implementation Date

10/1/08

Responsible Manager

BDPS Manager

Sincerely,



Ade Williams, Director
Business Development and Procurement Services

C: David Cook, Chief Financial Officer

Mike Frosch, Assistant Director, Business Development and Procurement Services

Mario Alvarado, Manager, Business Development and Procurement Services

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**An Audit Report on
Service Contract Monitoring Controls**

Memorandum

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SEP 17 2008



DATE: September 17, 2008

TO: Craig D. Kinton, City Auditor

CITY AUDITOR'S OFFICE

SUBJECT: Revised Management Response to Audit Report:
Audit of Service Contract Monitoring Controls

Court and Detention Services (CTS) provides the following responses to the audit report recommendations:

Recommendation:

We recommend that CTS improve contract monitoring procedures by:

- Working with the City Attorney's Office and City management to develop uniform contract monitoring guidelines
- Documenting formal contract monitoring procedures and following those procedures to ensure that revenues are periodically reconciled to deposits and that the review of contract support for revenue and expense eligibility is thorough and timely

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

- Working with the City Attorney's Office and City management to develop uniform contract monitoring guidelines
 - CTS concurs.
- Documenting formal contract monitoring procedures and following those procedures to ensure that revenues are periodically reconciled to deposits and that the review of contract support for revenue and expense eligibility is thorough and timely
 - CTS concurs. CTS will update contract monitoring requirements for the new delinquent collections contract to align contract review and documentation requirements with City Auditor's Office recommendations. This will include the following:
 - Continue daily reconciliation of cash deposits and posting collections to appropriate revenue sources and balance sheets accounts
 - CTS will implement procedures to improve recordkeeping of all written and verbal corrections and adjustments and to fully annotate changes on hard copies of internal monthly reports and spreadsheet files to reflect the results of research into discrepancies reflected on Linebarger commission billing, such as returned checks, recalled cases, and citizen disputes. CTS will also request Linebarger to expand documentation on existing reconciliation spreadsheet for commission billing.

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An Audit Report on Service Contract Monitoring Controls

Memorandum
September 17, 2008
Page Two

- Continue to maintain daily communication with Linebarger on citation payment and placement issues and citizen disputes in response to Linebarger collection letters, including the amount due.
- Continue to monitor and report compliance with new minimum annual revenue guarantee (MAG) requirements for fine and fee collections and minimum case placement requirements. CTS developed reports that clearly detail fines and fees collected monthly by citation whether the case was paid in full or in part to clearly document MAG compliance. The contract provides for an annual review of MAG collections to be administered by the City Controller to confirm annual MAG collection targets are met. The annual review for the first year of the MAG, for the period ending July 31, 2008, is currently in process. Procedures for monitoring the new contract will be amended, as needed, based on the independent review, City Auditor and future CTS reporting and analysis requirements.

Implementation Date
October 1, 2008

Responsible Manager
Ruby Smith, Business Manager

Recommendation:

We recommend the Director of CTS work with the City Attorney's Office to ensure that revised contracts include performance levels so that the department can appropriately monitor the contractors' performance.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

CTS concurs.

Implementation Date
October 1, 2008

Responsible Manager
Gloria López Carter, Director

Sincerely,



Gloria López Carter, Director
Court and Detention Services

C: Ryan S. Evans, Assistant City Manager

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