



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

May 10, 2011

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the attached Towing Operations Cash Handling Procedures Follow-Up Audit and request City Management to review the recommendations, develop strategies for implementation and update the City Council and City Auditor in six months and in one year from the date of receipt and filing of this report.

DISCUSSION:

In October 2009, our Office issued a report on the audit of Cash Handling Procedures at the Towing Operations (a division of the Fleet Services Bureau of the Department of Public Works). The report discussed the deficiency in computer controls and the lack of segregation of duties that created a high risk of potential fraud or misappropriation of funds without detection.

Due to the high volume of cash transactions at Towing, almost \$5.3 million in fiscal year 2010, and the severity of the control weaknesses identified, we performed a follow-up audit to determine if control and process corrections had been implemented. Our follow-up audit covered the period of October 1, 2009, through September 30, 2010.

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, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

According to the October 2009 report, there was a prevalent lack of separation of duties as an excessive number of employees with access to cash also had the ability to edit or delete records within the Tow Administrator's software system without secondary authorization. In addition, management was not using edit reports to review the data for irregularities.

During our follow-up audit, we found that Management has made some process and system changes to tighten controls. However, significant control weaknesses remain. Employees continue to have the ability to modify system data without detection as management has not developed an effective tool to review and identify deleted or modified records. As a result, we are unable to determine whether all monies were appropriately charged, received and deposited. Specifically, we found:

- The Tow Administrator's software system, as currently configured, allows many critical data fields to be edited without supervisory review. Cashiers, and/or Supervisors acting as Cashiers, can manipulate rates (Base Towing Charge, Daily Storage Rates, Lien Sale Write-Off discounts), edit payment amounts, and change dates (vehicle pick-up, drop and payment dates). These type of changes impact what fees are charged to the customer and, ultimately, how the revenue is collected.
- The Superintendent is using the Daily Detailed Sales Report to monitor transactional information and cash balances. However, this report does not capture all the potential edits that may occur and is inadequate to mitigate the software control weaknesses. Since the October 2009 audit, an Edit Report was developed, but is currently not in a format that Management can use to thoroughly evaluate the risk of system data modifications. In addition, the Edit Report does not provide adequate information on deleted items. During the audit period in question, there were over 950 deleted items not subject to secondary review.

It is Management's responsibility to establish and maintain adequate internal controls to protect the City's assets, particularly over operations where high volumes of cash are generated. Where staffing shortages or software deficiencies exist, Management must implement manual process controls to ascertain they are reducing the risk of fraud or misappropriation to a tolerable level. Currently, the risk of fraud or misappropriation of funds at the Towing Operations remains high.

We recommend Management take immediate action to establish preventative and detective controls within the software to ensure data integrity. In addition, the development of manual processes to increase supervisory review and support segregation of duties can assist in reducing risk levels.

We would like to thank the staff at Towing Operations for their time, information, and full cooperation provided to us during the audit.

TIMING CONSIDERATIONS:

City Council approval is requested on May 10, 2011.

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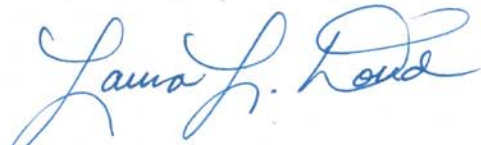
FISCAL IMPACT:

The Towing Operations Division collects significant revenues on behalf of the City totaling over \$8.5 million in fiscal year 2010, \$5.3 million of which is collected in cash. Management's efforts to address the recommendations outlined in the report will increase safeguards over this valuable revenue stream and help detect and deter any potential misappropriation of funds.

SUGGESTED ACTION:

Approve recommendation.


Respectfully submitted,

A handwritten signature in blue ink that reads "Laura L. Doud". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

LAURA L. DOUD, CPA
CITY AUDITOR

Attachment



Date: April 20, 2011
To: Laura L. Doud, City Auditor
From: Michael P. Conway, Director of Public Works 
Subject: Response to Towing Operations Follow-Up Audit

Please see the attached Management Response to the recent Towing Operations Follow-Up audit conducted by Deputy City Auditor, Janet Day in March 2011. The Follow-Up audit reviewed the findings of the 2009 Towing Operations audit completed on October 20, 2009.

It is important to couch the Follow-Up audit recommendations in context of the original audit. At that time, findings generated 32 audit recommendations, of which 27 had been implemented by the time the audit was released on October 20, 2009. The remaining 5 recommendations focused on software upgrades, the purchase of a cashiering system, the installation of additional cameras, and the installation of private credit card machines.

Of these outstanding items, the software upgrades were requested prior to the release of the audit. The software provider has been re-writing the entire software code and beta releases have failed. The effort continues. The purchase of the iNovah cashiering system has been on standby pending the completion of the Prop L analysis. Installation of additional cameras has been completed. Installations of private credit card machines are part of the iNovah cashiering system and are also on standby.

In the Follow-Up audit, the following findings were made:

Findings:

Management has made some process and system changes to tighten controls. However, significant control weaknesses remain. Employees continue to have the ability to modify system data without detection, as management has not developed an effective tool to review and identify deleted or modified records.

- *The Tow Administrator's software system, as currently configured, allows many critical data fields to be edited without supervisory review. Cashiers, and/or Supervisors acting as Cashiers, can manipulate rates (Base Towing Charge, Daily Storage Rates, Lien Sale Write-Off discounts), edit payment amounts, and change date (vehicle pick-up, drop and payment dates).*
- *The Superintendent is using the Daily Detailed Sales Report to monitor transactional information and cash balances. However, this report does not capture all the potential edits that may occur and is inadequate to mitigate the software control weaknesses. Since the October 2009 audit,*

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an Edit Report was developed, but is currently not in a format that Management can use to thoroughly evaluate the risk of system data modifications. In addition, the Edit Report does not provide adequate information on deleted items.

Recommendations:

Management needs to take immediate action to establish preventative and detective controls within the software to ensure data integrity. In addition, the development of manual processes to increase supervisory review and support segregation of duties can assist in reducing risk levels.

Response:

The 2009 audit included eight recommendations related to data integrity. Management has completed the recommendations not related to the software system upgrade, which is being handled by an outside contractor. The delete invoice and override of sequential numbering for impound invoices recommendations were completed in January 2009. The edit report and full edit capabilities changes are part of the rewrite of the software code and are still in process. The request for these changes was made to the programmer in November 2008. Unfortunately, these changes require a full rewrite of the system code and therefore have not been completed to date. Beta versions of the upgrade have not been successful in providing full report or edit capability security. Management will continue to work with the programmers to ensure that all recommendations get fully implemented. In the interim, the Towing Superintendent continues the daily manual review of the Daily Detailed Sales Report and reconciles them against the Daily Income Sheet. Each transaction is carefully reviewed for errors and any unauthorized adjustments. Security cameras have been installed to allow close monitoring of every transaction and the handling of cash. Additional improvement to the separation of duties was implemented in April 2011 by having independent personnel from Fleet Operations perform the daily cash count and prepare the daily bank deposit for Towing.

We appreciate your continued support of our Towing Operations.

MPC:LH:pf
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