

DURHAM



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# **PARKING FACILITIES MANAGEMENT PERFORMANCE AUDIT**

**JUNE 2016**

DURHAM



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**To:** Audit Services Oversight Committee  
**From:** Dr. Germaine Brewington, Director  
Audit Services Department  
**Date:** June 27, 2016  
**Re:** Parking Facilities Management Performance Audit  
June 2016

The Department of Audit Services completed the report on the Parking Facilities Management Performance Audit dated June 2016. The purpose of the Parking Facilities Management Compliance audit was twofold: 1) to determine if the City of Durham's Transportation Department had adequate controls in place to monitor the "Parking System Management Services Agreement" with Republic Parking System, Inc.; and 2) to determine if Republic Parking System had adequate controls over the operations, maintenance and management of the parking facilities as well as on-street parking.

This report presents the observations, results, and recommendations of the Parking Facilities Management Performance Audit dated June 2016. City management concur with the recommendations made. Management's response to the recommendations is included with the attached report.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Department of Transportation in the completion of this audit.

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## BACKGROUND INFORMATION

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The City of Durham is the owner of five parking garages and associated surface lots, containing a total of 2,117 parking spaces:

1. The Corcoran Street Garage (554 total spaces, adjacent surface lot that contains 155 spaces) provides monthly contract, hourly and special events parking. This garage has a booth attendant from 10:00 am until 7:00 pm, Monday through Friday.
2. The Church Street Garage (412 spaces) provides monthly contract, hourly and special events parking. This garage has a booth attendant from 10:00 am until 7:00 pm, Monday through Friday.
3. The Chapel Hill Street Garage (364 spaces, inclusive of surface lot with 52 spaces) provides monthly contract, hourly and special events parking. This garage has a booth attendant from 10:00 am until 7:00 pm, Monday through Friday.
4. The Durham Center Garage (720 spaces) provides monthly contract, hourly and special events parking. This garage has a booth attendant from 10:00 am until 7:00pm, Monday through Friday.
5. The City Hall Annex Garage (67 spaces) is a restricted –access secured facility that provides parking for members of the City Council, select City Executives, staff members, and select City department service vehicles. This garage is un-staffed.

The City also owns and operates 12 un-staffed surface parking lots containing a total of 761 spaces.

The City of Durham entered into the “Parking System Management Services Agreement” with Republic Parking System, Inc. effective September 1, 2015. According to the Agreement, Republic Parking System will provide professional management of the City’s parking facilities (operations and maintenance) and management of on-street parking including parking enforcement, citation processing, adjudication, and meter management (if implemented). Republic Parking System will enforce parking regulations within the City of Durham in compliance with City code or City ordinance. The Agreement will expire in 2018; however, the City has the option to renew the Agreement for an additional three year period.



## BACKGROUND INFORMATION

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The City will pay Republic Parking System a fixed base management fee of \$1,326,376 for a twelve month period ending September 1, 2016. This fixed base management fee will be \$1,349,849 and \$1,371,026, respectively for years 2 and 3 of the contract period for operation and management of off-street parking facilities.

In consideration for operation and management of on-street parking, the City will pay Republic Parking System a fixed base management fee of \$479,999 for a twelve month period ending September 1, 2016. This fixed base management fee will be \$482,707 and \$485,496, respectively for years 2 and 3 of the contract period.

The City of Durham's Department of Transportation is currently responsible for monitoring the Parking System Management Services Agreement.



## EXECUTIVE SUMMARY

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### Purpose

The purpose of the Parking Facilities Management Performance Audit was twofold: 1) to determine if the City of Durham's Transportation Department had adequate controls in place to monitor the "Parking System Management Services Agreement" with Republic Parking System, Inc., and 2) to determine if Republic Parking System had adequate controls over the operations, maintenance and management of the parking facilities as well as on-street parking.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

### Results in Brief

Overall, the Transportation Department staff should strengthen its monitoring efforts to ensure Republic Parking System, Inc. is adequately managing the parking facilities.

Republic Parking System, Inc. was compliant with the current Agreement. Overall, Republic Parking System, Inc. had adequate controls over cash collections; however, opportunities existed for improvement in the following areas:

1. Segregation of duties pertaining to collections of monthly parking revenues and on-street parking revenues;
2. Tracking overages and shortages; and
3. Maintaining a log of payments received in the mail.



## OBJECTIVES, SCOPE AND METHODOLOGY

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### Objectives

The objectives of the Parking Facilities Management audit were to determine if:

- The City of Durham’s Transportation Department had adequate controls in place to monitor the Parking Systems Management Services Agreement,
- Republic Parking System, Inc. had adequate internal controls over the operation, maintenance and management of the parking facilities; and
- Republic Parking System, Inc. had adequate internal controls over the operation and management of on-street parking.

### Scope

Our examination covered the period of September 1, 2015 to April 30, 2016. The scope of the examination included all current practices as they pertained to the process of monitoring Republic Parking System’s compliance with the terms and conditions of the Parking Facilities Management Agreement by the Transportation Department staff. In addition, the scope included examining practices at Republic Parking System to ensure compliance with the terms and conditions of the Agreement.

### Methodology

In order to achieve the objectives of the engagement Audit Services staff performed the following tests and procedures:

- Obtained and reviewed the “*Parking System Management Services Agreement*” between the City of Durham and Republic Parking System;
- Interviewed employees of the City of Durham Transportation Department (DOT) and Republic Parking System, Inc.;
- Obtained rates charged for parking at all locations;





## OBJECTIVES, SCOPE AND METHODOLOGY

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- Performed a walkthrough of the parking garages and the surface lots;
- Obtained and reviewed the detailed general ledger postings from the City of Durham's records;
- Obtained and reviewed monthly Parking Management Reports prepared and submitted by Republic Parking System, Inc.;
- Performed analytical procedures on data obtained from the City of Durham's records and Republic Parking System' management reports;
- Documented the process of cash flow collections and discussed controls over cash collections;
- Reviewed monitoring activities performed by the City's DOT staff in order to ensure adequate management of the City's parking facilities by Republic Parking System, Inc.;
- Verified monitoring activities performed by the City's DOT staff by examining the following supporting documentation:
  - Verified 20 daily reconciliations performed by staff since the inception of the Agreement;
  - Verified spot checks of garages and surface lots performed by staff;
  - Verified monthly credit card reconciliations performed by staff;
- Determined adequacy of controls over cash collections. Staff specifically performed the following:
  - Reviewed the procedures used to control cash collections, transfers and deposits;
  - Observed the procedures in operations to determine if adequate controls existed to safeguard cash collected; and
  - Reconciled cash collected for 20 days to payment reports from the VATS system, PARIS system and Enterprise FMS system;



## OBJECTIVES, SCOPE AND METHODOLOGY

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- Verified controls over cash collections at special events. Selected five days of special events collections and determined reasonableness of collections based on the number of cars that accessed the garage as per the loop data;
- Interviewed on-street parking enforcement officers and performed a ride along to understand how the License Plate Recognition System operated;
- Determined the process for issuing and collecting revenues for monthly parking customers;
- Verified the revenue collections process for the leased lot;
- Reviewed the collections rate of on-street parking citations and determined if Republic Parking System was complying with the terms of the contract/work plan;
- Discussed the collections process for outstanding citations with the Transportation Department staff and Finance Department staff;
- Analyzed voids and appeals during the period of Sep 1, 2015 to April 30, 2016;
- Verified Daily Maintenance Checklist Reports maintained by Republic Parking System; and
- Identified controls that existed over the process of issuing, voiding and appealing citations.

During the audit, staff also maintained awareness to the potential existence of fraud.

**Finding 1      The Transportation Department staff should strengthen its monitoring efforts to ensure Republic Parking System is adequately managing the parking facilities.**

Effective Controls:

The City's Transportation Department is responsible for monitoring the "Parking System Management Services Agreement" with Republic Parking System, Inc. The Transportation Department personnel ensured that Republic Parking System was in compliance with the agreement by performing the following:

- Obtaining and reviewing monthly reports submitted by Republic Parking System staff,
- Reconciling the Daily Cash Report submitted by Republic Parking System staff, to cash deposited,
- Performing spot inspections of all parking facilities,
- Meeting regularly with Republic Parking System staff, and
- Establishing a process to reconcile credit card transactions.

Internal control deficiencies:

- The Transportation Department staff did not verify the cash collections reported by Republic Parking System on the Daily Cash Report. The risk existed that cash collections reported by Republic did not reflect actual cash that was collected. The Transportation Department staff should ensure cash collected as reported by Republic Parking System reconciles to cash that should have been collected.
- A credit card reconciliation was being performed however guidelines should be established to ensure any significant difference identified as a result of the reconciliation is investigated. The staff recently started reconciling credit

## AUDIT RESULTS

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- card payments processed to the credit card payments deposited. Due to the timing difference between when a payment is made versus the processing of that payment into the bank account, staff will not be able to completely reconcile the payments; and a difference will exist. Transportation staff was not investigating any differences.
- Transportation Department staff did not review on-street parking citations voided by Republic Parking System staff. Lack of segregation of duties existed among Republic Parking System staff. Some employees responsible for collecting cash, could record payments, void transactions as well as enter appeal decisions for on-street parking revenue in the VATS system. As a result, there was an increased risk that employees could fraudulently void transactions and intentionally misappropriate funds received from the customers. Voided transactions should be monitored regularly. In smaller operations, it may not be feasible to entirely segregate all of the cash-related duties. In these circumstances, the department may rely on increased monitoring as a compensating control to mitigate the risk that cash might be misappropriated.
- The Transportation Department should monitor Republic Parking System's efforts to collect outstanding citations issued after Sep 1 2015 as well as citations issued prior to Sep 1 2015. The reports received from Republic Parking System did not provide sufficient information pertaining to the outstanding citations such as an aging report. The Transportation Department staff had access to the VATS system used to process citations. The staff however did not access the system to monitor citation activity.
- Transportation Department staff did not review on-street citations appealed by customers. Since a lack of segregation of duties existed in the Republic Parking System local organization, monitoring of the appeals processed can be a compensating control to mitigate the risk of cash being misappropriated.

**Finding 2      Approximately \$753,919 of on-street parking citations issued during the period of July 1, 2012 to August 31, 2015 was not being collected.**

During field work Audit Services staff inquired about the collections efforts to collect on outstanding parking citations issued during the period of July 1, 2012 to 8/31/2015 in the amount of approximately \$753,919. Lanier Parking Systems Inc. was responsible for management of the City's parking facilities during this period. Republic Parking System assumed the responsibility on Sep 1, 2015. The contract stated that, " Republic Parking System shall be responsible for collection, and keeping an accounting of, all on-street parking revenues derived from parking enforcement activities including collection of civil penalties and late fees from parking citations." Discussions were being held between the Finance Department staff and the Transportation Department staff since November 2015 to ensure that a robust collections process for outstanding citations existed. Per email discussions, the Finance Department staff recommended to the Transportation staff that Republic Parking System should collect on citations that were older than 90 days by utilizing the services of a collection agency. However, Republic Parking System was never instructed by the Transportation Department staff to utilize the services of a collection agency. This issue was brought to the attention of Department of Transportation staff during field work and a letter has been submitted (June 2, 2016) to the Republic Parking system staff instructing them to start utilizing the services of a collection agency to collect on the outstanding balances.

Per Republic Parking System's staff, even though discussions were being held regarding utilization of a collection agency to collect on this outstanding balance, City staff did not instruct them to start utilizing the services of a collection agency to collect on this balance. Therefore, collections efforts were not implemented. Republic Parking System was accepting payment on citations issued prior to 9/1/2015 if a customer submitted a payment. In addition, since the decision to use a collection agency was pending, citations issued by Republic that were past 90 days overdue were also not being sent to the collection agency.

**Finding 3      A significant discrepancy existed between opening and closing tickets at the Corcoran Street garage**

Parking attendants were required to pull an opening and closing ticket for each ticket spitter every day. This information was used to reconcile the cash collected from the parking lots and garages. The missing tickets were identified when this reconciliation was performed. This control ensured that cash collected was in balance with tickets issued and that all cash was collected. The Parking Auditor reconciled cash collected to tickets issued and received on a daily basis, and also tracked the missing/lost tickets. For the months of January 2016 to April 2016 according to the Monthly Management Reports, the missing tickets percentage, which is a percentage of the discrepancy between tickets issued and tickets collected, ranged from approximately 42% to 52% . Per Republic Parking System staff, "Tickets are lost due to raising the exit gates for mass egress after special events and raising gates due to equipment malfunction". The implication for the City of having a high percentage of missing tickets is potential lost revenue.

**Finding 4      Republic Parking System had adequate controls over cash collections; however, opportunities existed for improvement in the following areas:**

**Effective practices that existed:**

- Daily reconciliations of cash collected to cash reported
- An adequate appeals process for citations issued
- Adequate segregation of duties for collections at garages and surface lots
- Adequate controls over special events parking

**Areas for improvement:**

- 1) Lack of Segregation of duties existed for monthly parking revenues and on-street parking revenues**

## AUDIT RESULTS

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Some employees responsible for collecting cash, could record transactions in the system, void transactions as well as enter the appeal decisions for on-street parking revenues and monthly parking revenues. Segregating the duties of receiving and recording cash transactions prevents a single employee from skimming un-deposited cash (or substituting checks received from cash taken) and altering records to disguise the theft. The purpose of segregation of duties is to minimize the opportunity for an employee to misappropriate funds and avoid detection.

### **2) Overages and shortages were not tracked**

Republic Parking System staff reconciled cash collected to payment reports from the VATS system, PARIS system and Enterprise FMS system. This practice existed to ensure cash collected was accurate. Audit staff selected a random sample of 20 days and reconciled cash collected to payment reports from all these systems. Immaterial overages and shortages were noted for some of the days tested. These discrepancies were immaterial; however a process should be in place to track overages and shortages. Unusual shortages over a designated threshold should be investigated.

### **3) Payments received through the mail were not logged**

Payments for citations and monthly parking received in the mail were not logged. Maintaining a log of payments received in the mail reduces the risk of payments being lost.

### **Conclusion**

Overall, the Transportation Department staff should strengthen its monitoring efforts to ensure Republic Parking System is adequately managing the parking facilities by performing the following:

1. Monitoring Republic Parking System's efforts to collect outstanding citations issued after Sep 1 2015 as well as citations issued prior to Sep 1 2015.

## AUDIT RESULTS

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Approximately \$753,919 of un-escalated outstanding balances of on-street parking citations issued during the period of July 1, 2012 to August 31, 2015 were not being collected. Republic Parking System was never instructed by the Transportation Department staff to utilize the services of a collections agency. This issue was brought to the attention of Department of Transportation staff during field work and a letter has been submitted (June 2, 2016) to the Republic Parking system staff instructing them to start utilizing the services of the collection agency to collect on the outstanding balances;

2. Reconciling cash collected as reported by Republic Parking System on the Daily Cash Report to cash that should have been collected per the various system reports;
3. Establishing guidelines for credit card reconciliation discrepancies to ensure any significant differences identified as a result of the reconciliation are investigated;
4. Monitoring voided and appealed transactions in the VATS system;
5. Monitoring the appeals processed; and
6. Reconciling on a sample basis, reasonableness of special events collections based on the number of cars that accessed the garage per the loop data.

Overall, Republic Parking System had adequate controls over cash collections; however, opportunities existed for improvement in the following areas:

4. Segregating duties pertaining to collections of monthly parking revenues and on-street parking revenues;
5. Tracking overages and shortages; and
6. Maintaining a log of payments received in the mail.



## RECOMMENDATIONS

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### **Recommendation 1**

The Transportation Department should strengthen monitoring of the Parking System Management Services Agreement by:

- Reconciling cash collected per Republic Parking System to the various system reports that detail cash collections;
- Obtaining and reviewing the list of outstanding violations (violations aging report) and ensuring that Republic Parking System is implementing procedures set forth in the Republic Parking Citation Collections Process;
- Monitoring voided transactions and appeals processed in the VATS system for on-street parking violations;
- Establishing a threshold for credit card reconciliations and investigations of significant discrepancies in the reconciliations; and
- Recording on a sample basis, the reasonableness of special events collections based on the number of cars that access a garage per the loop data.

### **Recommendation 2**

The Transportation Department staff should address the issue of a high number of missing tickets at the Corcoran Street Garage. The reason for the missing tickets should be identified. If the missing tickets are due to equipment failure the Transportation Department should determine the feasibility of acquiring new equipment.

### **Recommendation 3**

The Transportation Department should ensure that Republic Parking System addresses the issues of:

- 1) Segregation of duties;

## RECOMMENDATIONS

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- 2) Maintaining a log sheet to log payments received in the mail;
- 3) Tracking overages and shortages and investigating any significant discrepancies;

### **Recommendation 4**

Senior management should ensure that a robust process is in place and being implemented by the Transportation Department staff for the collections of outstanding citations.

## MANAGEMENT'S RESPONSE

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**CITY OF  
DURHAM**

Memo to: Dr. Germaine F. Brewington, Director of Audit Services  
From: Harmon E. Crutchfield, Interim Director of  
Transportation  
Date: June 21, 2016  
Subject: Management's Response  
Parking Facilities Management Performance Audit  
June 2016

The following is the management's response to the Parking Facilities Management Performance Audit - June 2016.

### **Recommendation 1:**

The Transportation Department should strengthen monitoring of the Parking System Management Services Agreement by:

- Reconciling cash collected per Republic Parking System to the various system reports that detail cash collections,
- Obtaining and reviewing the list of outstanding violations(violations aging report) and ensuring that Republic Parking System is implementing procedures set forth in Republic Parking Citation Collections Process,
- Monitoring void transactions and appeals processed in the VATS system for on-street parking violations,
- Establishing a threshold for credit card reconciliation and investigating significant discrepancies in the reconciliation, and
- Recording on a sample basis, the reasonableness of special events collections based on the number of cars that accessed the garage as per the loop data.

### **Management's Response**

We concur. Management is in full agreement with the recommendation. Staff intends to take a broader more comprehensive look at the cash and credit card reconciliations process and implement any changes necessary to improve controls. Suggested controls will be evaluated as part of this review. Thomas Leathers, Parking Manager,



will coordinate this evaluation in collaboration with the Finance and Audit Departments. Identified changes will be implemented by August 2016. Some of the measures that will be undertaken include, but are not limited to the following:

- Parking Citation Voids Monthly Monitoring
- Parking Citation Appeals Monthly Monitoring
- Outstanding Cash Deposits monitoring process
- Outstanding Credit Card Transaction monitoring process
- Aged Parking Citation Collections process
- Revenue Monitoring
- Development of Unannounced, Random “Spot” Operational and Fiscal Audits to ensure Contractor Compliance and Internal Controls

A report of all changes will be provided to the Director of Audit Services at that time as well.

Implementation Date: August 2016

**Recommendation 2:**

The Transportation Department staff should address the issue of a high number of missing tickets at the Corcoran Street Garage. The reason for the missing tickets should be identified. If the missing tickets are due to equipment failure the Transportation Department should determine the feasibility of acquiring new equipment.

**Management’s Response**

We concur. Management is in full agreement with the recommendation. As communicated during the Audit process, the lot or missing ticket numbers can be directly attributed to equipment malfunctions and limitations. 3M, the manufacturer of the Pay-In-Lane parking access and revenue control equipment in the garages, closed its Parking operation in November 2014. To this end, 3M ceased servicing clients with equipment whose warranty periods had expired. In essence, 3M only provides preventative maintenance and service repairs to those customers with active warranty periods. The City’s 3M PARCS’ equipment is out of warranty status.

Since the City’s 3M Pay-in-Lane machines original warranty periods had expired, we were not able to purchase inventory parts for the machines or receive software fixes. Since November 2014, the machines have experienced significant maintenance issues. The closure of 3M’s parking business raised several short-term and long-term concerns for the City. Some of the concerns include:

- Software support, maintenance, and training.

- Compliance with statutory and financial institutions requirements (e.g., PCI).
- Service calls (hardware and software) especially after the end of 3M's warranty period.
- Spare parts.
- System upgrade needs due to constantly changing parking industry requirements.
- System and feature upgrades needed to support changes in payment industry and related demands/expectations from users/parkers.
- Technology improvements and enhancements.
- Protection of parking system from hackers. In recent years, the parking and IT industries have experienced an increase in system break-ins from hackers.
- Potential loss of equipment value due to lack or absence of proper and well maintained PARCS operating system.

To address these concerns, the Transportation Department requested and received \$1 million dollars in FY17 CIP budget to purchase and install a new comprehensive Parking Access and Revenue Control system to replace the defunct 3M PARCS. The new system is envisioned to provide a unified cloud-based solution that integrates with the City's existing off-street parking solutions and provide a graphical display of the entire integrated off-street operations displaying the status of current revenues earned, location occupancy, duration, car counts, system activities, special event management, error/fault messages, and other key operating functions and statistics. The System is desired to have the capability of processing and tracking various parking users including transient, hotel patrons, residential tenants, tenant guests, monthly parkers, and valet parking. The City prefers a System that uses License Plate Recognition (LPR) technology to process and/or track transactions, access, and inventory of vehicles using the garages. In addition, the City prefers a System that accepts multiple payment options including those from mobile devices, electronic wallet solutions, and automated clearing house solutions. The RFP was issued on April 25, 2016 with proposals due on June 24, 2016. The new equipment is slated to be implemented by December 31, 2016.

Implementation Date: December 31, 2016

**Recommendation 3:**

The Transportation Department should ensure that Republic Parking System addresses the issues of:

- 1) Segregation of duties;
- 2) Maintaining a log sheet to log payments received in the mail;

- 3) Tracking overages and shortages and investigating any significant discrepancies;

**Management's Response**

We concur. Management is in full agreement with the recommendation. Staff intends to take a broader more comprehensive look at the cash and credit card reconciliations process and implement any changes necessary to improve controls. Suggested controls will be evaluated as part of this review. Thomas Leathers, Parking Manager, will coordinate this evaluation in collaboration with the Finance and Audit Departments. Identified changes will be implemented by August 2016. A report of all changes will be provided to the Director of Audit Services at that time as well.

Republic Parking will implement measures to track revenue overages and shortages in an effort to raise the level of accountability for each staff member with cash responsibilities accepting money.

Further, a Bookkeeper's position will be created to provide additional staff coverage to ensure proper segregation of duties at this time. Once staff is on boarded, the bookkeeper will implement this recommendation. The new position will start in September 2016.

Implementation Date: September 2016

**Recommendation 4:**

Senior management should ensure that a robust process is in place and being implemented by the Transportation Department staff for the collections of outstanding citations.

**Management's Response**

We concur. Senior Management is in full agreement with the recommendation. The Deputy City Manager and Transportation Staff intend to take a broader more comprehensive look at the parking citation collections process and implement any changes necessary to improve collection monitoring efforts. Suggested controls will be evaluated as part of this review. The Deputy City Manager and Transportation staff will jointly coordinate this assessment in collaboration with the Finance and Audit Departments. Identified changes will be implemented by September 2016. A report of all changes will be provided to the Director of Audit Services at that time as well.