



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

January 9, 2012

Michael Conway, Director of Public Works

RE: Towing Operations Follow-Up

In May 2011, the Office of the City Auditor (OCA) completed a follow-up audit to determine if Towing Operations (Towing), a division of the Fleet Services Bureau in the Department of Public Works, had rectified significant outstanding control weaknesses previously identified. In response to the issuance of the May 2011 report, Towing recently implemented system and process changes and requested the OCA to assess the adequacy of the system modifications. The purpose of this report is to document our review of the system control changes and determine whether they are adequate to safeguard assets.

The May 2011 audit reported two primary findings:

(1) The system allowed employees to modify the system data without detection.

The ability for Cashiers to manipulate critical data system fields, such as Base Towing Charge, Daily Storage Rates, Lien Sale Write-Off discounts, and vehicle pick-up, drop and payment dates has been eliminated. As a result, Cashiers should no longer be able to impact what fees are charged to the customer and, ultimately, how the revenue is collected.

Supervisors, who may access cash during after-hour shifts due to limited staffing, continue to retain the ability to edit payment information and change storage rates as the transaction is processed. This allows Supervisors to correct Cashier errors as they occur and adjust storage dates depending on vehicle title surrender information. While this type of system access is not ideal, Towing is mitigating the risk through manual controls such as regular edit report reviews and independent verifications of signed customer receipts to payments.

However, we also noted Supervisors continue to have the ability to edit payment information after the transaction is completed. Although the edits would appear on the edit report, processing transactions in this manner is not recommended. Edits of this nature can be easily overlooked and affect revenue and sale information previously reported. If a transaction error is identified, the completed transaction should be voided and the correct data reentered in order to provide an adequate audit trail. Management should work with the system vendor to remove the ability to modify payments and dates after a transaction is completed.

(2) Management was not using an edit report to thoroughly evaluate the risk of system modifications and deleted items.

Working with the software vendor, Towing now has an improved report that details all edits, deletions and other transactions that change the dollar amounts charged to the customer. The edit report covers transactions related to towing functions only and is reviewed daily by a Fleet Services Supervisor and the Towing Superintendent who forward any questionable entries to the Fleet Services Superintendent for further investigation.

While management has instituted a good review process for transactions covering towing operations, lien sale functions are not being addressed. During our review, management indicated they were not reviewing a separate edit report for lien sale functions, and we found the report is not inclusive of all edit transactions. Management is now working with the software programmer to correct the report. Lien sales represent about \$500,000 in annual revenue. We recommend management adopt proper review procedures of lien sale data similar to that of towing operations.

Towing has made significant process and system control modifications, as noted above, but there are additional changes that could further mitigate risk. In summary, we recommend that management eliminate the ability to modify data in completed transactions, and ensure there is proper edit report review for lien sale entries.

It is not necessary for management to provide comments at this time; however, we are requesting an update in 90 days on the Department's efforts to address the issues noted above. We would like to thank Towing for initiating this follow-up review, along with management and staff for their time, information, and full cooperation provided to us.

Sincerely,



Laura L. Doud, CPA
CITY AUDITOR

cc: Patrick H. West, City Manager
Leslie Horikawa, Fleet Services Manager