



City of Greensboro

Date: May 2, 2003
To: Ed Kitchen, City Manager
From: Internal Audit
Subject: Red Light Ticket Collection Procedures

The Internal Audit Division has audited the Red Light ticket program and its collection procedures. The purpose of the audit was to determine whether the City of Greensboro is receiving its proportional share of revenue as described in its contract with PEEK Inc., and whether the contractor is performing its financial obligations as prescribed by the contract. PEEK Inc., under contract to the City of Greensboro, administered the Red Light ticket program using a subcontractor EDS at the time of our audit. The city has a representative on sight at the local contractor office to act as liaison with the contractor. Program revenues are received at the City of Greensboro, the City of High Point collection offices and the contractor's offices. All funds received for the program are deposited in a City controlled bank account. We reviewed the contract under which the program is administered, recorded revenues and the amounts paid to PEEK by the City of Greensboro through December 30, 2002. In order to determine whether collections were properly recorded, we reviewed facilities and practices in place for both the City of Greensboro and the contractor. We, also, reviewed accounts receivable by sending confirmations to a portion of the delinquent offenders, as well as reviewing accounts receivable reports provided by the contractor. We extended our review period where necessary to provide for coverage of receivables report information supplied by the contractor.

Recorded revenues for this program from March 1, 2001 until December 30, 2002 total \$1,927,007.42. Total cost of the program for the period without the salary of the city liaison, but including contractor billings for their portion of the revenue, administrative hearings expense, office supplies, and miscellaneous supplies, was \$1,432,128.02, leaving net revenue of \$494,879.40 during the twenty-two month period.

The audit was undertaken at the request of the City Tax Collector, who manages the Collection Division, and the Transportation Department's Business Manager who is in charge of the program's function. The Collection Division has been reviewing and reconciling PEEK/EDS invoices each month since the inception of the program and at the request of the Transportation Department, designed the administrative procedure for this review and reconciliation process.

Recorded Revenue Exceeds Revenue Invoiced by the Contractor

Recorded revenue, net of payments for offenders who over paid or paid City of High Point fines to the City of Greensboro, for the period March 1, 2001 through December 30, 2002 were \$1,927,007.42. The contractor, PEEK Inc., was paid \$1,338,856.10 for fines, penalties, and collection charges net of adjustments representing revenues of \$1,924,846.00 under contract terms.

The difference, \$2,161.42, is revenue booked, which the contractor has not called for, or has not adequately justified its qualification for.

The subcontractor provided evidence that it did not include in its billings certain collected amounts that lacked adequate descriptions, which accounts for a portion of the \$2,161.42.

The PEEK Inc. contractor has not been invoicing the city in a manner that recognizes and embraces only deposited (banked) revenue for the period covered by the invoice, as required in procedural agreements. Collection Division staff charged with determining the accuracy of the Peek Inc. invoices have been reconciling these invoices to the greatest degree possible given the procedural deficiency. Current practice is to have the Collection Division reconcile PEEK Inc. invoices against deposited (banked) revenue, make necessary adjustments for fine refunds, the face value of returned (worthless) checks and NSF charges, etc. and forward the invoice to Transportation for a secondary review and approval. If approved by the Transportation Department, the invoice is sent to Accounts Payable for check issuance.

Recommendations:

We recommend that the contractor be required to invoice the city in such a way as to accurately reflect the revenue collections for the period of the invoice as they have been asked to do. We, also, recommend the Transportation Department take over the review and approval of the PEEK Inc. invoices, reconciling the invoice to actual deposited (banked) revenue for the period of the invoice, since they are the City department responsible for the Red Light program and to eliminate double reviews.

The Contractor Was Unable To Provide Documentation To Facilitate An Accurate Measure Of The Effectiveness Of Its Collection Efforts

We were unable to obtain accurate information about receivables for fines and penalties from the contractor. Fines and penalties issued per reports provided by PEEK are not divisible by \$50 the standard amount of each fine and penalty per our contract. The contractor provided persuasive information that their subcontractor (EDS) routinely increased the amount of fines and penalties when accepting payments in excess of the amounts originally charged to the violator. Due to inadequate follow-up the inflated fines and penalties were never decreased to the actual amount of fines and penalties issued, when the overpayments were finally resolved. The subcontractor, also, increased penalties issued when accepting payment of a required \$20 penalty for NSF checks, and billed them as partial penalties paid. These \$20 NSF penalty payments have not been billed properly and are a part of the \$2,161.42 underpayment to PEEK referenced earlier in this report.

While the contractor could not supply accurate accounts receivable information because of the procedural and administrative deficiencies cited above, their figures for collections of fines and penalties closely parallel our own. The information provided indicates a 60.59% overall rate of collection, fines are collected at approximately a 73% rate, while penalties are collected at only a 25% rate. Analysis of penalties collected showed that only 6.49% of penalties assessed were collected after being sent to collections through December 30, 2002. These collection rates leave a good deal of room for improvement and indicate a good deal of resistance to payment of penalties by offenders as do our sample accounts receivable confirmation results.

PEEK set up its own local operation to replace the subcontractor EDS during our audit, but there is no verifiable information as to how effective this arrangement will be at this time.

The contractor's inability to provide accurate information about fine and penalty receivables from offenders violates sections 32.2 and 32.3 of the contract we have with PEEK, Inc, and limits the City's ability to measure and evaluate PEEK's effectiveness at collecting fines and penalties.

Recommendation:

We recommend the contractor be required to provide accurate and verifiable information regarding issued and receivable fines and penalties as discussed above or be declared in violation of contract terms and dealt with as the contract provides. We suggest that Transportation and Collections determine a schedule agreeable to both by which time this information should be presented, and that the two departments keep Internal Audit informed of progress.

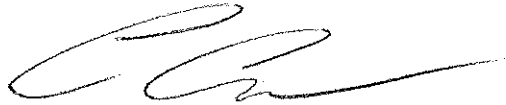
We, also, recommend:

- The City consider changing the date of assessment of penalties for Red Light tickets from 21 days to 30 days, which will reduce penalties assessed, and allow a larger percentage of fines to be paid before penalty assessment. Thirty days is, also, the time given for penalty and interest for most commercial obligations.
- As a means of improving collections of issued fines and penalties, we also recommend that the city avail itself of the provisions of N.C.G.S. 105A-1 through 105A-16. This legislation allows municipalities to have the N.C. Internal Revenue Service withhold outstanding amounts of \$50 or more from income tax returns. Legal provision may have to be made in the City's Code of Ordinances to obtain correct social security information from the contractor, and possibly to allow the contractor to use this law.
- The City Tax Collector has been discussing with the contractor changes the contractor might be able to make to improve collection efficiency. As a means of obtaining better contractor performance in collections, we recommend that Transportation require the contractor to engage a different, more effective collection agency and re-examine their collection policies and procedures to bring about better results.
- The city should revisit and reissue its instructions to city employees requiring payment of the Red Light ticket program fines and penalties the employees are responsible for when using city vehicles. Accounts receivable detail provided by the contractor included a number of citations outstanding and belonging to the Purchasing Division, City of Greensboro. One of these is still outstanding even after being included as one of our confirmations in our accounts receivable work.

We wish to thank the staffs of the Collection Division and the Transportation Department for their courtesy and cooperation during the conduct of this audit. We would appreciate updates as to progress on our recommendations by Collections and/or Transportation thirty days after the issue date of the audit report and for each succeeding sixty-day period until the recommendations are accomplished or otherwise disposed of. If there are any questions or comments concerning the details of this audit, please contact us at 373-2230.

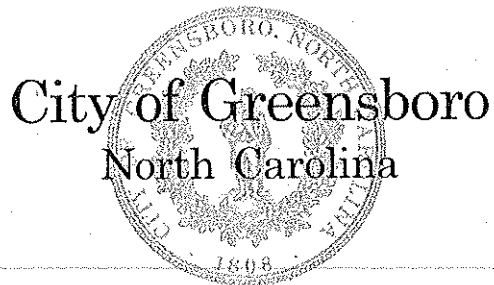


Fred Newnam
Internal Auditor



Len Lucas
Acting Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
Mike Cramer, Transportation Business Manager
Mitchell Johnson, Assistant City Manager
Rick Lusk, Director of Finance
Linda Miles, City Attorney
Bob Morgan, Assistant City Manager
John Rascoe, Tax Collector
Jim Westmoreland, Director of Transportation



City of Greensboro North Carolina

Department of Transportation

TO: Fred Newnam & Len Lucas, Internal Audit

FROM: Michael Cramer, Transportation

RE: Internal Audit Review of Red Light Ticket Collection Procedures

DATE: June 6, 2003

On May 2, 2003 the City of Greensboro Internal Audit Division presented its finding regarding an audit performed on the Red Light Camera Program (*SafeLight*). The audit was undertaken at the request of the City Tax Collector and the Transportation Department's Business Manager with the stated purpose to determine whether the City of Greensboro was receiving its proportional share of revenue as described in its contract with PEEK Inc., and whether the contractor is performing its financial obligations as prescribed by the contract. The Internal Audit Division findings included the following:

- Revenue received exceeded revenue invoice by the contractor.
- Contractor has had difficulty providing precise reporting and analysis of revenue
- Collection Agency return rate has been extremely low.

In an effort to help the Collection Division and the Department of Transportation, Internal Audit recommended seven ways to improve the system. Below is a listing of the recommendation and the actions that have taken place to improve the *SafeLight* Program.

Recommendation # 1& 3 - The contractor should be required to invoice the city in such a way as to accurately reflect the revenue collections for the period of the invoice.

Response: Over the course of the 2 ½ years the *SafeLight* Program has been in operation the Collections Division and the Department of Transportation have worked closely with the contractor to fine tune the reporting of revenue. These efforts have helped to produce a new on-line system that is used for citation processing, including reporting of revenue. The first invoice to be reviewed and paid since the new system was installed was for the citations issues and collected during April of 2003. Per review by the Collections Division it would appear that the new system is accurately reporting the revenue collected. We expect this trend to continue.

Recommendation # 2 - The Transportation Department take over the review and approval of the PEEK Inc. invoices, reconciling the invoice to actual revenues for the period of the invoice, since they are the responsible department and to eliminate double reviews.

Response: Following discussion between the Collections Division, the Department of Transportation and the Contractor we have decided that

this recommendation would actually make reconciling the invoices more difficult since Transportation would be required to gather the revenue received information from the Collections Division before reviewing. Therefore we will maintain our current process.

Recommendation #4 -

The City should consider changing the date of assessment of penalties for Red Light tickets from 21 days to 30 days, which will reduce penalties assessed, and allow a larger percentage of fines to be paid before penalty assessment. Thirty days is, also, the time given for penalty and interest for most commercial obligations.

Response:

The requirement for the 21 days payment policy was established by the State General Assembly when they adopted the enabling legislation. Subsequently this policy was written into the contract with Peck Traffic. Transportation has discussed the potential for changing this aspect of the contract with the contractor on several occasions. At this stage of our 3 year contract we have decided to pursue the change after contract completion.

Recommendation #5&6 -

As a means of improving collections of issued fines and penalties, we also recommend that the city avail itself of the provisions of N.C.G.S. 105A-1 through 105A-16. This legislation allows municipalities to have the N.C. Internal Revenue Service withhold outstanding amounts of \$50 or more. Legal provisions may have to be made in the city ordinance to obtain correct social security information from the contractor, and possibly to allow the contractor to use this law. The City Tax Collector has been discussing with the contractor changes the contractor might be able to make to improve collection efficiency. As a means of obtaining better contractor performance in collections, we recommend that Transportation require the contractor engage a different, more effective collection agency and re-examine their collection policies and procedures to bring about better results.

Response:

Transportation and the Contractor have been fine tuning the collection procedures for the past year. Improvements have been made in the language on the citation and penalty notices, the envelopes, and in the options for payment. These changes have improved the collection rate of the system before the citation is processed through the collection agency. During the last four months, and at the insistence of the Department of Transportation, the contractor has changed the collection agency that is used. To date, improvements have been made and Transportation will continue to evaluate the process.

Recommendation #7 -

The city should revisit and reissue its instructions to city employees requiring payment of the Red Light ticket program fines and penalties the employees are responsible for when using city vehicles. Accounts receivable detail provided by the contractor included a number of citations outstanding and belonging to the Purchasing Division, City of Greensboro.

Response:

There are several reasons for the slow payment of city issued citations. First, all citation including those issued to city vehicles are sent to the registered owner of the vehicle. In the case of the city the registered owner of the vehicle is the Purchasing Division. Thus all city vehicle

citations are sent to the Purchasing Division where it is determined which department is responsible for the vehicle. The citation is then sent to the department for investigation. When the driver of the vehicle is located the employee responsible pays the citation. Although the total number of city citations is low, the processing system tends to increase the number of citation adjustment that is required before the citation is paid. Transportation will continue to investigate and improve on this process.

The Department of Transportation would like to thank the Internal Audit Division for the help in evaluating the *SafeLight* Program. We will continue to improve the system as we have for the past 2 ½ years. If you have additional questions regarding the program and the audit please contact Michael Cramer at 373-2568. Thank you.

Cc: Ed Kitchen, City Manager
Jim Westmoreland, Director of Transportation
Mitchell Johnson, Assistant City Manager
Ben Brown, Assistant City Manager for Economic Development
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Linda Miles, City Attorney
Michael Cramer, Transportation
John Rascoe, Tax Collector
Fred Newnam, Internal Audit
Len Lucas, Internal Audit



City of Greensboro
North Carolina

TO: Michael Cramer, Transportation
FROM: Fred Newnam & Len Lucas, Internal Audit
RE: Reply to Internal Audit Review of Red Light Ticket Collection Procedures
DATE: August 19, 2003

We have reviewed your reply of June 6, 2003 to our audit findings and recommendations of May 2, 2003. We understand that your department gave careful consideration to our findings and we wish to be similarly thorough in our review of your replies.

Our recommendations 1 and 3 were concerned with requiring the contractor invoice the city to accurately reflect revenue collections for the period of the invoice.

- Your reply to these recommendations indicates that since April of 2003 the vendor had provided billings sufficiently accurately reflecting revenue collected, and that your expectations were that this trend would continue. Your reply was at June 6, 2003, a very short period under the new procedure, since we are replying in August 2003, we would appreciate your reappraisal of these recommendations based on further experience with the contractor under the new on-line system.
- We request you indicate in writing whether the contractor's efforts in this area are still acceptable and producing the intended results, that is accurate reflection of collections for the periods of contractor invoice.

Our recommendation 2 concerned the Transportation Department taking over review and approval of the PEEK Inc. invoices.

- Your reply that after further discussion with the Collection Department, the recommendation would make reconciling invoices more difficult and that you, therefore, had determined that it would not be implemented. The reply is acceptable, so long as the two departments involved are both satisfied.

Recommendation 4 concerned itself with changing the date of assessment of penalties for Red Light tickets from 21 to 30 days.

- Your reply indicated that you were considering changing this at the time the three-year contract was completed. We find this reply acceptable.

Our recommendations 5 and 6 concerned improvements in collections of issued fines and penalties.

- Your reply indicates that at least parts of our recommendations have been carried out and that the change has improved the collection rate of the system before the citation is processed through the collection agency. The reply, also, indicates a continued evaluation of the system by transportation.
- We request your written assessment of the system after more than a quarter of actual experience with the system in place.

Our recommendation 7 concerned itself with outstanding and overdue payments of citations by City of Greensboro employees.

- Our understanding of your reply is that you explain the slowness of the system and promise that Transportation will continue to investigate and improve on the process. We recommend special effort and attention being given in this area to require City of Greensboro employees to pay these particular obligations promptly, in order that we not open ourselves to possible censure from outside parties.
- Please provide in writing the process improvements made to date.

We thank the Department of Transportation for its prompt replies to the recommendations in our joint efforts to improve the *SafeLight* Program. If you have questions regarding the audit and/or our review of replies please contact Fred Newnam at 373-2230. Thank You.

CC: Ed Kitchen, City Manager
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