



WENDY GREUEL
CONTROLLER

May 19, 2011

Honorable Antonio R. Villaraigosa, Mayor
Honorable Carmen Trutanich, City Attorney
Honorable Members of the City Council
of the City of Los Angeles

The parking citation program is one of the Department of Transportation (LADOT)'s most important tools used to ease traffic congestion, promote the economic vitality of the City and enhance the quality of life for City residents. In addition, citations bring in much-needed revenue for the City, and my latest audit shows that LADOT is leaving money on the table due to insufficient policies and poor contract oversight. The City can't afford to squander revenue collection opportunities, especially during these trying budgetary times.

LADOT's poor internal policies and citation management and operations have missed tremendous revenue opportunities. For example, the City's complaint and investigations process requires an 8 month (240 day) turnaround for investigation and follow-up, otherwise, the citation is dismissed. These delays cost the City over \$126,000 during the audit period. In addition, the City failed to collect \$557,000 in administrative fees and penalties related to expired registration stickers and vehicles with no evidence of registration, \$328,000 of which, could have been money in the City's coffers.

LADOT contracts with Affiliated Computer Services, State and Local Solutions (ACS) to provide a parking management support system and to operate the City's parking violations bureau. When a traffic officer voids a citation, the City still pays ACS to process the citation. The City paid over \$440,000 in fees related to voided citations. This is ridiculous – the City should not be paying for tickets that were voided! As a result of this audit process, LADOT has now proposed to change this contract language in future vendor contracts. The LADOT should seek refunds from ACS for all past voided ticket charges.

Much to my surprise, my audit also revealed that the LADOT has a "Gold Card Desk" (GCD) for the Mayor and Council to exclusively use to determine whether certain fines associated with citations can be partially or fully reduced. This appears to suggest you need political pull to expedite the investigation of a ticket. The GCD canceled approximately 1000 tickets over the two year period we reviewed without comprehensive policies or procedures guiding cancellations, suggesting a less than transparent process. Subsequent to our review, LADOT

Honorable Antonio R. Villaraigosa, Mayor
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drafted policies to guide this process. I call upon the LADOT to shut down the Gold Card Desk altogether.

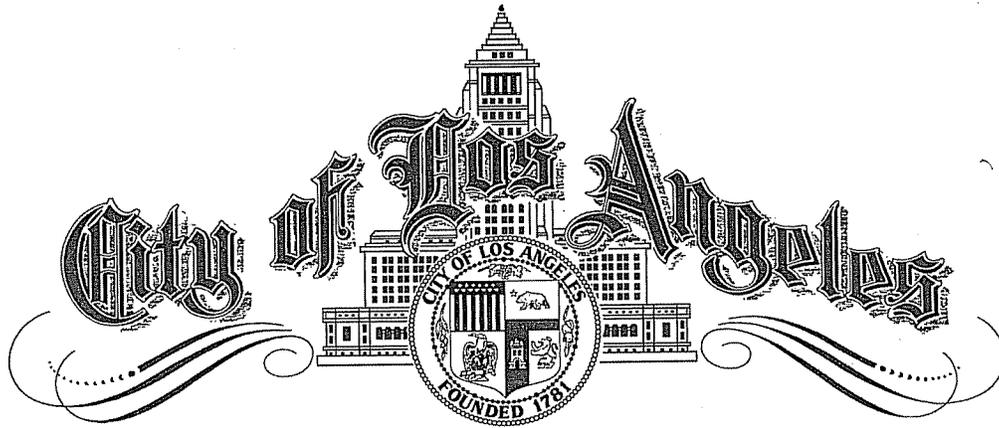
In my audit on the City's overall billings and collections process, I highlighted that each department should diligently attempt to collect all monies owed to the City as expeditiously as possible. Parking citation collections are no exception – LADOT must ensure that ACS utilizes each and every tool agreed on in its contract provisions. The mere fact that the City has \$272 million in outstanding parking citation revenue between five and eleven years old, implies there is room for improvement. We must do a better job of collecting this revenue.

This audit is the second in a series of three audits investigating the City's parking enforcement process. It is clear that the City still has many improvements to make to its parking citation and collections process, and must immediately address these challenges to both generate revenue and make Los Angeles a better place to live, work and perform business. I challenge the Department of Transportation to immediately implement these recommendations to improve the way that the City does business.

Sincerely,



WENDY GREUEL
City Controller



WENDY GREUEL
CONTROLLER

May 19, 2011

Amir Sedadi, Interim General Manager
Los Angeles Department of Transportation
100 S. Main St., 10th Floor
Los Angeles, CA 90012

Dear Mr. Sedadi:

Enclosed is the report entitled, "Audit of the City's Parking Citation Process at the Department of Transportation." A draft of this audit report was provided to your Department on March 22, 2011. Comments provided by your Department at an exit conference held on March 31, 2011, were evaluated and considered prior to finalizing this report.

Please review the final report and advise the Controller's Office by June 20, 2011 on planned actions you will take to implement the recommendations shown in the Controller's Accountability Plan. The action plan should include anticipated implementation dates. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Reverend Jeff Carr, Chief of Staff, Office of the Mayor
Jaime de la Vega, Deputy Mayor, Office of the Mayor
George E. Moss, President, Board of Transportation Commissioners
Miguel A. Santana, City Administrative Officer
June A. Lagmay, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Independent Auditors



City of Los Angeles Office of the Controller

Audit of the City's Parking Citation Process at the Department of Transportation

May 19, 2011

Wendy Greuel
City Controller

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AUDIT OF THE CITY'S PARKING CITATION PROCESS

EXECUTIVE SUMMARY

The Controller's Office has completed an audit of the City's parking citation process at the Department of Transportation (DOT). The objective of the audit was to assess the adequacy of controls and the efficiency and effectiveness of procedures used by the City and a private vendor in processing and collecting payments for the City's parking citations. This included determining whether the City's parking citation vendor is complying with key aspects of the contract and that DOT is exercising proper oversight over the contract.

Background

The primary objectives of parking regulations are to proactively manage the City's scarce supply of on-street parking, ease traffic congestion, promote the economic vitality of the City, and enhance the quality of life of City residents. DOT's uniformed Traffic Officers enforce the Los Angeles City Municipal Code and California Vehicle Code to help meet these goals. Citations are considered a deterrent to motorists who might otherwise ignore parking regulations. Traffic Officers issued a total of approximately 5.7 million citations during fiscal years (FY) 2009 and 2010. Once parking citations are issued, the Parking Violations Bureau (PVB) handles collection management.

The City has a contract with Affiliated Computer Services, State and Local Solutions (ACS) to provide a Parking Management Support System and to operate the PVB. The current contract began in March 2006, with a five-year term ending in March 2011. The contract is now on a month-to-month basis. Under the terms of the contract, ACS is responsible for billing and collecting payments related to parking citations. This includes sending collection notices, phoning delinquent debtors, and placing Department of Motor Vehicle (DMV) holds on vehicle registrations when motorists have not paid their citations. ACS is not responsible for holding administrative hearings or approving the suspension and cancellation of citations; these functions are the responsibility of DOT.

For its services, ACS received \$18 million in FY 2009 and \$17 million in FY 2010. DOT reported total citation collections for these two years were \$167 million and \$168 million, respectively. However, since a portion of the collections must be remitted to other agencies, the amounts transferred to the General Fund for these years were \$133 million and \$132 million, respectively.

Scope and Methodology

This audit was performed in accordance with Generally Accepted Government Auditing Standards, and covered citations issued between July 2008 and June 2010. Fieldwork was conducted primarily between July and November 2010, though additional analysis was conducted through early February 2011. In conducting our audit, we interviewed DOT management and staff as well as representatives of ACS, and reviewed applicable policies and procedures to obtain an understanding of key activities related to citation processing and collections. We then selected sample transactions and reviewed supporting data and documents to determine whether citations were processed correctly, entered into the system, billed in accordance with contract provisions, collected, and deposited into City accounts.

Summary of Audit Results

Our audit found that ACS generally complies with the terms of the contract. We noted that there are adequate controls in place to ensure that all citations issued by DOT Traffic Officers are accounted for by ACS, and that all payments received by ACS are deposited into City bank accounts. However, we identified opportunities for the Department to improve its contract oversight relative to collection activities, as well as modify its internal processes to ensure that the City maximizes its parking citation revenues. The following are key findings of the audit. Details of these and other findings are contained in the Audit Findings and Recommendations section of the report.

□ **DOT has a backlog of Complaint and Investigations (CI) that resulted in the dismissal of citations and potential lost revenue.**

If motorists dispute a citation and their complaint requires investigation, ACS forwards the complaint to the appropriate DOT section for review. Over an eighteen month period, ACS referred more than 62,000 complaint and investigation requests to DOT. City policy requires the investigation to be completed within 240 days, or the citation should be dismissed. We noted that DOT dismissed 4,429, or 7% of the referred citations, due simply to untimely investigation. Our broader review noted that for approximately 63% of the investigations that were completed, the citation was considered valid. Therefore, for this period, we estimate the City lost revenue totaling \$126,000 due to untimely investigations which resulted in dismissal.

□ **DOT has paid ACS over \$400,000 for processing voided transactions, even though no further processing or collection efforts are required.**

While in the process of issuing a citation, if an officer notices that he/she has made a mistake, he/she voids the citation and another one is issued in its place. Voided citations are not issued, nor do they require any further processing; however, they are included in the count of citations processed by ACS, and the City is billed for them.

While the contract states that ACS will be paid based on the number of citations processed, it does not specify whether voided transactions should be counted. Because there is no further processing or collection efforts necessary, we believe voided citations should not be included in the figure used in ACS billings. Since the inception of the current contract in 2006, the City paid ACS over \$400,000 in fees related to voided citations.

- **The citation cancellation process for the Gold Card Desk is inadequately controlled. Fines and/or penalties are waived for valid citations without proper supporting documentation, and citations are dismissed due to extenuating circumstances without clear criteria.**

DOT has established a Gold Card Desk (GCD) at ACS, whereby elected officials may request, on behalf of their constituents, that citations be investigated to determine whether fines/penalties can be partially or fully reduced. This service is provided exclusively for Council District Offices and the Mayor's Office. The GCD attempts to resolve the investigation through the regular administrative review process; however, they may also request assistance from DOT's Office of Regulatory Services. The GCD cannot reduce or cancel fines or penalties without DOT approval.

During our two-year audit period, approximately 1,000 citations were canceled through GCD. We sampled 40 canceled citations, as approved by DOT, which had been processed through the GCD and noted that for six, there was no documentation to support the cancellation. In addition, three citations were canceled based on the violators' self-declared inability to pay. DOT does not have stated criteria for these types of cancellations, nor a defined listing of which DOT officials are authorized to cancel or waive a citation; therefore, such reasons could not be verified as reasonable.

Due to a lack of comprehensive policies and procedures related to the GCD process, there is a risk of inappropriate cancellations.

- **The City failed to collect \$557,000 over two fiscal years because DOT did not consistently assess administrative fees and penalties for citations related to expired registration stickers (tabs) and vehicles with no evidence of registration. Of this amount, \$328,000 pertained to City revenue.**

The California Vehicle Code (CVC) allows Traffic Officers to issue citations to vehicles that do not display current registration stickers (tabs). However, if the motorist shows proof of their current tab, the fine (usually \$25) is waived upon payment of a \$10 administrative fee. The CVC does not address how additional penalties for non-payment of this violation should be treated.

Our audit found that DOT did not collect the \$10 administrative fee on 33,183 citations issued during fiscal years 2009 and 2010. In addition, \$225,000 in fees and

related penalties were waived on an additional 3,800 citations. After this issue was brought to the Department's attention, DOT agreed that the \$10 fee should be consistently assessed and that applicable penalties should not be waived. DOT plans to work with ACS to modify the business rules within the system to apply the \$10 fee and any penalties.

The City must remit a portion of the collections for this type of violation to Los Angeles County, and ACS. We estimate that the City lost approximately \$328,000 (of the \$557,000 amount due) by failing to assess the \$10 fee and related penalties. Since the inception of the contract, this equates to approximately \$700,000 in lost revenue to the City.

- **DOT changed its methodology for calculating citation error rates after the public expressed concern about the high error rates. Also, DOT is not using the reports to identify training needs of Traffic Officers.**

DOT citation error reports produced by ACS for April and May 2010 noted citation error rates of more than 7%. Based on concerns from the public after these rates were reported by the media, DOT evaluated the reports, and determined the calculated rates were misleading and inaccurate. DOT had not previously utilized these reports for training purposes, nor questioned their accuracy. Using a different methodology but the same data, DOT's revised reports for the same period presented error rates of about 1%.

We reviewed the underlying criteria of both methods, and found that the initial rates were inappropriately calculated and overstated. However, one criteria that was previously noted as an error (missing Vehicle Information Number, or VIN) was excluded by DOT in the new method. California Vehicle Code and DOT policy require the last four digits of the VIN to be recorded on the citation, if visible. However, if the VIN is not readable, the officer should indicate "NV" (not visible) in the appropriate field. By including missing VINs as a criterion, we noted the recalculated error rates increased to 3.8% and 3.6% for the two months. To adequately monitor error rates, all critical fields, including an acceptable "NV" notation, must be captured. DOT should modify error reports to count all missing critical fields, and use the error reports to identify opportunities for training.

- **The City lost potential revenue because DOT did not pursue collections from protective plate holders who failed to pay their citations.**

Certain public employees such as police officers, firefighters, city attorneys, social workers and probation officers, are not required to have their address appear in the DMV's records. Rather, the name of their respective agency appears in those records. These individuals are referred to as protective plate holders. During fiscal years 2009 and 2010, DOT issued over 15,000 citations totaling approximately \$850,000 to protective plate holders.

Our review disclosed that approximately 30% of citations issued to protective plate holders between July 2005 and June 2010 have not been paid. Until December 2009, DOT's practice was to not pursue collections from protective plate holders who did not pay the fines based on the citation being placed on the vehicle's windshield. DOT stated that until the end of 2009, it did not have a listing of contacts for the various public agencies in order to send an overdue collection notice requesting payment. As a result of this practice, the City lost potential revenue related to prior years.

- **ACS is not utilizing all collection tools required by the agreement, and DOT has not analyzed the effect of various collection techniques, including the timing of penalties to maximize collections and improve the collection rate. The current collection rate is 56% within the first 100 days, eventually rising to 75% after two years.**

DOT reports an 80% collection rate for citations. However, this figure is based on the number of citations paid or otherwise adjudicated over a two-year period, rather than the actual collection receipts compared to the amounts billed, including fines and penalties over a given period.

Approximately one-third of the citations issued by DOT are paid in full upon the motorists' receipt of the citation on their vehicle's windshield. The remaining number requires further collection efforts by ACS, such as mailing delinquent notices, applying additional penalties, DMV holds, tax intercepts, and reporting the violator to collection agents and credit bureaus. DOT has the authority to apply additional fees or penalties based on appropriate schedules and pursue additional collection efforts; however, it has not analyzed the effectiveness of current techniques, nor has it established performance goals that are linked to milestones to assess the impact of various techniques on the collection results. Also, though required by the contract, ACS did not begin reporting violators with delinquent accounts to credit bureaus until 2010.

The collection rate can be improved through a better analysis of collection results against performance goals tied to milestones, and by pursuing additional techniques that are tied to those results.

- **A key application for the parking enforcement officers' handheld devices has not been developed, implemented, or loaded on their equipment, five years into the contract. Other applications took several years to implement.**

DOT did not have adequate oversight over the development and delivery of supplementary system applications used by Traffic Officers for citation issuance. Specifically, the contract did not identify the required or anticipated delivery for the applications, nor did the contract specify what would happen if applications were not delivered within the expected timeframe. As a result, ACS has not yet delivered a key application that would promote officer efficiency, even though the contract has

been in existence for nearly five years. We also noted that two other applications were not delivered until two and three years into the contract. The lengthy delivery time of these applications has hindered the DOT's ability to effectively and efficiently manage its parking citation process.

Review of Report

A draft report was provided to DOT management on March 18, 2011. We discussed the contents of the report with DOT management at an exit conference on March 31, 2011. The Department generally agreed with the issues noted in the report, and presented additional clarifying information, which we considered along with management's comments, before finalizing the report.

Throughout our audit fieldwork we brought our findings to DOT management's attention. Management demonstrated a commitment to address each finding, and the Department has reported that it has begun to address several of the issues raised by the audit.

We would like to thank DOT management and staff for their cooperation and assistance during the audit.

CONTROLLER'S ACCOUNTABILITY PLAN

RECOMMENDATION	Page	Mayor Action Req'd	Council Action Req'd	Department Action Required
SECTION I.				
1. DOT management should allocate adequate resources to ensure that Complaint and Investigations are completed within the prescribed timeframe and ensure that adequate supervision is performed to enable timely completion.	21			DOT
2. DOT management should ensure that Complaint and Investigations are dismissed/canceled when they are not completed within the required timeframe.	21			DOT
3. DOT management should consult with the City Attorney's Office regarding the appropriateness/legality of collecting on citations that are missing critical fields, and revise DOT policies and procedures accordingly.	23			DOT CITY ATTY
4. DOT management should in future contracts for parking citation processing services, specify that the contractor will not be paid processing fees for voided citations.	23			DOT
5. DOT management should consult with the City Attorney, and if deemed appropriate, seek reimbursement of \$400,000.	23			DOT CITY ATTY

<p>6. DOT management should identify the specific individuals who are authorized to approve cancellations and reductions of fines and penalties for parking citations.</p>	25			DOT
<p>7. DOT management should designate an individual or section to coordinate and submit all citation cancellation requests to ACS.</p>	25			DOT
<p>8. DOT management should develop formal policies and procedures for the Gold Card Desk's processing of citation cancellation requests. This should include ensuring that cancellations and reductions of fines and penalties are properly supported and approved.</p>	25			DOT
<p>9. DOT management should, on a sample basis, review cancellation reports provided by ACS to ensure cancelled tickets conform with cancellation requests submitted to ACS.</p>	25			DOT
<p>10. DOT management should describe and document the types of acceptable extenuating circumstances that would qualify for valid citations to be dismissed by DOT.</p>	25			DOT
<p>11. Eliminate the Gold Card Desk when a new contract is signed to operate the Parking Violation Bureau.</p>	25			DOT
<p>12. DOT management should work with ACS to ensure that the \$10 fee and applicable penalties are assessed to motorists who are issued a citation for lack of current registration tabs but who later provide proof of proper registration.</p>	26			DOT

13. DOT management should improve oversight over these types of activities to ensure ACS bills the appropriate amounts as allowed by statute.	26			DOT
14. DOT management should ensure error reports count all missing or blank critical fields as errors, and use the error reports to identify opportunities for additional training.	28			DOT
15. DOT management should establish written policies and procedures for handling citations issued to protective plate holders, which includes regular monitoring to ensure agency address and contact information remains up to date.	29			DOT
SECTION II.				
16. DOT management should adopt a methodology where collection rates are based on dollar amounts, instead of solely on the number of citations issued.	34			DOT
17. DOT management should develop performance goals for collections that are linked to milestones and periodically assess performance to determine if changes to the nature and timing of collection activities or to the amount of penalties are warranted.	34			DOT
18. DOT management should ensure that vendors comply with the requirements of the contract with respect to collection tools utilized.	34			DOT
19. DOT management should explore the cost effectiveness of making phone calls to debtors earlier in the collection process.	34			DOT

<p>20. DOT management should submit regular write-off requests to the Board of Review for accounts deemed uncollectible.</p>	<p>35</p>			<p>DOT</p>
<p>21. DOT management should report all accounts receivables (excluding any accounts written-off) to the Controller's Office when reporting accounts receivable amounts for inclusion in the City's financial statements.</p>	<p>35</p>			<p>DOT</p>
<p>SECTION III.</p>				
<p>22. DOT management should employ a sound systems development methodology in the future to ensure that applications are defined, developed, and installed in a timely manner.</p>	<p>38</p>			<p>DOT</p>
<p>23. DOT management should in future contracts, provide timelines for deliverables and specify penalties for not meeting the required dates. Any adjustments to timeframes should be formally approved.</p>	<p>38</p>			<p>DOT</p>

BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

BACKGROUND

Parking regulations are implemented to proactively manage the City's limited supply of on-street parking spaces and to ease traffic congestion by ensuring transportation routes flow safely and are not blocked. Such regulations are also intended to promote the economic vitality of the City and enhance the quality of life of City residents. DOT Traffic Officers are empowered to enforce parking regulations set by the Los Angeles City Municipal Code and California Vehicle Code (CVC) by issuing citations for non-compliance. Citations are a deterrent to motorists who might otherwise ignore parking regulations. Total parking citations issued within the City of Los Angeles in fiscal years (FY) 2009 and 2010 were 3 million and 2.7 million, respectively. Total citation collections for these two years were \$167 million and \$168 million, respectively. However, since a portion of the collections must be remitted to other agencies, the amounts transferred to the General Fund for these years were \$133 million and \$132 million, respectively.

The City relies on parking citation revenue to fund operations. The amount of revenue received is a factor of the number of citations issued, the fine and related penalty amounts, and the City's collection rate. The Chief Administrative Officer recently reported a downward trend in parking citations issued, from a high of 3.2 million in 2006 to a projected 2.6 million in 2010. The fine amounts for each violation are set by statute, while related penalties for delinquencies are set by the City. The collection rate measures the City's success in receiving payments from violators, through the application of various techniques.

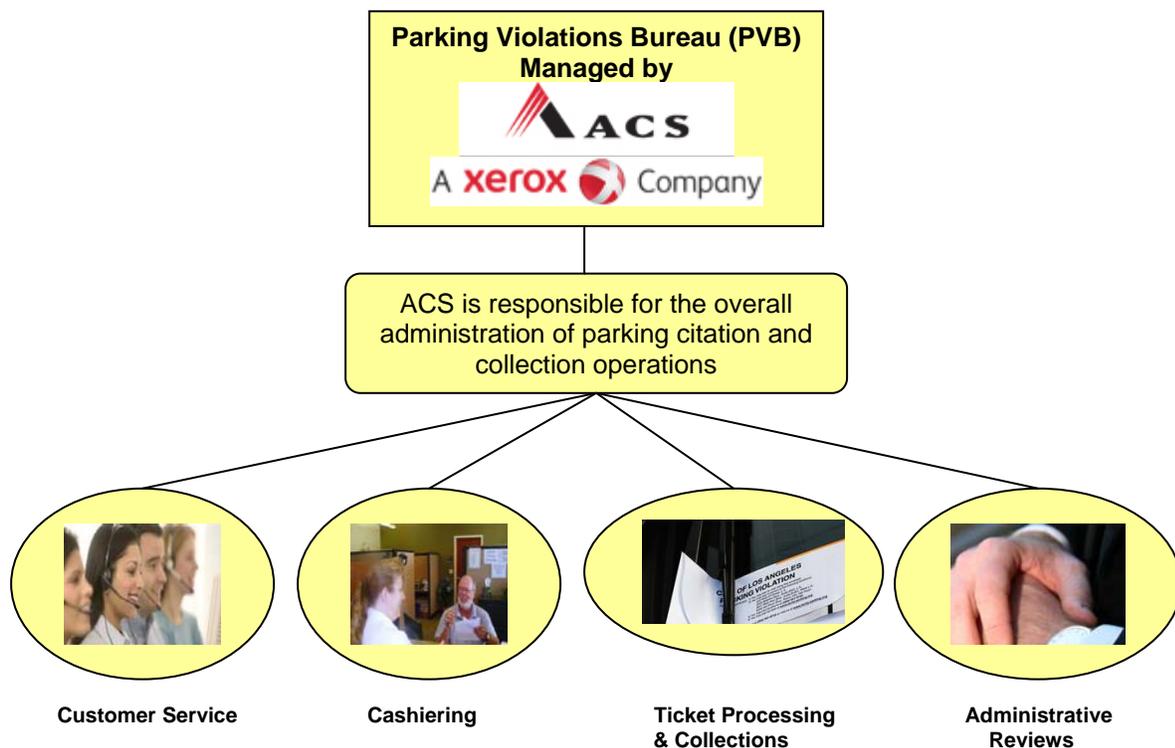
Contract with Affiliated Computer Services, State and Local Solutions

On March 9, 2006, the City executed a five-year contract with Affiliated Computer Services, State and Local Solutions (ACS), to provide a Parking Management Support System and to operate a Parking Violation Bureau (PVB). ACS receives compensation based on the number of citations processed monthly, as follows:

<i>ACS' Compensation</i>	
Cost Per Citation	# of Monthly Citations
\$2.78	0-200,000
\$2.03	200,001-300,000
\$1.49	300,001- and more

ACS received a total of \$35 million in FYs 2009 and 2010 for its services (\$19 million was paid out of General Fund, and the balance was paid by violators with delinquent accounts). The contract is now on a month-to-month basis.

In operating the PVB, ACS is responsible for the overall administration of parking citation and collection operations including customer service, reconciliation and compliance, performance monitoring, training, special collections, lockbox processing, data entry, citation information and management, cashiering operations, and administrative reviews. The PVB operates four Customer Service Centers where citizens can make payments, purchase parking permits, and contest citations. ACS receives and processes both handwritten and handheld parking citations by entering the citations in the Parking Management Support System (PMSS), managing critical citation data, and matching citations to violation codes and penalty tables. It also manages inquiries, complaints, payments and revenue distribution, Department of Motor Vehicle (DMV) lookups for registered owner information, and sends notices and correspondence to registered owners.



Key Activities Relating to the Parking Citation Process

Issuance of Parking Citations

Traffic Officers issue citations either through handheld electronic devices or manually written ticket books. Both methods include fields to input various data elements that are necessary to identify the cited vehicle and the registered owner of the vehicle. The vast majority of citations are issued through a handheld device; only 29 DOT officers use

handwritten citation books due to injury. Once a Traffic Officer begins writing a citation, the device will automatically load the date and time and prompt the officer to the next required field to complete the citation. The officer can void a citation, if he/she notices a mistake in any of the fields. Voided citations are replaced with corrected citations, though each has a unique identification number. Completed citations are placed on a vehicle's windshield and have a standard payment due date of 21 days. At the end of the officer's workday, the handhelds are docked to a terminal and citation information is transmitted to Duncan's (an ACS sub-contractor) server. The information is batched and transmitted to ACS' system (eTIMS) for further processing. Information from handwritten citations is entered directly into eTIMS.

As previously stated, the number of citations issued has decreased over the last five years. According to DOT labor statistics, the overall proportion of time that enforcement officers dedicate to patrol activities during this period has also declined, which may help explain the reduction. However, other factors, including the occurrence of fewer violations due to there being fewer vehicles on City streets, recent meter upgrade/replacements allowing for better compliance, etc., may also play a role.

FYE	Parking Citations Issued by DOT¹	Traffic Officers	Patrol Time
2006	3,093,257	589	64.02%
2007	2,983,459	631	63.44%
2008	2,806,712	619	61.61%
2009	2,784,351	602	59.62%
2010	2,587,925	608	56.47%

Source: LADOT internal management reports

Citation Processing and Payment Receipt

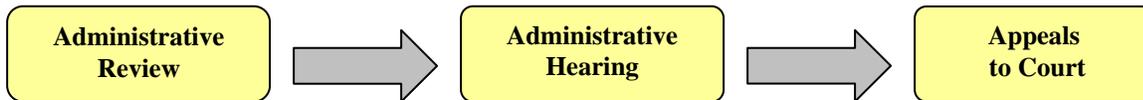
If the violator does not pay or contest the citation within the stated 21 days, s(he) will receive a reminder notice. DOT begins assessing penalties on the 37th day, and Department of Motor Vehicle (DMV) holds are placed on the 58th day. Section II of this report provides more detail on citation collection activities.

Payments for citations can be made by U.S. mail, over the phone or web, and at automated Kiosks (on a test pilot at the downtown Public Service Center). Payments are accepted via walk-in at four Public Service Centers which are located in Downtown Los Angeles, Mid-Wilshire, West Los Angeles, and Van Nuys.

¹ About 4% of the City's parking citations (averaging 126,300 annually for the period indicated) were issued by agencies other than DOT, though were processed by ACS.

Contesting Citations

Per California Vehicle Code (CVC) section 40215, motorists may contest citations within a period of 21 calendar days from the issuance of the parking violation, or 14 days from the mailing of a notice of delinquent parking. ACS also processes citizens' complaints concerning parking citations. There are three levels to contesting a citation: general administrative review, administrative hearing, and an appeal through the court system. Citations can be canceled or dismissed if they are found not valid as a result of any of these three processes.

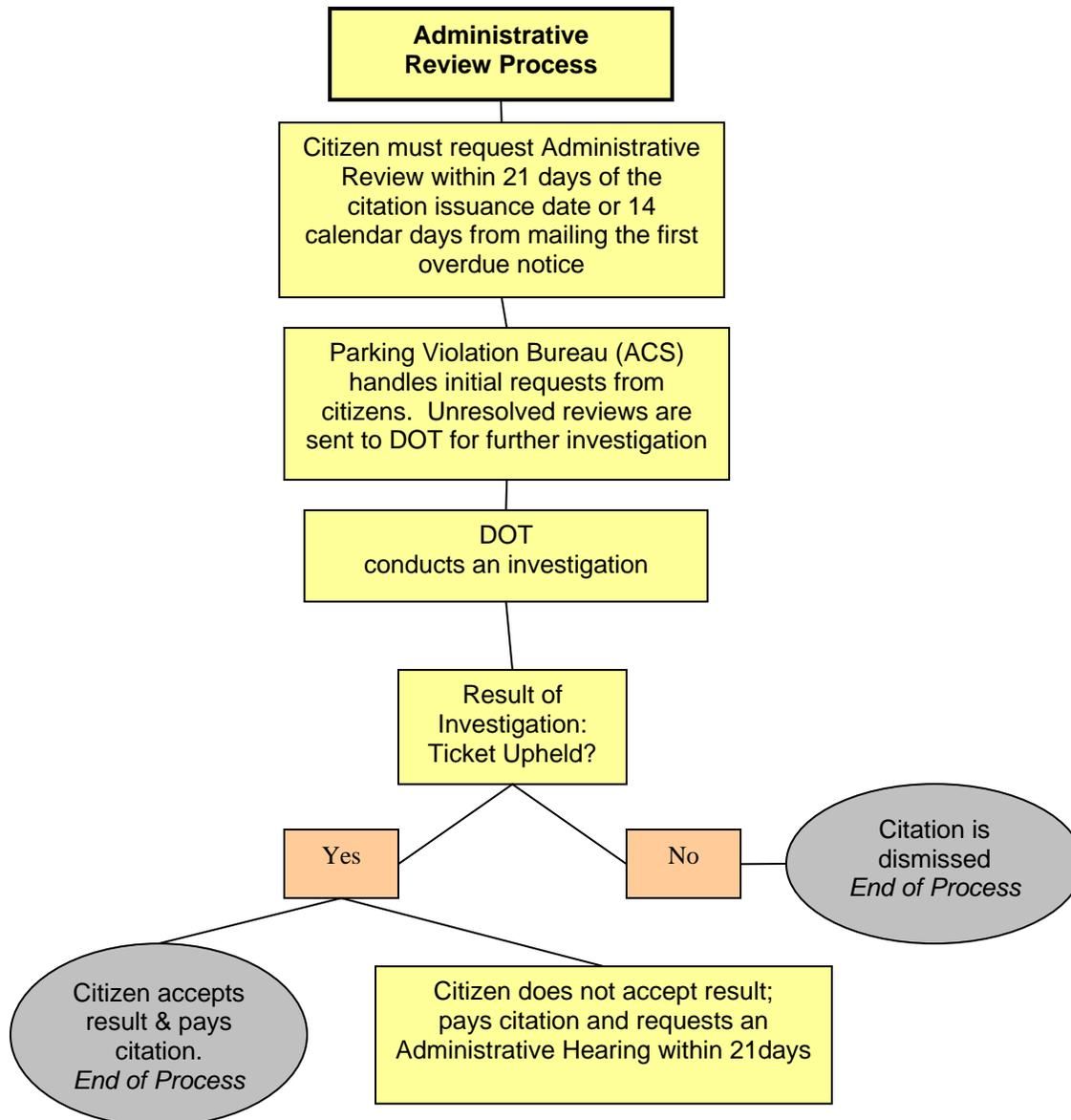


Administrative Review

Under CVC 40215 (a), for a period of 21 calendar days from the issuance of a notice of a parking violation or 14 calendar days from the mailing of a notice of delinquent parking violation, a person may request an administrative review. The request may be made by telephone, in writing, online, or in person, and there is no charge for this review. If, following the initial review, the City is satisfied that the violation did not occur, that the registered owner was not responsible for the violation, or that extenuating circumstances make dismissal of the citation appropriate in the interest of justice, the City will cancel the notice of parking violation or notice of delinquent parking violation. The issuing agency (City) shall advise the processing agency (ACS) of the cancellation.

The issuing agency or the processing agency shall then mail the results of the initial review to the person contesting the notice, and, if the notice is not canceled, include a reason for the denial, and a notification of their ability to request an administrative hearing.

ACS conducts the general administrative review by following the Business Processing Rules (BPR), which includes scenarios which ACS applies to resolve complaints. For example, according to the BPR, complaints that are meter or sign-related will require further investigations, which must be forwarded to DOT.



Administrative Hearing

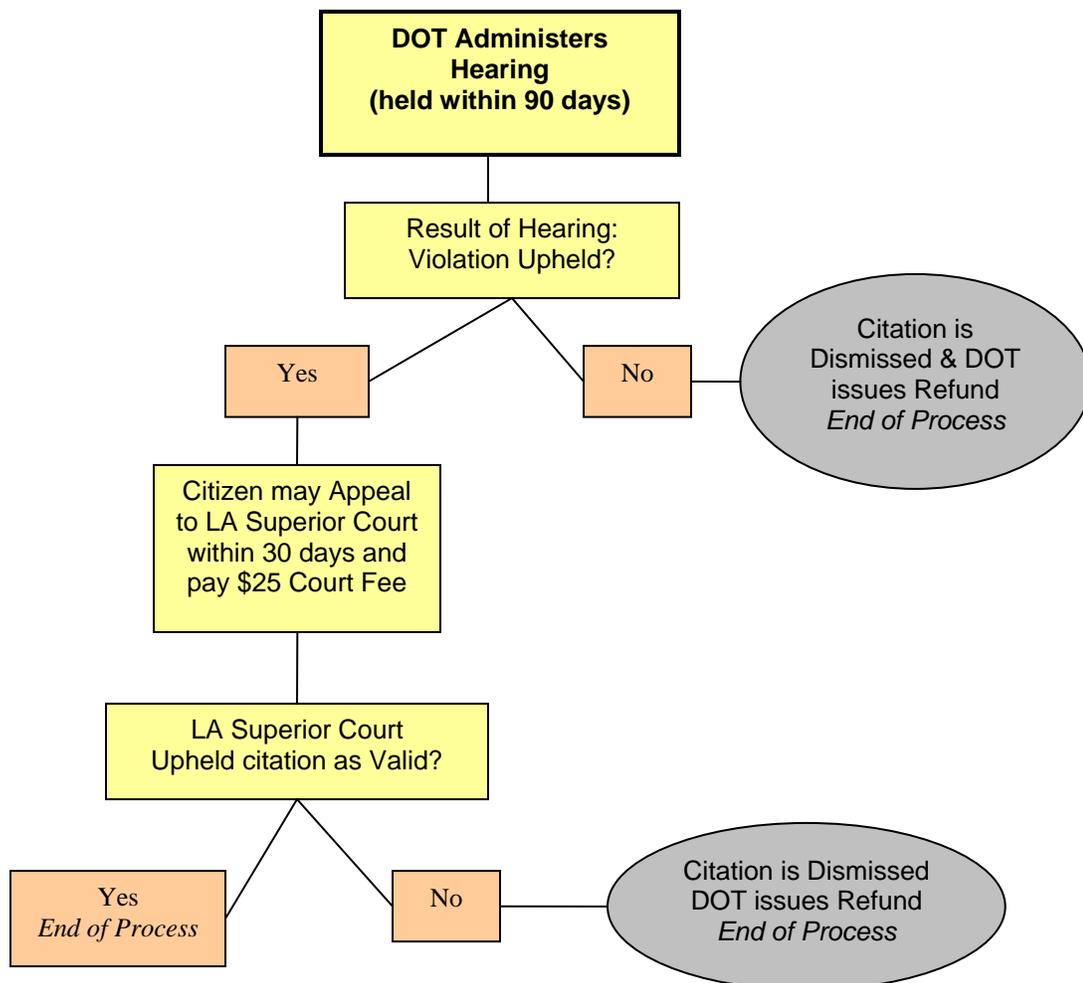
If the person is dissatisfied with the results of the initial administrative review, he/she may request an administrative hearing of the violation. This request must occur no later than 21 calendar days following the mailing of the results of the issuing agency’s initial review. If the 21 days have passed, motorists are no longer entitled to an administrative hearing. The request for a hearing may be made by telephone, in writing, online, or in person. The person requesting an administrative hearing shall deposit the amount of the parking penalty with the processing agency, as required by the CVC. The requestor may also request one continuance, not to exceed 21 calendar days. The hearing is conducted by a DOT Administrative Hearing Examiner. The decisions a Hearing Examiner can make include:

- Citation and late fees are valid
- Citation is valid, but late fees canceled
- Citation is "Not Valid"

If the Hearing Examiner finds in the motorist's favor and invalidates the citation, he/she will be issued a refund within 30 days of the decision. If the violation is upheld, the motorist can accept the outcome and the process is concluded; if the motorist is not satisfied with the administrative hearing, he/she can file an appeal with the court system.

Appeals to the Court System

Motorists can appeal to the courts to contest the outcome of the administrative hearing. The appeal must be filed within 30 days of the Hearing Examiner's decision and must be filed in person. There is a \$25 filing fee per ticket required by the Court, which is refunded to the motorist if the judge rules in the motorist's favor, in which case DOT is also required to refund the citation fee paid by the motorist. If the court upholds the violation as valid, the process is concluded.



OBJECTIVES, SCOPE AND METHODOLOGY

The primary objective of this audit was to assess the adequacy of controls and the efficiency and effectiveness of the City's parking citation process. This included determining whether the City's parking citation vendor is complying with key aspects of the contract and that DOT is exercising proper oversight of the contract. Specific objectives included the following:

- To determine whether ACS is providing the required products and services as specified in the contract.
- To evaluate whether the contracted services result in an efficient and effective parking citation collection process.
- To determine if ACS has adequate controls in place to ensure that all payments received (at the lockbox and by cashiers) are properly recorded and accounted for.
- To determine if ACS has adequate processes in place for pursuing delinquent accounts.
- To assess the City's oversight, directives and monitoring of ACS to ensure adequate and effective performance of contracted functions.

Our audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) and covered citations issued between July 2008 and June 2010. The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Fieldwork was primarily conducted between July 2010 and November 2010, though additional analysis was conducted through early February 2011. In conducting our audit, we interviewed DOT and ACS management and staff, and reviewed applicable policies and procedures to obtain an understanding of key processes. For example, we:

- Obtained and reviewed the contract agreement between DOT and ACS, identified products and services ACS is required to provide, and verified that the services and products were being provided.
- Reviewed all key activities relating to the parking citation process from initial issuance by Traffic Officers to entry into the ACS system and further review steps and collection activities. We also analyzed collection reports and conducted additional analysis to determine the effectiveness and efficiency of the process.
- Tested sample payments to ensure that receipts were recorded and deposited into the City's accounts accurately and in a timely manner.

- Reviewed monthly reports provided by ACS, selected and tested monthly performance standards for compliance, and reviewed minutes from monthly meetings to determine the extent of DOT's oversight over the vendor to ensure appropriate performance by ACS.

The remainder of this report details our findings, comments, and recommendations.

AUDIT FINDINGS AND RECOMMENDATIONS

SECTION I: PARKING CITATION MANAGEMENT AND OPERATIONS

A successful program should include efficient and effective processes to ensure appropriate controls are in place and that desired outcomes are achieved. We noted that there are adequate controls to ensure that all citations issued by DOT Traffic Officers are accounted for by ACS, and that all payments received by ACS are deposited into City bank accounts. However, we identified opportunities for the Department to improve its contract oversight and to revise internal policies and procedures to ensure that the City maximizes its parking citation revenues. These areas are discussed below.

Complaint and Investigations

If motorists dispute a citation as invalid and their complaint requires further investigation, ACS forwards the complaint to the appropriate DOT section for review. For example, the Meter Shop investigates complaints regarding broken meters; the Bureau of Parking Operations investigates complaints related to posted signs and curb parking; and Enforcement and Control investigates contested street sweeping citations and complaints regarding officer behavior. The investigations are required to be completed within 240 days, or are to be dismissed from the system.

Finding #1: DOT has a backlog of Complaint and Investigations (CI) that resulted in the dismissal of citations and potential lost revenue.

We reviewed a listing of 62,321 Complaint and Investigation (CI) requests that ACS referred to DOT between July 2008 and December 2009. Approximately 36% (22,342) of the CIs were meter related.

We noted that DOT dismissed 4,429 (7%) of the 62,321 CIs, with fines totaling over \$200,000, because the investigations were not completed within the required timeframe. The City Attorney advised DOT that CIs not completed within 240 days should be dismissed due to an untimely investigation. Based on our testwork of the broader CI population, for approximately 63% of the investigations that were completed, DOT concluded the citation was valid. Therefore, we estimate the City lost revenue totaling \$126,000 (\$200,000 x 63%) due to untimely investigations which resulted in dismissal.

DOT attributed the untimely investigations to a lack of staff resources. The Department stated that as a result of a similar finding noted during our internal control review conducted in 2008, the Department was authorized to hire seven as-needed Administrative Hearing Examiners (AHE) in January 20, 2009 and that this resulted in

backlogged CIs being reduced. However, when funding in the As-Needed salary account was reduced and hours of the staff were subsequently reduced, four of the original seven AHEs left the City, and two have been assigned as Ombudspersons because of the attrition of City staff that used to perform that work. As a result, the Department currently has only one staff member conducting field investigations.

While many citations were dismissed without investigation solely due to timing issues, we also identified a risk that some citations remained outstanding even though the investigations took longer than the 240 days. We reviewed 50 CIs from the listing and noted the following:

- Two CIs were completed after the required 240 days, and two others were still pending for more than 240 days. The two pending CIs were assigned to the DOT meter shop in April 2009 and August 2009, respectively. For the two CIs completed after the required 240 days, DOT did not comply with the City Attorney's advice to dismiss CIs for untimely investigation.
- There appears to be a lack of supervisory review and monitoring of the completion of assigned CIs to staff.

Recommendations

DOT management should:

- 1. Allocate adequate resources to ensure that Complaint and Investigations are completed within the prescribed timeframe and ensure that adequate supervision is performed to enable timely completion.**
- 2. Ensure that Complaint and Investigations are dismissed/canceled when they are not completed within the required timeframe.**

Critical Fields on Citations and Voids

Finding #2: ACS processes and bills citations that are missing critical fields. Also, DOT has paid ACS over \$400,000 since the inception of the contract for processing voided transactions, even though no collection efforts are required for these voids.

Citations with Critical Fields

CVC Section 40202 states that if a vehicle is unattended during the time of the violation, the person authorized to enforce parking regulations shall securely attach to the vehicle a notice of parking violation that includes the following:

- a) reference to the section of the code, the local ordinance, or the federal statute or regulation violated
- b) date of violation
- c) approximate time of violation
- d) location where the violation occurred
- e) statement printed on the notice indicating the date payment is required, not later than 21 calendar days from the date of citation issuance
- f) vehicle license number, *if visible*
- g) expiration date of the registration, *if visible*
- h) last four digits of the vehicle identification number, *if that number is readable through the windshield*
- i) color of the vehicle
- j) make of the vehicle, *if possible*

DOT has defined each of these elements as critical fields because they are important to help identify the vehicle that has been issued the citation, and to eventually identify the vehicle's owner through Department of Motor Vehicle records.

DOT stated that if a motorist submits payment for a citation with missing critical fields, the PVB accepts the payment and closes the citation. If payment has not been received by the required due date (21 days from issuance), ACS' system is programmed to send a notice to the registered owner of the vehicle, even if the citation is missing a critical field(s). The only exception is that a notice will not be sent if there is a missing violation code, because there would not be an amount associated with the citation.

If the motorist does not pay, ACS applies penalties and makes attempts to collect by sending notices and using other collection techniques. However, if the motorist contests the citation and a critical field is missing, the DOT Ombudsperson will dismiss the citation based upon that finding. According to DOT, if a motorist submits payment without contesting the citation, the presumption is that the motorist assumed responsibility for the violation.

DOT's practices appear inconsistent, where it accepts payments on citations missing critical fields, but dismisses those citations if they are contested.

Void Citations

When a Traffic Officer, while in the process of issuing a citation, notices that there is a mistake in the citation, he/she voids the citation and another one is issued in its place. Even though voided citations are not issued, they are included in the count of citations processed by ACS and the City is billed for them. The contract states that ACS will be paid based on the number of citations processed. However, it does not specify whether voided transactions should be included in that count. Because voided citations require no further processing or collection efforts by ACS, it is questionable that they should be counted in the total number as processed. Since the inception of the current contract in 2006, the City paid ACS over \$400,000 in fees related to voided citations.

Because the contract was silent on the non-payment of voided citations, DOT did not adjust the invoice amount for voids. DOT stated it will propose no payment for voided citations in the new RFP, and ensure the contract language is clarified.

Recommendations

DOT management should:

- 3. Consult with the City Attorney's Office regarding the appropriateness/legality of collecting on citations that are missing critical fields, and revise DOT policies and procedures accordingly.**
- 4. In future contracts for parking citation processing services, specify that the contractor will not be paid processing fees for voided citations.**
- 5. Consult with the City Attorney, and if deemed appropriate, seek reimbursement of \$400,000.**

Gold Card Desk

The CVC states that motorists are allowed to contest a citation if they believe no violation occurred. In line with this requirement, DOT has established an administrative review process, which can be followed by an administrative hearing and subsequent appeal to the court system, as described in the background section of this report. In addition, DOT has also designated a "Gold Card Desk" at ACS for elected officials.

Only DOT can authorize the cancellation of a citation, and only ACS can effect its cancellation in the eTIMS system. During FY 2009 and 2010, approximately 285,000 citations were cancelled, which represents about 5% of the total citations issued. While most of the cancellations occurred through the administrative review process, about 1,000 were cancelled by the Gold Card Desk through an alternative process.

Finding #3: The citation cancellation process for the Gold Card Desk is inadequately controlled. Fines and/or penalties are waived for valid citations without proper supporting documentation, and citations are dismissed due to extenuating circumstances without clear criteria.

DOT staff in the Office of Regulatory Services (ORS) receive requests from elected officials on behalf of their constituents or from the public to investigate citations or suspend citations and penalties. ORS staff will determine the status of the citation by reviewing the citation history. If the citation has not gone through the administrative review process and there is still time before a penalty will apply, the citation will be forwarded to ACS to begin the administrative review process. If the administrative review period has already lapsed, staff will conduct an investigation to determine the

validity of the citation. If it is determined that the citation is not valid, a request is made to ACS to suspend the citation and any related penalties. The ORS staff at DOT cannot make changes directly to the system.

DOT has also established a Gold Card Desk (GCD) at ACS, whereby elected officials may directly request citations be investigated to determine whether fines/penalties can be partially or fully reduced. This service is provided exclusively for the Council District Offices and the Mayor's Office. The GCD will attempt to resolve the investigation; however, if they are unable to do so, they will request ORS' assistance. GCD is not allowed to reduce/cancel fines or penalties without specific approval from DOT.

Our audit found that DOT did not have a central section or person that coordinates requests to the GCD to cancel/reduce fines and penalties. We noted that each of the DOT bureaus can submit requests to cancel citations to the GCD, and that within ORS, different staff may submit requests. While various DOT staff call GCD to request cancellations/reductions, DOT does not have a listing of the specific individuals who are authorized to approve such cancellations/reductions.

We reviewed a sample of 40 cancelled citations processed by the GCD and noted the following:

- While there were e-mail requests from DOT staff for the cancellation of all 40 citations, the e-mails and the system history notes for six (15%) of the citations did not include a reason for cancelling the citations.
- 12 of remaining 34 (35%) citations were cancelled for reasons other than that the citations were not valid. For three of 12 citations, fines and penalties were cancelled because the drivers could not pay. Specifically, the e-mails for the three citations indicated that the drivers could not pay the fines and penalties because they did not have the means. Since DOT does not have guidelines with respect to canceling fines/penalties based on a violator's self-declared inability to pay, we could not assess the reasonableness of these cancellations. CVC section 40215(a) states that if, following the initial review, the issuing agency is satisfied that the violation did not occur, that the registered owner was not responsible for the violation, or that *extenuating circumstances make dismissal of the citation appropriate in the interest of justice*, the issuing agency shall cancel the notice of parking violation or notice of delinquent parking violation. However, the CVC does not indicate, nor does DOT policy state whether a self-declared inability to pay is an extenuating circumstance.
- GCD cancelled three of 40 (8%) citations requested by the Bureau of Parking Enforcement Control (PEC) without the required cancellation forms. Per Bureau of Parking Enforcement and Control policy 6/107, a directive to ACS states that all such requests must be accompanied by a written Citation Cancellation Request (CIR) and that the Parking Violation Bureau will not process cancellations which do not have the required signatures.

DOT's lack of comprehensive policies and procedures for the GCD process, including identifying the specific individuals who may authorize cancellations, increases the risk of inappropriate cancellations/reductions.

Recommendations

DOT management should:

- 6. Identify the specific individuals who are authorized to approve cancellations and reductions of fines and penalties for parking citations.**
- 7. Designate an individual or section to coordinate and submit all citation cancellation requests to ACS.**
- 8. Develop formal policies and procedures for the Gold Card Desk's processing of citation cancellation requests. This should include ensuring that cancellations and reductions of fines and penalties are properly supported and approved.**
- 9. On a sample basis, review cancellation reports provided by ACS to ensure cancelled tickets conform with cancellation requests submitted to ACS.**
- 10. Describe and document the types of acceptable extenuating circumstances that would qualify for valid citations to be dismissed by DOT.**
- 11. Eliminate the Gold Card Desk when a new contract is signed to operate the Parking Violation Bureau.**

Subsequent to our audit fieldwork, DOT drafted a working definition of extenuating circumstances in the interest of justice and examples that will serve as objective criteria for cancellation decisions. In addition, DOT has revised the cancellation review process, so that only one section is authorized to dismiss citations, and has submitted a listing of authorized DOT employees who are approved to request/approve citation cancellations.

Expired Registration Tabs

The CVC allows Traffic Officers to issue citations to vehicles that do not display current registration stickers (tabs). However, if the motorist subsequently shows proof of their current tab, the fine (usually \$25) is waived upon payment of a \$10 administrative fee. The CVC does not address how additional penalties for non-payment should be treated.

Finding #4: The City failed to collect \$557,000 over two fiscal years because DOT did not consistently assess administrative fees and penalties for citations related to expired registration stickers (tabs) and vehicles with no evidence of registration. Of this amount, \$328,000 pertained to City revenue.

Our review of ACS' citation database found that DOT did not collect the \$10 administrative fee on 33,183 citations issued during fiscal years 2009 and 2010. In addition, \$225,000 in fees and related penalties were waived on over 3,800 additional citations. Further analysis disclosed that DOT was inconsistent in collecting the fee/penalties. DOT collected the \$10 administrative fee on 100 of the 3,800 citations.

DOT explained that ACS' system is not programmed to assess the \$10 fee or penalties when motorists provide proof of their tabs. As a result, these fees/penalties were generally not assessed. This was also caused by lack of oversight and monitoring by DOT. DOT indicated that it would work with ACS to modify the business rules in ACS' system to appropriately apply the \$10 fee and any related penalties.

Not all citation revenue belongs to the City for these violations, as a portion of the collections must be remitted to Los Angeles County or ACS. The estimated amount the City lost during fiscal years 2009 and 2010 by failing to assess the \$10 fee and related penalties is \$328,000². Since the inception of the contract, this equates to approximately \$700,000³ in lost revenue to the City.

Recommendations

DOT management should:

- 12. Work with ACS to ensure that the \$10 fee and applicable penalties are assessed to motorists who are issued a citation for lack of current registration tabs but who later provide proof of proper registration.**
- 13. Improve oversight over these types of activities to ensure ACS bills the appropriate amounts as allowed by statute.**

² Potential combined lost revenue totaling \$328,478 (\$165,915 (uncollected admin fees) plus \$162,563 (uncollected penalties))

³ We extrapolated that the City lost \$697,000 ($\$328,000/2 = \$164,000 * 4 = \$656,000 + \$41,000$ (April - June)) from the inception of the contract to June 2010.

Error Reports

Finding #5: DOT changed its methodology for calculating citation error rates after the public expressed concerns about the Department's high error rates. Also, DOT is not using the reports to identify Traffic Officers that may benefit from training.

As noted in Finding #2, the CVC requires that certain information (e.g., date and time) be included on a citation. If a citation is missing data in any of the critical fields, DOT considers this as an error. ACS generates a monthly report to show the number of errors and the number of citations issued, broken down by the issuing agency.

We reviewed DOT's error reports for April and May 2010, and noted that they showed error rates of 7.7% and 7.3%, respectively. According to DOT management, it had never actually used nor analyzed these reports. However, based on concerns from the public about the high error rates as reported by the media, DOT management evaluated the reports and found the calculated rates were misleading and inaccurate. For example, if a single citation had four missing critical fields, it would count as four errors. This would overstate the overall error rate, because the error rate is computed by dividing the number of errors by the number of citations issued. Multiple errors on a single citation should not be counted as additive; rather, each citation with one or more errors should count as one error. Also, the initial error reports included voided citations, counting each missing field from the voided citation as separate errors. While one voided citation could be considered an error, the multiple fields would inappropriately skew the overall error rate, which is based on a count of citations.

We agree that multiple missing critical fields on a single citation should only count as one error, and that voided citations should not be counted as errors for this calculated rate. DOT re-ran the reports based on this criteria, which presented error rates of about 1% (excluding missing VINs) for each period. Our review of the reports disclosed that the recalculated rates were accurate.

However, for the new reports, we noted that missing VINs (Vehicle Identification Numbers) were not counted as errors, though they were in the initial error reports. When missing VINs were considered, the error rates increased to 3.8% and 3.6%, respectively.

Section 40202 (a) of the California Vehicle Code states that the last four digits of the Vehicle Identification Number should be obtained, if that number is readable through the windshield. Also, departmental policy states that if the VIN is not readable, the Traffic Officer should indicate NV (not visible) in the VIN field on a handwritten citation, or in the comments field on citations issued through handheld devices.

To adequately monitor error rates, all critical fields must be captured. In addition, DOT should use the revised error reports to identify specific needs for additional training. Currently, DOT does produce a report showing cancelled and dismissed tickets to

identify responsible officers; however, identifying all types of errors will better identify potential training opportunities.

Recommendation

- 14. DOT management should ensure error reports count all missing or blank critical fields as errors, and use the error reports to identify opportunities for additional training.**

Protective Plates

The confidential records program was created to protect police officers and their families. However, the program has been expanded to include other governmental personnel such as City attorneys, firefighters, social workers, and probation officers. Under this program, DMV records do not include the individuals' name or address as the registered vehicle owner; rather, the public agency employing that protected employee is listed. During FYs 2009 and 2010, DOT issued over 15,000 citations to protective plate holders, totaling approximately \$850,000.

Finding #6: The City lost potential revenue because DOT did not pursue collections from protective plate holders who failed to pay their citations.

Our review found that 30% of citations issued to protective plate holders between July 2005 and June 2010 had not been paid. We also noted that DOT did not pursue collections from these individuals if they did not pay based on the citation being placed on their windshield.

The CVC does not allow penalties to be assessed on delinquent citations, unless a reminder notice has been sent to the violator. ACS prepares and sends notices to the registered owner based on DMV records; however, for protected plates, the agency address is not listed, and DOT had no policies to pursue collection from delinquent protective plate owners.

In December 2009, DOT began sending manual notices to these violators' agencies after securing a corresponding address. Beginning in March 2010, ACS began sending system-generated notices, and DOT has recently updated its reference guide to capture the majority of public agencies throughout the State who employ individuals with protected plates, so notices can be sent and late penalties can be applied. We noted that penalties were not assessed on delinquent citations issued to protective plate holders until March 18, 2010.

Recommendation

- 15. DOT management should establish written policies and procedures for handling citations issued to protective plate holders, which includes regular monitoring to ensure agency address and contact information remains up to date.**

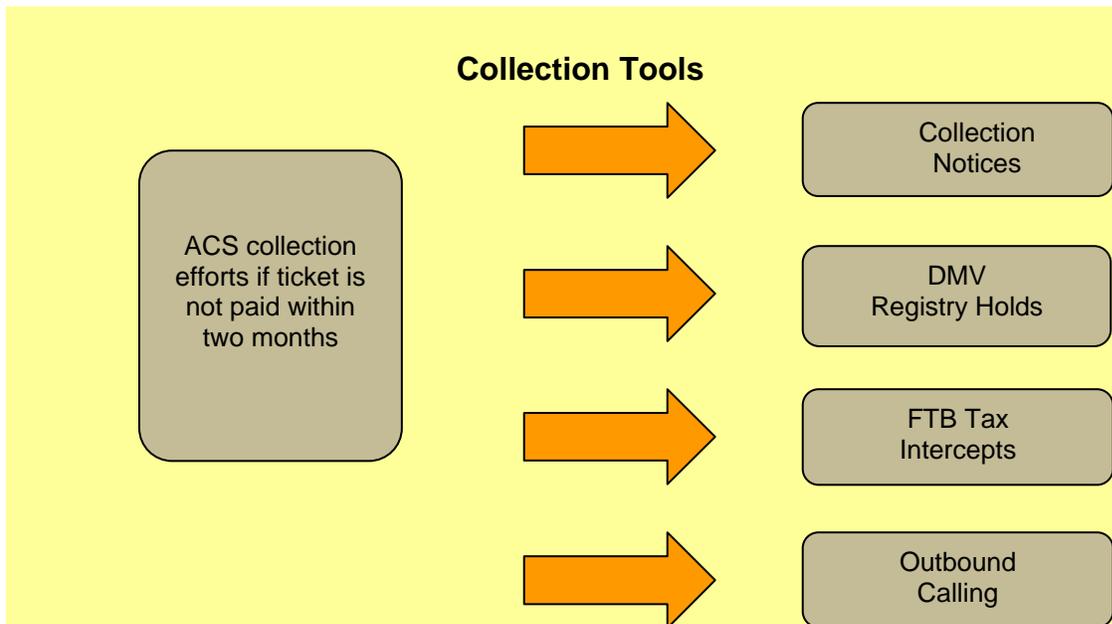
SECTION II: PROCESS FOR PURSUING DELINQUENT ACCOUNTS

Collection Rate and Collection Tools

In light of the financial problems facing the City, each department should diligently attempt to collect all monies owed to the City as expeditiously as possible. In accordance with the CVC, ACS sends out reminder notices to motorists when payments have not been received within 21 days after the citation issuance date. Additional collection efforts by ACS, as directed by DOT, are noted below:

<i>TIMELINE</i>	<i>PROCESSING PROCEDURE</i>
Day 1	Citation Issued/Entered in eTIMS, the ACS system for managing and processing parking citations.
Day 2	DMV inquiry to obtain vehicles' registered owner information; returned information is automatically posted to eTIMS.
Day 22	First Notice is mailed (notice of delinquent parking violation). Notice indicates that if payment is not received within 14 days of the notice, a penalty will apply.
Day 37	First late penalty applied. For most violations, the citation amount is doubled.
Day 58	Second notice is mailed (payment overdue notice) with a \$25 second penalty. Notice advises that full payment must be received within 21 days or a DMV hold will be placed on the vehicle registration and a \$3 DMV hold fee will be assessed. Motorists are required to pay their outstanding citation before they can renew their registration.
Day 79	First special collection payment demand notice is mailed. The notice includes the \$3 DMV fee and a \$21 special collection fee.
Day 100	Second special collection notice is mailed.
Day 121	Third special collection notice is mailed.
Day 142	Fourth special collection notice is mailed.

The following diagram shows ACS' collection tools for citations not paid within two months:



The Franchise Tax Board (FTB) program consists of placing the debtor on hold with the State of California to intercept State tax refunds and/or lottery winnings.

Outbound calling is a collection tool utilized by collection agencies in which they obtain phone numbers of debtors and make calls to the individuals. ACS forwards delinquent accounts that are over three years old to an outside collection agent, MRS, to provide outbound calling services.

Finding #7: ACS is not utilizing all collection tools required by the contract. Also, DOT has not analyzed the effect of various collection techniques, including the timing of penalties or other actions, to maximize citation collections and improve the current collection rate. The current collection rate is 56% within the first 100 days, eventually rising to 75% after two years.

Collection Rate

According to DOT's records, ACS' collection rate is approximately 80% and its "closure rate" is approximately 85%. The reported collection rate is calculated by dividing the number of citations with a payment greater than zero and an amount due of zero by the number of citations issued, including voids. The closure rate is computed by dividing the total number of citations with a due amount of zero (including voids) by the number of citations issued, including voids.

Both the collection rate and the closure rate are based solely on the number of citations issued and do not take into consideration the dollar amounts related to the citations. Calculating collection/closure rates based on dollar amounts is more accurate because it accounts for the fact that citation amounts vary. For example, if ACS had a high collection rate on low dollar violations but a lower collection rate on high dollar violations, the actual collection rate would be overstated. Also, calculating the rates based on dollar amounts would reflect reduced or dismissed fine and penalty amounts that would not necessarily be reflected when calculating the rate based only on the number of citations issued.

In an effort to calculate a collection rate based on dollars, we selected a random sample of 107 citations issued in July and August 2008 and calculated collection rates at various points in time using the fine and penalty amounts applied. We used July and August 2008 to allow enough time to pass to fully collect the account. ACS' statistics show that after two years from the original issuance date, the additional collections are very low. For example, DOT's reported collection rate (based on number of citations) is 80.7% after two years, and 81.0% after three years.

The following graph shows the results of our sample of 107 citations, based on dollar collections over time:



Our sample shows that the City receives about 33% of the amounts due without having to bill the violator. ACS and DOT refer to this as the "windshield rate" since motorists pay the citation based solely on the receipt of the citation on the vehicle's windshield. The data suggests that both the first notice and the DMV holds are somewhat effective as evidenced by the increase in rates between 21 and 37 days and between 100 days and 1.5 years.

DOT reviews various collection reports in order to assist in projecting fiscal year revenue. It also reviews reports showing total collections at various points in the collection process (e.g., off the windshield, after the first notice but before any penalties, etc.) for any trends. However, we noted that DOT has not established performance goals that are linked to various milestones so that it can better assess the effectiveness of the various collection techniques. For instance, in August 2010, DOT increased the second penalty amount from \$10 to \$25. However, before implementing the change it did not complete an analysis of the effectiveness of the \$10 penalty amount; rather, the increase was imposed simply to generate additional revenue.

Having performance goals tied to collection milestones, coupled with DOT's existing methods and new collection results that focus on dollar amounts, should enable the Department to better manage the collection process, resulting in increased collections and more timely receipt of monies due the City.

Additional Collection Efforts

While we noted that ACS consistently utilized some collection techniques, it did not use one key technique required by the contract, reporting the unpaid debts to credit agencies. ACS did not send the first batch to Experian for credit marking until May 27, 2010. Credit marking is an effective tool utilized by collection agencies, because many people will pay their debts to maintain their credit rating.

ACS indicated that it received a notice from DOT to proceed for credit bureau reporting (CBR) in January 2009. However, it could not begin to implement this program until December 2009 due to multiple program management changes. It took many months to implement the program because ACS needed to prepare the notices which required approval from DOT and from ACS' legal department. In addition, in order to assign delinquent accounts for CBR reporting, ACS had to acquire social security numbers for registered owners and develop and test data interfaces with Experian. In May 2010, ACS sent Experian 85 records. DOT indicated that it was under the impression that ACS had been making CBR referrals since early 2009. It was not until our audit inquiries that DOT found ACS had not been making these referrals.

Motorists with delinquent unpaid citations do not receive any collection phone calls until more than three years after the citation issuance. Making calls much earlier in the process may result in increasing collections, as violators who do not respond to mailed notices may pay after receiving a phone call(s) from a collector.

In coordination with DOT, ACS recently began exploring sending the accounts to MRS for outbound calling after two years, instead of three. We believe that DOT should explore the cost effectiveness of making the calls much earlier, perhaps as soon as 60 days after the citation issue date. The benefits of receiving collections sooner and a potential increase in the collection rate may be significant, and outweigh any additional costs of a third-party collection agent.

By establishing performance goals along with additional collection techniques that are linked to milestones, DOT may be able to increase the overall collection rate and/or be able to collect amounts earlier.

Recommendations

DOT management should:

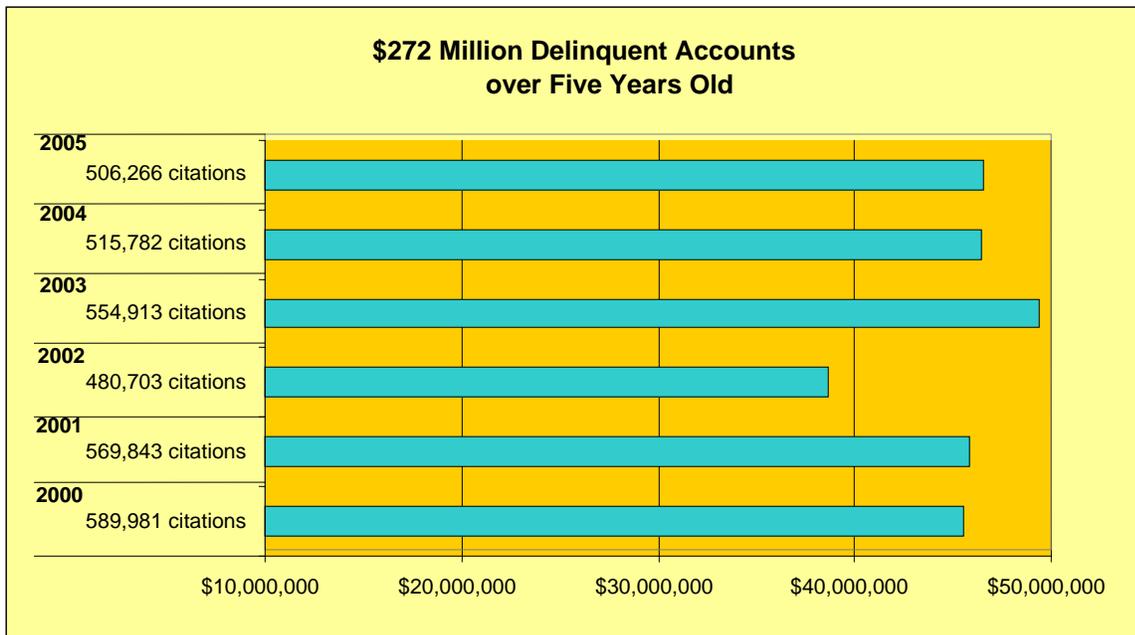
- 16. Adopt a methodology where collection rates are based on dollar amounts, instead of solely on the number of citations issued.**
- 17. Develop performance goals for collections that are linked to milestones and periodically assess performance to determine if changes to the nature and timing of collection activities or to the amount of penalties are warranted.**
- 18. Ensure that vendors comply with the requirements of the contract with respect to collection tools utilized.**
- 19. Explore the cost effectiveness of making phone calls to debtors earlier in the collection process.**

Write-Off of Uncollectible Accounts

Finding #8: DOT has at least \$270 million in delinquent accounts that are over five years old but have never been written-off.

When all collection efforts have been exhausted, the uncollected accounts should be submitted to the Board of Review (BOR) for write-off. The BOR reviews, authorizes, and/or recommends delinquent accounts for write-off as described in Sections 5.182 of the City of Los Angeles Administrative Code. The Board includes staff from the Controller's Office, and representatives of the City Treasurer and the Director of Finance.

DOT indicated that delinquent accounts over five years old are maintained in ACS' system in a non-current file, but they do not include these amounts when reporting accounts receivables for financial statement purposes, nor does the Department submit these accounts for write-off. DOT stated that it does not include these accounts in the current system files because the statute of limitations has expired. According to ACS' records there are over three million citations totaling approximately \$272 million that are over five years old. The following diagram provides a breakdown by year of citation issuance:



Section 6.3 of the Office of Finance’s Citywide Guidelines requires departments to develop a quarterly list of the debts deemed uncollectible and to forward this list, along with a write-off request to the BOR to remove accounts from the department’s active records. As a result of DOT not submitting write-off requests, City management has not been made aware of the volume of uncollectible accounts. DOT cited a lack of staff resources for not preparing requests to write-off the uncollectible accounts.

Recommendations

DOT management should:

- 20. Submit regular write-off requests to the Board of Review for accounts deemed uncollectible.**
- 21. Report all accounts receivables (excluding any accounts written-off) to the Controller’s Office when reporting accounts receivable amounts for inclusion in the City’s financial statements.**

SECTION III: CONTRACT OVERSIGHT AND MONITORING

As part of its contract, ACS was required to provide Department of Transportation (DOT) Traffic Officers (TO) with 556 handheld ticket writer units (handhelds), provide applications for the handhelds to allow the officers to efficiently issue citations, and repair and maintain the units.

In addition to the handheld devices, the contract required that ACS, through Duncan Solutions, provide the following applications to be used with the new handheld devices:

- **Abandoned Vehicle Application:** This application allows a Traffic Officer to initiate abandoned vehicle mark orders (applicable when a vehicle has not moved in 72 hours) in the field. The application allows for the accumulated mark orders stored in handheld devices and when placed in the cradle to be automatically updated to the eTIMS[®] Abandoned Vehicle subsystem. In addition, as citizens call the Abandoned Hot Line, files containing mark orders are sent to the Duncan Solutions server and downloaded to the handhelds.
- **VIPU Application:** The VIPU (Vehicle Identification Processing Unit), allows the Traffic Officer to enter impound data at the scene of a Department ordered tow into the handhelds, print out a form containing tow data, and download the data each day to the eTIMS[®] VIPU subsystem. This automated process would replace the current process which requires that the officer handwrite the tow form and that the data from the form be manually data entered into the VIPU subsystem.
- **Parking Regulation Outage Capture:** The Parking Regulations Outage Capture application allows the Traffic Officer to capture parking meter, parking sign, and curb paint information so that the data can be uploaded automatically from the handhelds when placed in its cradle and transferred to the eTIMS[®] system. This information is then used by City staff to generate work orders for distribution to the bureau responsible for the repairs. The second part of this project required that ACS develop an interface to the department's Traffic Asset Management System work order module in order to reduce data entry.
- **Field Survey Application:** The application was designed to allow Traffic Officers to record survey data on handheld ticket writer units. The survey record would contain fields for the capture of the following survey elements: date/time of survey, location, regulation(s), occupancy, turnover elements, and capture rates. The Bureau of Parking Enforcement requested to replace the application with a web based dashboard application. The dashboard application allows the management of the Parking Enforcement to monitor

officer activities and prepare reports related to performance. The dashboard application has been completed.

While we noted that ACS has provided and continues to provide other required products and services, we noted that some key applications did not appear to be delivered in a timely manner.

Finding #9: A key application for the parking enforcement officers' handheld devices has not been developed, implemented, or loaded on their equipment, five years into the contract. Other applications took several years to implement.

ACS did not develop, implement, load, and maintain one of three applications for the parking enforcement officers' handhelds. Specifically, we noted the Vehicle Identification Processing Unit (VIPU) was not yet completed as of our audit fieldwork date, and was anticipated to be delivered during March 2011, when the contract was set to expire. The VIPU will allow Traffic Officers to enter impound data into handheld devices at the scene of a Department-ordered tow, print out a form containing tow data, and download the data to eTIMS. This automated application will replace the current manual process which requires officers to handwrite the tow form, and the need for a subsequent manual data entry of the related information into eTIMS.

We also noted that two other applications were delivered several years into the contract. Specifically, the Abandoned Vehicle application was completed in 2008, two years after the contract was effective, and the Parking Regulation Outage Capture was completed in 2009, three years into the contract.

The contract did not specify delivery times for any of the ACS required applications; nor did the contract specify what would happen if the applications were not delivered within certain timeframes. Also, there is a lack of formal documentation of DOT's follow-up with ACS concerning the lengthy delivery timeframes of the applications.

According to DOT, even though the contract was signed in 2006, the handheld deployment was not completed until November of 2007. The deployment required the reworking of applications previously developed for a different handheld unit. In addition, the introduction of a third party (Duncan), required ACS to modify the eTIMS® system in order to integrate with the new vendor. After the handhelds' deployment, a total of three applications were put into production, two technology pilots were deployed, and various license plate recognition (LPR) initiatives were implemented. Each of these initiatives involved coordinating efforts among DOT's Bureau of Parking Enforcement, ACS, Duncan Solutions, and other vendors. Because systems from various entities had to be interfaced, it made the process more complicated, and the timelines lengthier.

We recognize that systems are frequently not implemented by the initial due dates. However, in the case of these applications, we would have expected that initial target

implementation dates had been set and formal documents showing any revised dates, based on active project management and oversight, had been maintained.

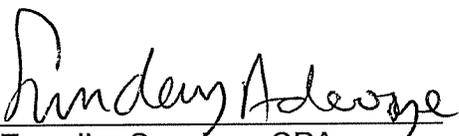
The development and implementation of the applications were not efficiently planned, which hindered DOT's ability to effectively manage and monitor operations. Also, the City potentially lost the opportunity to enhance revenue to be realized through these systems.

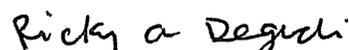
Recommendations

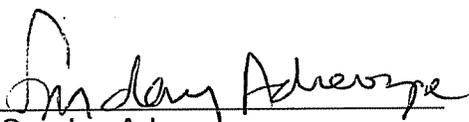
DOT management should:

22. Employ a sound systems development methodology in the future to ensure that applications are defined, developed, and installed in a timely manner.
23. In future contracts, provide timelines for deliverables and specify penalties for not meeting the required dates. Any adjustments to timeframes should be formally approved.

Respectfully submitted,

for 
Erendira Sanchez, CPA
Internal Auditor I


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Chief Internal Auditor


Sunday Adeoye
Internal Auditor III


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Director of Auditing

February 1, 2011

Section Number	Summary Description of Findings	Ranking Code	Recommendations
			Attorney, and if deemed appropriate, seek reimbursement of \$400,000.
	<p>3. The citation cancellation process for the Gold Card Desk is inadequately controlled. Fines and/or penalties are waived for valid citations without proper supporting documentation, and citations are dismissed due to extenuating circumstances without clear criteria.</p>	<p>U</p> <p>U</p> <p>U</p> <p>N</p> <p>N</p>	<p>DOT management should:</p> <p>6. Identify the specific individuals who are authorized to approve cancellations and reductions of fines and penalties for parking citations.</p> <p>7. Designate an individual or section to coordinate and submit all citation cancellation requests to ACS.</p> <p>8. Develop formal policies and procedures for the Gold Card Desk's processing of citation cancellation requests. This should include ensuring that cancellations and reductions of fines and penalties are properly supported and approved.</p> <p>9. On a sample basis, review cancellation reports provided by ACS to ensure cancelled tickets conform with cancellation requests submitted to ACS.</p> <p>10. Describe and document the types of acceptable extenuating circumstances that would qualify for valid citations to be dismissed by DOT.</p>

Section Number	Summary Description of Findings	Ranking Code	Recommendations
		N	11. Eliminate the Gold Card Desk when a new contract is signed to operate the Parking Violation Bureau.
	<p>4. The City failed to collect \$557,000 over two fiscal years because DOT did not consistently collect administrative fees and penalties for citations related to expired registration stickers (tabs) and vehicles with no evidence of registration. Of this amount, \$328,000 pertained to City revenue.</p>	<p>U</p> <p>N</p>	<p>DOT management should:</p> <p>12. Work with ACS to ensure that the \$10 fee and applicable penalties are assessed to motorists who are issued a citation for lack of current registration tabs but who later provide proof of proper registration.</p> <p>13. Improve oversight over these types of activities to ensure ACS bills the appropriate amounts as allowed by statute.</p>
	<p>5. DOT changed its methodology for calculating citation error rates after the public expressed concerns about the Department's high error rates. Also, DOT is not using the reports to identify Traffic Officers that may benefit from training.</p>	N	<p>14. DOT management should ensure error reports count all missing or blank critical fields as errors, and use the error reports to identify opportunities for additional training.</p>

Section Number	Summary Description of Findings	Ranking Code	Recommendations
	<p>6. The City lost potential revenue because DOT did not pursue collections from protective plate holders who failed to pay their citations.</p>	<p>N</p>	<p>15. DOT management should establish written policies and procedures for handling citations issued to protective plate holders, which includes regular monitoring to ensure agency address and contact information remains up to date.</p>
<p>II</p>	<p>7. ACS is not utilizing all collection tools required by the contract. Also, DOT has not analyzed the effect of various collection techniques, including the timing of penalties or other actions, to maximize citation collections and improve the current collection rate. The current collection rate is 56% within the first 100 days, eventually rising to 75% after two years.</p>	<p>N</p> <p>N</p> <p>N</p> <p>N</p>	<p>DOT management should:</p> <p>16. Adopt a methodology where collection rates are based on dollar amounts, instead of solely on the number of citations issued.</p> <p>17. Develop performance goals for collections that are linked to milestones and periodically assess performance to determine if changes to the nature and timing of collection activities or to the amount of penalties are warranted.</p> <p>18. Ensure that vendors comply with the requirements of the contract with respect to collection tools utilized.</p> <p>19. Explore the cost effectiveness of making phone calls to debtors earlier in the collection process.</p>

Section Number	Summary Description of Findings	Ranking Code	Recommendations
	<p>8. DOT has at least \$270 million in delinquent accounts that are over five years old but have never been written-off.</p>	<p>N</p> <p>N</p>	<p>DOT management should:</p> <p>20. Submit regular write-off requests to the Board of Review for accounts deemed uncollectible.</p> <p>21. Report all accounts receivables (excluding any accounts written-off) to the Controller's Office when reporting accounts receivable amounts for inclusion in the City's financial statements.</p>
	<p>9. A key application for the parking enforcement officers' handheld devices has not been developed, implemented, or loaded on their equipment, five years into the contract. Other applications took several years to implement.</p>	<p>N</p> <p>N</p>	<p>DOT management should:</p> <p>22. Employ a sound systems development methodology in the future to ensure that applications are defined, developed, and installed in a timely manner.</p> <p>23. In future contracts provide timelines for deliverables and specify penalties for not meeting the required dates. Any adjustments to timeframes should be formally approved.</p>

Description of Recommendation Ranking Codes

U - Urgent - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N - Necessary - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than six months.

D - Desirable - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A - Not Applicable