



Audit Report Number 2006-13

**City of Richmond  
Revenue Audit**

**Parking Citations: Department of Finance-Collections Division  
Department of Police**

**Business License Tax: Department of Finance-Collections Division**

Twelve Months Ended June 30, 2005

**Prepared by  
CITY AUDITOR  
Richmond, Virginia**

Submitted to  
The Honorable Members of City Council  
February 28, 2006  
**Resubmitted on March 8, 2006**



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The Honorable Members of City Council  
Richmond City Audit Committee  
City of Richmond, Virginia 23219

## **City Auditor's Report**

### **SCOPE**

We conducted an audit of the Department of Finance's procedures for collecting revenue from parking citations, covering the twelve months ended June 30, 2005 and from business, professional, and occupational license taxes (BPOL), covering the 2004 calendar year. We also reviewed the Police Department's process to record and report parking citations during fiscal year 2005. We reviewed and evaluated the internal controls in place during the same period to the extent considered necessary.

### **OBJECTIVES**

Our audit objectives were:

Parking Citations:

- To determine whether the Departments properly recorded and reported parking citations in accordance with policies and procedures.
- To ascertain whether adequate measures were in place to effectively collect fines and calculate interest/penalties for delinquent parking citations.
- To determine whether the Parking Citation Unit's performance measures have been met and whether they were accurately reported.

Business License Tax:

- To ensure the business license tax was levied against all appropriate entities and to ensure adherence to State, City, and Departmental policy.

- To determine whether adequate measures were in place to effectively collect fees and calculate interest/penalties for delinquent business license tax.
- To ascertain if refunds were properly reasonable, supported, approved, and recorded (when applicable) in the correct General Ledger account(s).
- To determine whether the BPOL Unit's performance measures have been met and whether they were accurately reported.

We also identified opportunities for improvement in the internal control structure. Our testing did not indicate any internal control weaknesses that would allow material misstatement in the records processed and maintained by the City to go undetected.

## **METHODOLOGY**

We conducted our audit in accordance with Government Auditing Standards for Performance Audits issued by the Comptroller General of the United States. During the course of our work, we reviewed supporting documents, evaluated the internal control structure, and conducted other appropriate tests. We believe that our audit provides a reasonable basis for our conclusions regarding the internal control structure and our recommendations.

The Department of Finance is expecting their new Revenue System to replace the Clancy System sometime in the future. For the purposes of our audit, we did not audit the Clancy System or the controls surrounding the Clancy System.

The management of the City of Richmond, Virginia, is responsible for maintaining the financial records of the City. It is also responsible for establishing and maintaining a system of internal accounting control and management control. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures.

## **CONCLUSIONS**

Based on the results of our audit, we concluded that:

- Parking Citations were not properly recorded and reported in accordance with policies and procedures. (Police Department)
- Collection measures were in place for parking citations. It is anticipated that the new boot collection system that was implemented in January 2006 will aid in the collection of delinquent parking citations. (See next page for discussions on collection data.)

- The Department of Finance's performance measures were too broad to link and assess at the Unit level. Therefore, we assessed certain internal measures that were provided to us. The Parking Citation Unit's internal measures were generally pertinent and relevant. However, the process to measure and track the data was inadequate.
- The BPOL taxes were levied against all appropriate entities. However, the Department did not adhere to the record retention policies for maintaining the records of business licenses.
- An overall policy is in effect that specifies detailed procedures that should be documented for the collection of delinquent BPOL taxes and fees. However, those procedures have not been developed yet. Therefore, we could not conclude whether collection efforts were effectively in place.
- BPOL refunds were reasonable and properly supported, approved, and recorded.
- The Department of Finance's performance measures were too broad to link and assess at the Unit level. Therefore, we assessed certain internal measures that were provided to us. The internal measures for the BPOL Unit were met and accurately reported.

We discussed the attached comments and recommendations with management throughout the audit and formally on February 14, 2006. We have included management responses from the responsible officials.

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

This report is intended for the members of the Richmond City Council, the City Audit Committee and City and departmental management; it is a matter of public record.

Parking Citation Collection Data:

The purpose of this resubmitted Audit report is to help correct, clarify and enhance information previously submitted to Council relative to historical collection rates for parking citations. The Audit Committee questioned some collection rate data and inquired about programs that could affect parking citation collections. Finance worked with the Auditor's Office to help answer these questions, review the methodology and revise the collection rates for FY2005 to present a more realistic rate based upon the information learned during the audit. Taking into consideration the current system limitations and manual adjustments needed to convert the Clancy System reports into workable data, we revised Finance's actual average collection rate for FY2005 to approximately 83%. Finance worked with our Office to review the collection scenarios and to develop a methodology to compare "resolved amounts" to the "citations issued." We note the following items for clarification purposes:

- The Clancy System continues to add penalties to monthly amounts outstanding. Therefore, manual intervention is needed to generate monthly reports that exclude penalties for revenue analysis activities. For the purpose of this revised analysis, we removed the penalties for the review of month-to-month collections.
- As mentioned in the audit, the Clancy System includes many instances whereby citations entered into the Clancy system are generally invalid. Finance was able to quantify these amounts and we agreed to remove them from the revised analysis.
- Finance was able to identify amounts that were contested in court and subsequently dismissed. We have also removed this from our revised analysis.
- The Audit Committee questioned whether there was an amnesty program in place during the fiscal year. Finance management has indicated that there was no amnesty program in place during FY2005.

We note that due to system limitations, the Department of Finance has not developed a procedure to analyze collections on a monthly basis solely for the purpose of providing collection data. Finance management had indicated that their current information system, (the Clancy System) is not very useful for reporting purposes and will be replaced in the future. We thank Department of Finance staff for their assistance.

Respectfully submitted,

Randi Ricco-Clifford, CPA, CIA, CGAP  
Interim City Auditor

February 6, 2006  
Rev. March 8, 2006

## Executive Summary

### Background

For FY 2005, parking violations accounted for \$3,057,089 of total fines and forfeits revenue, which was \$10,328,754. BPOL accounted for \$28,497,159 of total licenses, permits, and fees revenue, which was \$35,303,161.

Owners of businesses within the Richmond City limits are required to obtain a Richmond business license annually to operate. The business license identifies the business and serves as basis for imposing business taxes. New businesses in the City must obtain a license within 30 days of the date of opening. Existing business licenses must be renewed by March 1.

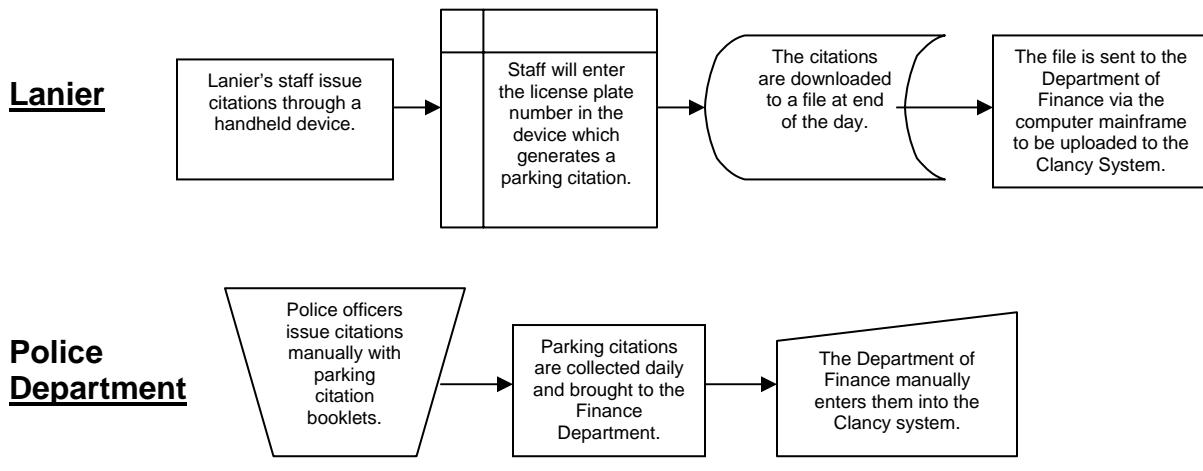
If gross receipts are estimated less than \$100,000, a \$30 licensing fee is due March 1. If gross receipts are estimated in excess of \$100,000, the tax is calculated based on the business type. The first half of the total tax amount owed is due March 1<sup>st</sup> and the balance is due by June 15<sup>th</sup>.

### The Process for Parking Citations

There are two ways a parking citation can be issued: 1) through the contractor-Lanier and 2) through the Police Department.

Lanier's process is an electronic process whereby their staff will monitor street parking and issue citations accordingly through a handheld device.

The Police Department's process is a manual process whereby the police officers will issue citations manually with parking citation booklets.



## **Summary of Recommendations**

In order to improve operations, we made the following recommendations for managements' consideration:

### **Police:**

1. Follow Policy to Maintain Control Cards.
2. Implement the Use of an Electronic Device. (Police and Finance)

### **Finance:**

3. Identify and Monitor Duplicate Parking Citations.
4. Review Strategies for Instances of no Plate/VIN#. (Finance and Police)
5. Follow Procedures to Perform Daily Reconciliations.
6. Enhance Procedures for Identifying Measurable Goals; Establish Procedures for Accumulating and Tracking Performance Data.
7. Adhere to the Record Retention Policy.
8. Ensure Business License Applications are Signed.
9. Develop Procedures for Collection of Delinquent Taxes and Fees.



## **FINDINGS AND RECOMMENDATIONS**

### **1. Follow Policy to Maintain Control Cards (Police)**

The Police Department precincts could not locate the control cards for parking citations. The Special Events Division was the only division that appeared to maintain control cards. The control cards are the crucial supporting documents to record parking citations, which are manually issued.

The Police Department's Operations Order 507-1 states that the control cards are maintained for the present plus one-year. By not adhering to the policy, there is increased risk of revenue being inaccurately reported or misstated.

### **RECOMMENDATION**

We recommend that the Police Department management follow existing policy to maintain control cards and provide a central filing location.

### **MANAGEMENT RESPONSE**

The Richmond Police Department Operations Order 507-1 states that the parking citation control cards are maintained for the present plus one year. The department will instruct all supervisors at Special Events Division and the four Precincts to conduct roll call training on this policy. All aspects of the policy will be covered at training, with special emphasis on maintaining the control cards. The completion of this training will be documented by each supervisor and maintained within each unit.

The Captain of Special Events Division and the four Precinct Captains will be responsible for verifying that the training has been conducted and will be responsible for periodically verifying that the policy is being adhered to. It will further be the responsibility of the Captains to ensure the control cards are maintained at each issuing location for the present plus one year. Training is anticipated to be held no later than March 17, 2006.

\* \* \* \*

## **2. Implement the Use of an Electronic Device (Police and Finance)**

We reviewed a sample of parking citations (issued by the Special Events Division) in an effort to trace them back to the Clancy System to ensure that the system held accurate and complete data. Our analysis showed that the parking citations recorded in the Clancy System did not match the supporting documentation for issued parking citations.

- 5/65 parking citations were issued but not recorded in the Clancy System (\$340-lost revenue)
- 51/53 parking citations were not accounted for on the control card but were recorded in the Clancy System. The remaining 2 citations were not recorded in the system. (\$120-lost revenue)
- During March 2005, five control cards could not be found which totaled 119 parking citations. Of the 119 parking citations, 19 citations were not recorded in the Clancy System. (\$1,140-lost revenue)
- 15/38 parking citations were marked as void on the control card, however the citations were recorded in the Clancy System.

Our sample was not a statistical sample. Accordingly, the lost revenue amounts cannot be projected over the population of citations to quantify the impact of our finding. However, the potential for lost revenue is great enough to warrant enhancements to the existing process.

According to Police management, the Special Events Division is primarily responsible for the manual issuance of the majority of parking citations for the Police Department. We believe that the deficiencies noted above are due to the fact that the citations are issued manually.

Finance management informed us that Lanier has extra electronic handheld equipment that can be utilized by the City at no additional cost. Lanier also is willing to train the officers. For a better control mechanism, we believe the electronic control device would eliminate such deficiencies noted above.

## **RECOMMENDATION**

We recommend that the Police Department management work with the Finance Department to obtain the electronic device for use in the Special Events Division. Management should also ensure staff is properly trained to utilize the device.

## **MANAGEMENT RESPONSE**

Police:

It is not cost effective to issue electronic devices to every officer or patrol unit in the Police Department. Discussion regarding this recommendation centered on issuing electronic devices to the department's Special Events Division or at a minimum to the division's three Support Officers. Our Support Officers write the vast majority of parking citations, during daily street cleaning.

The Department of Finance has completed research on the feasibility of obtaining Clancy electronic devices for use by the Police Department Special Events Division. The Department of Finance plans to obtain twelve (12) electronic devices that will be issued to our Traffic and Support Officers. The Department of Finance will also provide the Special Events Division a docking station for daily downloading of information. The Police Department Special Events Division will implement the use of the electronic devices immediately upon receiving the system.

Finance:

Finance has requested 15 handheld units and one docking station to be issued to RPD Special Events Unit. Expected date: March 10, 2006.

RFD is responsible for training its officers on the proper use of the equipment.

\* \* \* \*

### **3. Identify and Monitor Duplicate Parking Citations (Finance)**

We found 14 parking citations that were duplicates. Five of these reflected an "unpaid" status although the citations were paid. Additionally, when our office brought this to the attention of Finance, the Contractor then found an additional 135 duplicate citations.

The Department of Finance does not have a process in place to capture duplicate parking citations that are in the Clancy System. The duplication of data could result in overstated revenues. However, we have no reason to believe this would result in a material misstatement to the City's financial records, overall.

## **RECOMMENDATION**

We recommend that management implement a mechanism to identify and monitor duplicate parking citations in order to take appropriate corrective action.

## **MANAGEMENT RESPONSE**

Management agrees with this comment. Duplicate parking tickets currently appear in the Clancy System primarily because of either (1) a Tax Year 2003 system problem or (2) the mistaken purchase of citations with duplicate citation numbers by the Police Department. Both problems were addressed and corrected to prevent future issuances of duplicate citations. However, all of the duplicate citations caused by these problems were not eliminated from the system.

The Parking Unit will review the citations noted in the audit report and resolve any duplication issues. Further, the Parking Unit will begin periodically utilizing a data analysis inquiry tool (ACL) to identify and resolve any duplicate citations numbers during the next two years. Finally, the new revenue system (Munis) has a parking module that will enable Parking Unit personnel to easily identify and resolve any citations with duplicate numbers as they may occur. Expected date of implementation: June 30, 2006.

\* \* \* \*

### **4. Review Strategies for Instances of no Plate/VIN# (Finance and Police)**

We found 292 parking citations that totaled \$17,135 in fines with late fees/penalties in the Clancy System over a timeframe of six months, which did not have a license plate number.

The license plate number and/or VIN # is crucial data that is needed to match with DMV in order to obtain the address of the owner of the vehicle so that a delinquent notice can be sent to collect the fine. By not having this crucial data, the Department of Finance forfeits the opportunity to collect fines.

## **RECOMMENDATION**

Finance:

We recommend that management benchmark with other Cities to ascertain how they handle instances of no plate/VIN#.

Police:

We recommend that the Police Department management increase efforts to obtain the license plate number and/or VIN# at the time of issuance for a parking citation by reminding staff the importance of obtaining the data.

## **MANAGEMENT RESPONSE**

Finance:

Finance Management disagrees with this comment. The Parking Unit reviewed ten of the 292 citations noted in the audit report, with six being issued by Lanier Meter Services (Contractor) and four being issued by the Richmond Police Department. None of the ten citations included a license plate number but the six citations written by the Contractor included the vehicle identification numbers (VIN #). However, no matches were found at DMV for any of these six VIN #'s.

Without a match from DMV, the Parking Unit is unable to identify the owner of these vehicles, and thus, unable to collect on the citations. In our research to date, two other Virginia localities indicate that they simply report these types of tickets as uncollectible, and do not consider them in their revenue analysis. We will continue our efforts to contact other localities for their policies and procedures.

Based on the fact that the capability to identify the owner does not exist without correct license plate and/or VIN # matches with DMV, potential parking revenue from these types of citations is deemed uncollectible. Since there is no risk of losing parking revenue on these types of citations, we recommend that this audit comment be dropped from the audit report.

Auditor's Comment:

We recognize that there are some difficulties within this process and we appreciate Finance's cooperation throughout the audit. However, we have chosen to leave this recommendation in the report simply to show that the Clancy System includes citations which are deemed to be uncollectible from the very start. As such, every effort should be made to address the issues surrounding this process.

Police:

Many of the parking citations that the audit found without license plate or VIN #'s are likely to be abandoned vehicles that are cited and towed during street cleaning. Abandoned vehicles often do not have license plates and at times have VIN #'s that are obstructed, difficult to find, or missing. However, as part of roll call training that is to be conducted on our parking citation policy, supervisors will emphasize the importance of including the license plate number or VIN #. Officers will be instructed to make a thorough attempt to locate a VIN # in the absence of a license plate. Training is anticipated to be held no later than March 17, 2006.

\* \* \* \*

## **5. Follow Procedures to Perform Daily Reconciliations (Finance)**

The Parking Citation Unit has a process to perform daily reconciliations for parking citations and payments of citations. Reconciliations are a fundamental best practice to ensure discrepancies are found and adjusted accordingly.

For reconciliations of parking citations:

- Staff did not date their daily reconciliations during the entire month of March 2005 and May 2005. Therefore, we could not determine whether the daily reconciliations were performed timely.
- During the month of February 2005, the staff did not date reconciliations for 8 days out of the month. Therefore, we could not determine whether the daily reconciliations were performed timely.
- During the month of February 2005, the staff performed later reconciliations for 4 days out of the month (in 3 instances, the reconciliation was one day late; in 1 instance, it was 2 days late).

For reconciliations of payments of parking citations:

- We selected five months and observed that in three of the months the reconciliations had deficiencies that showed staff were not following policy (for instance: not indicating who performed the reconciliation, not attaching the support and performing the reconciliation late).

## **RECOMMENDATION**

We recommend that management ensure staff follow procedures for performing daily reconciliations on a timely basis (the reconciliation should include their name and date prepared). We further recommend that management ensure adequate support is attached to the reconciliations.

## **MANAGEMENT RESPONSE**

Finance Management agrees with this recommendation. Although no errors were noted in the daily parking reconciliations, Parking Unit management will review and approve all reconciliations to ensure that they are properly dated and signed. Expected date of implementation: March 31, 2006.

\* \* \* \*

## **6. Enhance Procedures for Identifying Measurable Goals; Establish Procedures for Accumulating and Tracking Performance Data (Finance)**

The Parking Citation Unit established internal goals that were pertinent and relevant to the Unit. However, some of the goals were not measurable. For instance, the goals were stated as "an average percentage of time spent on the activity to accomplish the goal", which is not a reasonable measure to quantify. Additionally, data for the goal of the Virtual Call Center was not tracked on an individual basis in order to determine if the goal has been accomplished.

## **RECOMMENDATION**

We recommend that management enhance procedures to (1) revise the measures to be more quantifiable and (2) to properly accumulate and track performance measures.

## **MANAGEMENT RESPONSE**

Finance Management agrees with this recommendation. During the implementation of Munis, policies and procedures are expected to undergo significant changes by Revenue Administration management as a result of process improvements. As these changes occur, new policies and procedures and the related performance measures will be developed and documented. Expected implementation date: Ongoing through Munis "go-live" implementation date, anticipated to be December 31, 2007.

\* \* \* \*

### **7. Adhere to Record Retention Policy (Finance)**

The Finance Department could not find 11 out of 34 business license applications. The City adheres to the Code of Virginia Public Records Act to maintain records for five years. By not adhering to the policy, there is increased risk of the inability to provide evidence of transactions if a dispute were to arise.

## **RECOMMENDATION**

We recommend that management reiterate the Record Retention Policy to the appropriate staff to ensure records are maintained in accordance with the Code of Virginia.

## **MANAGEMENT RESPONSE**

Finance Management agrees with this recommendation. Images are taken of all business license applications processed through the remittance processor. The period under audit (2004 calendar year) was the first year the remittance processor was used to process business applications, albeit on a limited basis. During 2005, approximately 50% of business applications were processed

through the remittance processor and during the upcoming 2006 tax season, we estimate that more than 75% of the business applications will be processed through the remittance processor. For those business applications processed directly by the cashiers (e.g., torn or unreadable applications), they will be also processed through the remittance processor and imaged by August 2006, ensuring that all images of all applications are available for review. Expected implementation date: August 31, 2006.

\* \* \* \*

## **8. Ensure Business License Applications are Signed (Finance)**

We found that 4 out of 23 business license applications were not signed by the applicant. According to the instructions on the business license application, the license application must be signed to be valid. The signature indicates the individual is aware of all applicable obligations associated with the license, including Meals, Lodging, Admissions, Personal Property Taxes and Zoning Requirements. Also, next to the signature line it states the information provided is true and full and that the obligations for the license are understood.

We consulted with the City Attorney's Office with regard to the legal consequences if the applicant does not sign the business license application. It is believed the signature requirement can legally bind the applicant to (1) the accuracy of the responses, and (2) an acknowledgement of the various legal responsibilities. Therefore, the risk to the City of an unsigned business license application is that the collection process can be more difficult and that punishment of violators may not occur.

## **RECOMMENDATION**

We recommend that management develop a monitoring procedure to ensure that business license applications are signed upon receipt and that unsigned applications are appropriately handled. Finance may develop thresholds for cost benefit purposes.

## **MANAGEMENT RESPONSE**

Finance Management agrees with this recommendation. Signatures on the applications are not legally required, however, for those applications that may contain false information, having the signature on file assists with prosecution of the offending business/officers/applicant. For edification purposes, we note that those businesses with gross receipts under \$100,000 in revenue per year generally are only required to pay a \$30 fee with their license application, therefore the risks are much smaller with that segment of business applicants. In an effort to maximize the cost benefit of enforcing the signature requirement, in the future the Tax Assessment Unit will review all business license applications for signatures where the taxes exceed \$30. For that population of businesses that submit BPOL unsigned applications, Finance will contact the entity and request a signed application. Expected implementation date: August 31, 2006.

\* \* \* \*

### **9. Develop Procedures for Collection of Delinquent Taxes and Fees (Finance)**

The Department of Finance could not provide evidence as to the collection status for 3 out of 10 businesses that had a balance due to the City for BPOL. Additionally, the Department did not have sufficient written procedures for the collection of delinquent taxes and fees for BPOL.

According to Policy 11-001 Delinquency Collection Policy, detailed procedures for the collection of delinquent taxes and fees are documented in the *Comprehensive and Detailed Delinquency Collection Procedures Manual*. The Manual will include detailed procedures, timeframes, and units responsible for the collection of delinquent taxes and fees. Therefore, we could not determine what procedures are in place to collect delinquent taxes and fees for BPOL to conclude as to whether (1) the collection efforts are performed in accordance with policies and procedures, and (2) if the procedures are adequate, effective and efficient.

## **RECOMMENDATION**

We recommend that management (1) adhere to Policy 11-001, Delinquency Collection Policy and document detailed procedures for the collection of

delinquent taxes and fees and, (2) create a log to include in the procedures that will list dates of actions and the actions taken.

## **MANAGEMENT RESPONSE**

Finance Management agrees with this recommendation. The responsibility to collect delinquent business license and fees resides with the Audit Unit and is included in the audit workplan, which the former Audit Manager did not complete. We are in the process of hiring a new Audit Manager and will ensure that delinquent business licenses will be addressed as part of the overall work plan. Expected implementation date: June 30, 2006.

\* \* \* \*