



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

October 20, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the attached Towing Operations Cash Handling Procedures Audit and request City Council to request City Management to review 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:

Attached for your consideration is our audit of cash handling procedures of Towing Operations, part of the Public Works Department. Management of Towing Operations requested this audit, and we thank them for the full cooperation they provided during this audit as well as their willingness to quickly adopt many of our recommendations.

The purpose of our audit was to assess the effectiveness of cash handling procedures within Towing Operations. We reviewed the internal controls utilized by Towing to examine the safeguards protecting City revenues and to recommend potential improvements. Such controls are particularly important at Towing, as they collect substantial amounts of money and have a high volume of transactions during their normal course of business. For example, through August 9, 2009 of FY09, Towing Operations collected and deposited more than \$4,800,000 in revenue, averaging \$109,000 per week or \$15,500 per day.

As discussed in the report, serious internal control weaknesses were found, such as deficient software and a lack of separation of duties. Such internal control weaknesses raise many questions regarding the integrity of the cash handling function, such as whether monies received were actually deposited to the City treasury. The lack of adequate controls means that fraud or other loss of funds or inventory, if it were to occur at Towing, would have a good chance of going undetected by management. Management needs the tools in place so that it can confidently answer the fundamental question at Towing on a daily basis: are all the revenues being properly collected to the City and then properly deposited to the Treasury?

Attached to our audit are the management responses from both Public Works and Financial Management. Our audit findings and recommendations were discussed with Management during the course of our audit, and so some corrective procedures have already been implemented. In their responses Management discuss their plans for further implementation.

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Cash handling is a high-risk area for every organization, and one that requires careful scrutiny and the strongest possible controls. We appreciate the improvements already made and look forward to further progress towards protecting scarce public funds throughout the City.

TIMING CONSIDERATIONS:

Action by the City Council is not time sensitive.

FISCAL IMPACT:

Towing collects significant revenues on behalf of the City, totaling \$4,800,000 through August 9, 2009 of FY09. Management's effort to adopt the recommendations outlined in the report will increase protections over this valuable revenue stream and help detect and deter any potential misappropriation of funds.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



LAURA L. DOUD, CPA
CITY AUDITOR

Attachment



City of Long Beach Office of the City Auditor

Towing Operations Cash Handling Procedures Audit Report

October 20, 2009

Laura L. Doud, CPA
City Auditor

Office of the City Auditor

Audit Report

Towing Operations Cash Handling Procedures

October 2009



Audit Staff

City Auditor: Laura L. Doud
Assistant City Auditor: James Johnson
Deputy City Auditor: Danica D. Rogers
Audit Manager: Terra Van Andel
Senior Auditor: Zadie Cannon
Senior Auditor: Sotheary Hul
Staff Auditor: Carolyn Phu
Staff Auditor: Kris Lopez

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Executive Summary

We recently concluded our audit of cash handling procedures of Towing Operations, part of the Fleet Services Bureau of the Department of Public Works. Management of Towing Operations requested this audit and provided a remarkable level of cooperation. We commend management for this proactive effort to identify and correct operational weaknesses in order to operate more effectively and efficiently.

The purpose of our audit was to assess the effectiveness of cash handling procedures within Towing Operations. To accomplish this, we analyzed Towing Operations' system of internal controls surrounding cash. Internal controls are policies, procedures and practices established to safeguard an organization's assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

Through August 9, 2009 of the current fiscal year, Towing Operations collected and deposited more than \$4,800,000 in revenue, averaging \$109,000 per week or \$15,500 per day. Due to the significant amount of revenue and high volume of transactions, effective controls are critical to ensure all towing revenues are received and deposited. However, as discussed below, deficient software, lack of separation of duties, and other control weaknesses raise serious questions related to cash-handling functions, including whether monies received were actually deposited.

Note: The Issues and Recommendations contained in this report relate to issues discovered during our testwork. High-risk issues were communicated to management as they were identified, enabling management to begin implementing corrective procedures immediately. Therefore, certain issues identified in this report may have already been corrected.

Issue #1 – Computer Software Allows Employees to Alter System Records Without Detection; Data Integrity is Compromised.

Towing Operations uses a software program to track and record all aspects of the operation, from dispatching a tow truck to impounding the vehicle to releasing the vehicle back to the owner upon receipt of payment. Below is a partial list of the significant deficiencies identified in the computer software and records:

- There is no edit report available to identify altered or deleted records;
- An excessive number of employees may edit or delete records without secondary authorization;
- Computer records appear to have been deleted;
- Records of vehicles previously released from the tow yard were repopulated into the computer system as active accounts, corrupting the system's data; and
- Computer records indicated certain vehicles had been auctioned or released to the owner when in fact the vehicle remained in the tow yard.

Effective computer controls help provide a proper accounting of all vehicles currently in the system, as well as help ensure all money collected is deposited into the City's

treasury. However, the software program as currently installed enables an employee's opportunity to misappropriate public funds.

Note: When management became aware of the above issues, they asked the vendor to create an edit report to identify changes made to system records. Creation of the report is currently in process.

Issue #2 – There is a Prevalent Lack of Separation of Duties, Causing a High Risk of Fraud.

Twenty-one (21) employees have physical access to cash and have the ability to manipulate computerized tow records. Seven (7) of those individuals have access to the safe where the daily deposit is stored. There are no controls in place to prevent the employees from stealing cash and altering the records, and there are no controls to detect the fraud once it has occurred. Risk of a large-scale fraud is high.

Other Critical Issues

Significant Discrepancies Were Identified During Physical Inventory Procedures

Due to compromised system data and the lack of controls, we performed a physical inventory and system reconciliation of vehicles in the tow yard. Our inventory and reconciliation revealed the following:

- Vehicles were listed in the computer system but not physically observed;
- Over 70 physically observed vehicles had no corresponding computer record; and
- Undeposited cash was located within manual file records.

Missing Deposit Highlights Reconciliation Deficiencies

Reconciling the City's deposit records to the bank's deposit records on a timely basis is critical in identifying discrepancies due to error and fraud. In January 2009, Towing Operations notified us that a \$29,375 deposit had left the Towing facility a month before, but had never been deposited at the bank. Although the City was ultimately reimbursed by the armored carrier, our investigation into this matter revealed some of the following control weaknesses:

- The October, November and December 2008 bank reconciliations for the City's main bank account were not completed until March 2009;
- The Department of Financial Management (FM) does not maintain documentation of correspondence with the Departments regarding significant deposit discrepancies; and
- Written policies and procedures do not address certain logistics of notifying the departments of reconciling items. As such, when notifying a department of deposit discrepancies, FM may be notifying the individual responsible for the discrepancies rather than the supervisor.

Credit Card Procedures Expose City to Liability

Any employee may perform credit card voids and credits without any supervisory approval. Additionally, confidential customer credit card data and other identifying information were not properly secured. These control weakness increase the risk of identity theft and credit card fraud, exposing the City to significant liability.

Background

Towing Operations

Towing Operations is a part of the Fleet Services Bureau of the Department of Public Works (Department). It is responsible for providing tow services to City departments. These towing services are available 24 hours a day, 7 days a week. In Fiscal Year (FY) 2008, Towing Operations towed more than 19,000 vehicles, primarily at the request of the Police Department. Vehicles may be towed for a variety of reasons, including outstanding parking citations or involvement in illegal activities, such as driving under the influence or parking in a red zone. Once a vehicle is towed, it is stored at the City's towing facility, which has a maximum capacity of 1,600 vehicles.

Owners may retrieve their vehicles from this location by providing the required documentation and paying all fees due to the City. These fees include towing, impound and storage charges, as well as any additional fees that might apply. Acceptable forms of payment are cash, business checks, and credit cards.

Towing Operations currently uses Tow Administrator software (Tow Administrator) to track all tows from the time the dispatcher initiates a tow until the customer remits the appropriate fees and retrieves the vehicle. The software also tracks the appropriate fees and payments related to each tow. Although the cashiers use Tow Administrator to record payments received, Tow Administrator is not linked to a cash register. As such, the cashiers also operate manual cash drawers unaffiliated with the electronic system and use drop safes to store receipts throughout the day.

Towing Operations generates a significant amount of revenue. Through August 9, 2009, revenues for FY 2009 were in excess of \$4,800,000, averaging \$109,000 per week or \$15,500 per day. Approximately 62% of receipts are collected in cash, while 31% are collected via credit card, and 7% are collected via business checks. As with any business operation dealing with high volumes of cash transactions, effective controls are critical to ensure the City receives all the towing revenues it is due.

Internal Controls

The purpose of our audit was to assess the effectiveness of cash handling procedures within Towing Operations. To accomplish this, we analyzed Towing Operations' system of internal controls surrounding cash. Internal controls are policies, procedures and practices established to safeguard an organization's assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. There are three types of controls: preventive, detective, and corrective. Preventive controls are designed to discourage errors or irregularities from occurring. Detective controls are designed to find errors or

irregularities after they have occurred. Corrective controls are designed to fix errors or irregularities after they are detected. Below are some examples of the three types of controls.

Examples of Internal Controls		
Preventive	Detective	Corrective
<ul style="list-style-type: none"> • Separation of duties • Proper authorization • Tone at top • Physical control over assets 	<ul style="list-style-type: none"> • Automated deviation reports • Supervisory review • Physical Inventories • Audits 	<ul style="list-style-type: none"> • Budget variance reports • Re-training employees • Adjusting journal entries • Process redesign

In particular, properly operating preventive controls are essential, because they are proactive and emphasize quality. They prevent the mistake, error or fraud from occurring in the first place. As such, costly investigations and corrections may be avoided.

Audit Objectives, Scope, and Methodology

Due to the elapsed time since the last cash controls operational review (November 2001) and recent changes within the operation, Towing Operations management requested an audit of cash handling procedures in an effort to evaluate and improve the current process. The purpose of our audit was to assess the effectiveness of cash handling procedures within Towing Operations for the period July 1, 2008 through January 31, 2009.

While conducting the audit, we used the following methodology and performed the following tasks:

- Obtained and reviewed the Fleet Services Towing Cash Handling Manual;
- Obtained and reviewed the most recent audit/review reports on Towing and Fleet Operations for issues pertaining to our audit objectives;
- Conducted interviews with Towing Operations management to gain an understanding of their involvement with the process;
- Conducted interviews with appropriate employees and observed the following processes to gain an understanding of controls in place:
 - Cashiering function, including receipt of payments through the cashiering windows;
 - Counting of cash at day's end and nightly reconciliation to Tow Administrator; and
 - Preparation of morning deposit and Daily Reconciliation Report;
- Obtained and reviewed Administrative Regulation 21-1, *Procedure for Deposition Monies with the Financial Services Division, Central Cashiering Section*;

- Identified the fiscal impact of weekend deposits held until Tuesday rather than deposited on Monday;
- Obtained and reviewed the Tow Administrator manual and interviewed the Tow Administrator programmer;
- Observed use of the Tow Administrator system and interviewed appropriate employees to gain an understanding of computer controls;
- Obtained and reviewed the credit card machine Quick Reference Guide and interviewed the Bank of America credit card representative;
- Observed use of the credit card machine and interviewed appropriate employees to gain an understanding of controls surrounding the credit card machine;
- Reviewed Credit Card Batch Reports and identified voids and credits;
- Interviewed Towing Operations management and employees to gain an understanding of physical access and security of the Towing facility;
- Observed the security of the Towing facility and physical access to areas involving cash or cash related activities;
- Conducted a comprehensive inventory of all vehicles located at the Towing facility on January 20, 2009 and compared the observed vehicles to computer records and manual files;
- Interviewed the Tow Administrator vendor to gain an understanding of system security and availability of certain reports;
- Analyzed the Tow Administrator databases for data integrity, including review for unusual, inconsistent, or missing transactions;
- Interviewed tow truck drivers to gain an understanding of their involvement in the process and the controls in place surrounding cash received on location;
- Confirmed our understanding of the current internal controls based on observations and interviews with Towing Operations management; and
- Interviewed members of the Department of Financial Management to gain an understanding of the daily and monthly reconciliation processes.

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 objectives.

Note: Certain information has been omitted from this report due to its confidential nature. That information has been communicated separately to management, in addition to certain internal control recommendations not significant to our audit objectives.

Issues and Recommendations

ISSUE #1 – Computer Software Allows Employees to Alter System Records Without Detection; Data Integrity is Compromised.

Both preventive and detective controls are crucial to the success and reliability of a computer system; they reduce the risk of fraud and error. However, our audit found that basic preventive and detective controls are missing in the Tow Administrator software and/or have not been implemented by management. The software is unable to provide management with a history of records that have been altered or deleted. In addition, an excessive number of employees have access to edit and delete records within Tow Administrator. There are also data integrity issues within the system, which are compounded by the lack of edit reports and excessive access.

No History of Altered or Deleted Records

There is no edit report available to identify altered or deleted records within Tow Administrator.

By managing changes to the computer system, management controls much of the potential risk that unauthorized changes introduce. Managing changes to the computer system provides management with insight as to:

- What data is being changed?
- Why is it being changed?
- When was the data changed?
- Are changes to data being implemented efficiently and effectively?
- What issues are caused by changes to the data?

Currently, management cannot answer any of these questions and cannot provide assurance that all monies received were deposited into the City's treasury. Because Tow Administrator is unable to produce an edit report that would reveal changes to the system, management cannot identify altered or deleted records. As such, anyone with change access to the system could easily manipulate the data without detection. **Combined with the control deficiencies discussed below, the ability to manipulate the data without detection equates to the ability to steal cash and commit other financial fraud on a large scale without detection.**

Excessive Access to Manipulate Computer Records

24 employees have access to edit and/or delete computer tow records without supervisory approval.

Computer controls represent varied levels of access within the computer system to edit and delete records. The purpose of these controls is to restrict the ability to alter computer records without supervisory approval to as few individuals as possible.

Currently, 24 employees ranging from temporary employees to the Superintendent have access to edit and/or delete Tow Administrator records without requiring secondary

approval. In fact, the software does not have the option of requiring supervisory approval of a transaction, although this secondary approval is a key preventive control.

Given the broad capabilities of the edit and delete functions, combined with the lack of an edit report, the number of employees with unilateral change access is excessive. It results in the ability for individuals to alter records without accountability, exposing Towing Operations to unnecessary risks of fraud and errors. Further, when such a large number of employees have access to alter the data, the reliability and integrity of the data is compromised.

Identified Data Integrity Issues

As discussed above, deficiencies in computer controls have resulted in data integrity issues within Tow Administrator. Lack of data integrity compromises management's ability to properly analyze the data, increasing the risk of fraud and errors. Below are significant data integrity instances identified during our audit:

- Management represented to us that a temporary employee committed an error within Tow Administrator resulting in hundreds of previously released vehicles being repopulated into the system as active accounts. Management became aware of this issue through a third party. However, because there is no edit report, the exact impact of the error and level of corrupt data is unknown;
- Computer records indicated certain vehicles had been auctioned or released to the owner when in fact the vehicle remained in the tow yard;
- Computer records indicated certain vehicles were in the tow yard, when in fact they had been auctioned or released to the owner;
- Tow Administrator allows the ability to override certain sequential invoice numbering, although sequential invoice numbering is essential in evaluating the completeness of the records;
- There were missing records in the sequentially numbered dispatch invoices. These missing records may indicate deleted transactions;
- There were completed dispatch invoices with no corresponding impound or standard tow invoices. The absence of a corresponding invoice may indicate deleted records;
- There were vehicles with an inventory status of "In Inventory With Release Date," although the vehicle should be either "In Inventory" or "Released." This contradictory classification resulted from the cashiers' failures to check the "Remove Vehicle From Current Inventory" box when releasing the vehicle back to the owner; and
- There were vehicles with an inventory status of "Unknown," resulting from incomplete owner/redeemer information within the system.

Recommendations to Issue #1

- 1) Continue to work with the software vendor to create an edit report that documents all modifications to the original records.

- 2) Management personnel independent of the detailed transactions should review the edit report on a routine basis, ask questions of line staff and supervisors regarding the transactions, and document evidence of the review. Consistently asking questions when performing management review of documents, even if the manager already knows the answer, is a preventive control, informing the employees that the transactions are regularly scrutinized.
- 3) Minimize the number of staff with edit and delete capabilities within Tow Administrator.
- 4) When significant adjustments to the Tow Administrator records are necessary, require supervisory approval by someone independent of the process.
- 5) Fully reconcile the vehicles physically in the tow yard with the computer records. Identify and resolve any discrepancies to arrive at a “clean” data set.
- 6) Eliminate the override of sequential invoice numbering in Tow Administrator.
- 7) Work with the software vendor to create a solution that automatically removes vehicles from current inventory when the vehicles are released.
- 8) Management should formally analyze the Tow Administrator database transactions on a periodic basis to identify operational trends and errors that may require correction. This analysis should be documented.

ISSUE #2 – There is a Prevalent Lack of Separation of Duties, Causing a High Risk of Fraud.

Separation of duties is one of the key concepts of a strong internal controls system. In any organization, business-critical duties are categorized into three types of functions:

- 1) Custody of assets;
- 2) Authorization of transactions related to those assets; and
- 3) Recording the transactions related to those assets.

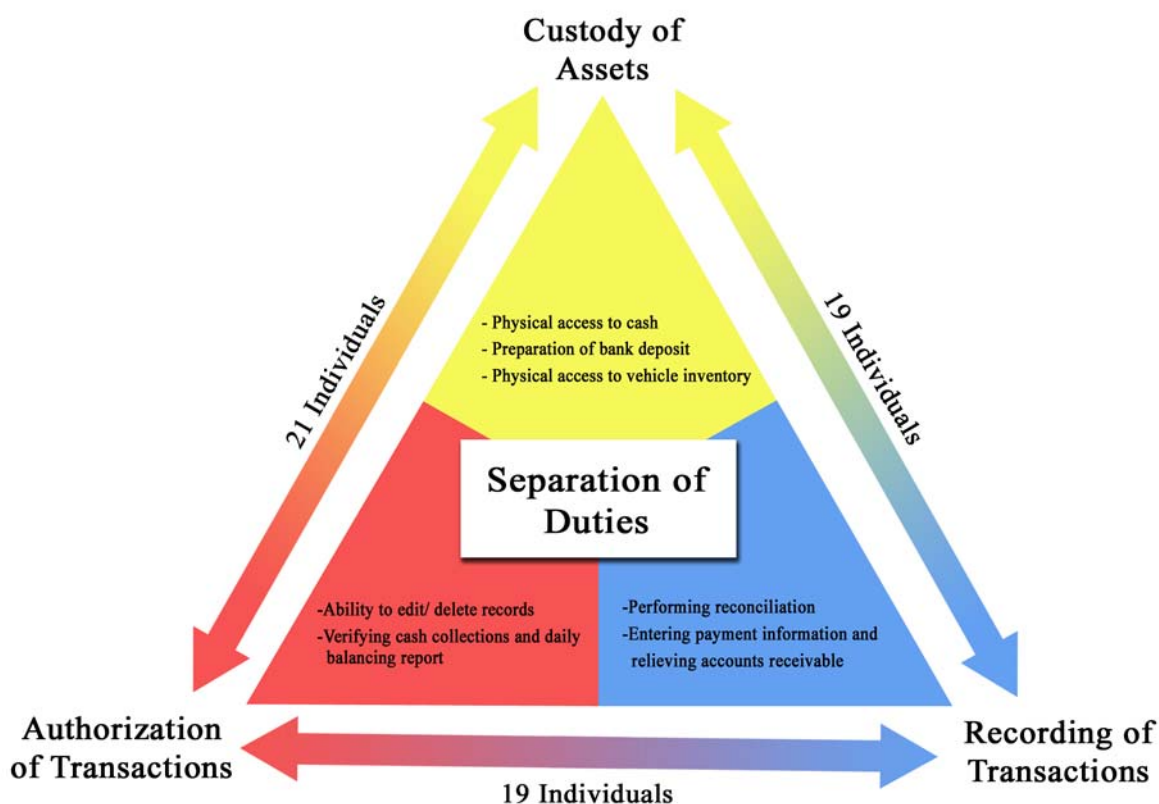
As a preventive control, no one person should handle more than one type of function. *By separating the performance of these critical functions, the organization helps ensure that no single individual is in a position to both perpetrate and conceal irregularities.* Examples of critical functions that should be separated and the potential consequences of lack of separation are depicted in the table below.

Business Functions That Should Be Separated	Potential Consequences
<ul style="list-style-type: none"> • Accepting payments from customers and maintaining accounts receivable records • Approving the issuance of purchase orders and recording inventory receipts • Depositing cash and performing the bank reconciliation • Approving the hiring of new employees and entering new employees into the payroll system 	<ul style="list-style-type: none"> • Stealing cash and falsifying accounts receivable records • Entering fictitious vendor invoices and taking receipt of payments • Stealing cash and falsifying the reconciliation • Entering fictitious employees and taking receipt of payroll checks

During our audit, we found serious deficiencies in the separation of duties surrounding cash and the related processes. Numerous individuals have access to cash and vehicle inventory, authorize transactions pertaining to cash and vehicle inventory, and perform record keeping functions such as reconciliations. A prevalent lack of separation of duties such as this creates opportunities for employees to commit undetected errors or fraud.

Below is an illustration depicting the lack of separation of duties relevant to Towing Operations. As mentioned above, the concept of separation of duties precludes any individuals from performing more than one type of business function, yet many individuals in Towing Operations perform two or three of these function types.

Towing Operation's Lack of Separation of Duties



As illustrated above, 21 individuals perform or have the ability to perform both the custody of assets and authorization functions. Of those 21 individuals, 19 individuals also perform or have the ability to perform recording functions.

21 Employees Perform Both the Custody of Assets and the Authorization Functions.

Our audit identified 21 employees ranging from tow truck drivers to the Superintendent that have physical access to cash receipts and vehicle inventory and have the ability to

manipulate customer records within Tow Administrator. Five of those employees may also delete customer records. The ability to perform both of these key business functions increases the risk of fraud and errors. Further, the lack of an edit report or other compensating controls increases the risk that any fraud or errors will be undetected.

Of particular concern are the procedures surrounding the verification of daily cash receipts (averaging \$15,500 per day). The Night Supervisor on duty acts as the night cashier, physically releases the vehicles to the customer, performs the daily cash reconciliation procedures without witnesses and has edit and delete capabilities within Tow Administrator. It is unlikely that fraud perpetrated by a Night Supervisor would be uncovered through normal procedures currently in place at Towing Operations or the City. We did not find evidence of misappropriation by a Night Supervisor. However, given the lack of internal controls, risk of a large-scale fraud is high.

Actual Situation:

- *During our audit procedures, an insurance company requested a receipt of payment from Towing Operations for a tow that had recently taken place. The record within Tow Administrator revealed a “cancelled tow,” and there was no record of receipt of the payment. When management questioned the Dispatcher regarding the situation, the Dispatcher stated she cancelled all tows within the system if she did not receive a receipt from the tow truck driver. Video footage of the transaction showed the tow truck driver placing a packet of papers on the dispatcher’s desk. However, that paperwork could not subsequently be found.*

The above situation occurred in part because Towing Operations did not have specific procedures regarding chain of custody of cash received by tow truck drivers. As such, the drivers might leave the paperwork and cash with the Dispatcher, give the paperwork and cash to a cashier, or enter the transaction into the Tow Administrator system themselves. This lack of chain of custody compounded by the lack of separation of duties and other internal controls precluded management from determining whether the missing tow revenue was the result of fraud or unintentional error.

19 Employees Perform All Three Business Function Types That Should Be Separated.

Our audit identified 19 employees ranging from tow truck driver to superintendent that have the ability to perform all three business function types that should be separated:

- 1) Custody of assets
 - a. Physical access to cash receipts;
 - b. Physical access to vehicle inventory; or
 - c. Performing bank deposit;

- 2) Recording of transactions
 - a. Entering payment information into Tow Administrator;
 - b. Entering accounting information into the City's accounting system; or
 - c. Performing reconciliation procedures; and
- 3) Authorization of transactions
 - a. The ability to edit and delete computer records; or
 - b. Verifying cash collections and daily balancing report.

The ability to perform all three of these function types increases the risk of undetected fraud and errors. For example, the same individual prepares the bank deposit, records the accounting entry related to the deposit, and receives notices of deposit discrepancies from the City's accounting department and the bank.

Of greatest concern is the lack of separation of duties or mitigating controls surrounding the position of Superintendent. The Superintendent has total access to the daily cash receipts and change drawers, has unlimited access and change capabilities within Tow Administrator, and performs reconciliation procedures and data analysis on the Tow Administrator database. This access to cash is unnecessary and is incompatible with the oversight and reconciliation duties required by the position. It is unlikely that fraud or errors committed by the Superintendent would be uncovered through normal procedures currently in place at Towing Operations or the City. We did not find evidence of misappropriation by the Superintendent. However, given the lack of internal controls, risk of a large-scale fraud is high.

Key Mitigating Controls Are Missing

Compensating controls mitigate the effects of a control weakness, such as the lack of separation of duties. They are less desirable than separation of duties because they generally occur after the transaction is complete. Although a compensating control does not eliminate the control weakness, it could lessen the likelihood of a negative impact resulting from a control weakness. The list below details some basic compensating controls that have not been implemented by Towing Operations.

- Performing periodic physical inventories of vehicles in the tow yard. Personnel independent of Towing Operations should perform the inventory, compare the physical inventory results to the computerized inventory records, and conclude on any discrepancies noted;
- Requiring customers to sign documentation evidencing their receipt of vehicle and payment amount *when they retrieve their vehicle*. Someone other than the cashier who received the customer's payment should maintain this documentation. Personnel independent of the cashing function should reconcile these receipts to the daily cash reports;
- Requiring the daily cash count and deposit preparation to be performed by two individuals rather than one;

- Maintaining cash receipts in the drop safes overnight and performing the daily cash count in the morning. Currently, the cash receipts are removed from the drop safes at night for the daily cash count, replaced in the drop safes, moved to the Money Count Room safe in the morning, removed from the Money Count Room safe to prepare the deposit documentation, replaced in the Money Count Room safe, and finally removed from the Money Count Room safe to be given to the armored carrier;
- Management review and follow-up of a Tow Administrator Edit Report;
- Implementing formal, periodic analysis of Tow Administrator database transactions. This analysis, which could be automated, would identify unusual trends or discrepancies in the data, such as missing invoice numbers;
- Conspicuously posting signs in front of the cashier locations informing customers that they should receive a receipt of payment with a zero balance and providing them with a telephone number to call if they were not issued a receipt; and
- Using cash registers and reconciling the cash register tapes to the daily receipts.

Recommendations to Issue #2

- 9) Develop a system of checks and balances so that one individual does not have the ability to perform more than one type of critical business function, as described above.
- 10) Develop a formal process for the release of vehicles that is independent of the cashing function. Upon receipt of the vehicle, the customer should verify in writing the amount paid to the cashier and acknowledge receipt of vehicle.
- 11) Count and reconcile daily cash receipts in the morning with a witness present.
- 12) Reduce the handling of cash receipts by eliminating the back and forth transfers between the drop safes and the Money Count Room safe.
- 13) Develop and implement a written policy addressing the chain of custody of cash receipts by tow truck drivers. Ensure there is documentation signed by both parties when cash is transferred.
- 14) Eliminate access to cash by supervisors and superintendents. Their access to cash should be only in a witness capacity, such as witnessing the cash count and deposit preparation.
- 15) Establish procedures to ensure the individual making the deposit is not the individual that receives the discrepancy notifications from the bank or from the City's accounting personnel. These procedures should address notification by mail, as well as notification by phone, fax, and email.
- 16) Implement periodic physical inventories of vehicles in the tow yard and related reconciliation procedures by independent personnel.
- 17) Consider installing cash registers. Have personnel independent of the cashing function reconcile the daily or shift printouts from the cash registers to the daily cash receipts.

ISSUE #3 – Significant Discrepancies Were Identified During Physical Inventory Procedures

As a result of the data integrity issues mentioned in Issue #1 and the lack of separation of duties and mitigating controls identified in Issue #2, we expanded our audit procedures. We performed a physical observation of Towing Operations' vehicular inventory and compared the inventory results to the manual and computer system inventory records. Below are the results of these procedures.

- Certain vehicles were listed in the computer inventory records that were not physically observed on the lot;
- Over 220 observed vehicles did not have a corresponding manual record;
- Approximately 70 of those 220 observed vehicles also had no computer inventory record;
- Undeposited cash from standard tow transactions was filed within the manual records;
- Two vehicles had an inventory status of "Lost" in the system records;
- The manual records of cars currently in inventory contained files of over 1,000 vehicles that were not in inventory;
- There were vehicles physically observed without license plates, invoice numbers or other identifying information to reconcile them to the computer records;
- License plate numbers listed in the computer system for certain vehicles did not match the license plate numbers on the corresponding vehicle; and
- For one vehicle listed in inventory but not observed, notes in the computer system stated that the vehicle had been loaned to the Police Department for undercover operations.

Recommendations to Issue #3

- 18) Have independent personnel conduct periodic inventories of vehicles on the lot and reconcile the results to system and manual inventory records.
- 19) Develop and enforce procedures to ensure manual inventory records are updated to reflect changes in the vehicles' corresponding computer records.
- 20) Follow up on the "lost" vehicles and the vehicle loaned to police department. Determine whether the vehicles were returned to the tow yard. Consider including in the written policies and procedures that loaning vehicles in inventory to any individual or entity is strictly prohibited.

ISSUE #4 – Missing Deposit Highlights Reconciliation Deficiencies

Reconciling the City's deposit records to the bank's deposit records on a timely basis is critical in identifying discrepancies due to error and fraud. In January 2009, Towing Operations notified us that a \$29,375 deposit had left the Towing facilities a month before, but had never been deposited at the bank. Although the City was ultimately reimbursed by the armored carrier, our investigation into this matter revealed some of the following control weaknesses:

- Resolution of the missing deposit mentioned above appears untimely and unorganized. Although accounting personnel in the Department of Financial Management (FM) identified the deposit discrepancy the next business day, management personnel in the Treasury Bureau and Towing Operations were not notified of the missing deposit until a month later. In the future, the City may not be reimbursed if it does not make a claim for missing money in a timely manner;
- The October, November and December 2008 bank reconciliations for the City's main bank account were not completed until March 20, 2009. Monthly bank reconciliations should be performed within the month following the transactions. Reconciliations not performed or not performed in a timely manner increase the risk that errors or fraud will go unnoticed;
- FM does not maintain documentation of correspondence with other City Departments regarding significant deposit discrepancies;
- Written policies and procedures do not address certain logistics regarding notifying the departments of reconciling items. For example, the policies do not list the appropriate contact person for the department or escalation procedures for unresolved or significant items. As such, when notifying a department of deposit discrepancies or write-offs of shortages, FM may be notifying the individual responsible for the discrepancies rather than his supervisor; and
- Discrepancies between the amounts entered into the accounting system and the amounts deposited at the bank are not tracked in a useful cumulative manner. Analyzing this information could provide management with insight as to trends in deposit issues.

Recommendations to Issue #4

- 21) Modify written policies and procedures to address in more detail the logistics of the daily bank reconciliation and the write-off processes performed by the Accounting Bureau and the Treasury Bureau. Include instruction regarding who in each department should be notified and escalation procedures at certain dollar and time thresholds;
- 22) Improve the daily bank reconciliation process by retaining records of significant communication with departments and following up on variances until resolved;
- 23) Ensure monthly bank reconciliations are performed in a timely manner; and
- 24) Consider implementing a tracking mechanism that allows management to analyze trends in deposit discrepancies.

ISSUE #5 – Other Critical Deficiencies

While performing our audit, several procedural and documentation deficiencies that we consider to be critical to the safeguarding of cash came to our attention. We have summarized and highlighted them below.

Credit Card Procedures Expose City to Significant Liability

The below issues regarding credit card information and transactions illustrate that Towing Operations is exposing its customers to identity theft and other fraud, as well as exposing the City to unnecessary liability.

- Complete customer credit card numbers are shown on credit card receipts and batch reports. Both credit card receipts and batch reports are in an unsecured room and are easily accessible by all employees;
- The credit card machine is located outside of customer view. As such, the employee removes the credit card from the customer's possession and view to process the transaction. At that time, the employee could memorize or write down the credit card's security code and expiration date; and
- Any employee may perform credit card voids and credits without supervisory approval. As such, employees could post credits to their personal credit cards or process voids to customer transactions.

As mentioned above, the employees have access to the full credit card numbers, the expiration dates, and the security codes. Through the manual and system records, the employees also have access to the customers' full names, dates of birth and addresses. This is very valuable and marketable information in the identity theft industry and should be protected at all costs.

Actual Situation:

- *During our audit, we identified an instance where one employee charged a customer's credit card four times during the night shift without explanatory documentation or customer approval.* Note: It was subsequently determined that this was the employee's attempt to correct a customer overcharge. The employee was counseled regarding the incorrect method used to remedy the overcharge, and the customer was reimbursed for the four unauthorized charges and the related overdraft fees.

Weak Controls Surrounding Physical Access and Security

Excessive employee access to cash areas and cash safes

As discussed above, total daily receipts averaging \$15,500 per day are kept in the drop safe and in the Money Count Room safe. Physical access to the safes and the Money Count Room is excessive, as detailed below. This excessive access increases the risk of fraud and errors, and increases the risk that detected fraud and errors will not be attributable to the responsible individual.

- Seven employees have the combination to the Money Count Room safe. Of those seven employees, five also have the combination to both drop safes. Access to this volume of cash should be restricted to a minimum number of employees;

- Employees with safe access receive laminated cards listing the safe combinations. This procedure increases the risk that safe combinations will be stolen;
- A total of 13 City employees have a key to the Money Count Room and both cash drawers. Six of those employees work outside of Towing Operations and have no reason to access the Money Count Room or cash drawers;
- During our audit, we observed multiple employees entering the Money Count Room to retrieve supplies while the daily deposit was still located in the safe; and
- We observed an employee loaning her Money Count Room key to another employee who was not issued a key. The unauthorized employee then entered the Money Count Room unescorted.

Critical issues surrounding security cameras

The security camera system at Towing Operations consists of sixteen cameras located throughout the towing facility, seven of which are used in the safeguarding of cash. Camera footage is recorded and retained for 45 days.

Considering the nature and volume of transactions at the Towing Operations and the excessive level of employee access, the reliability of the security camera footage is critical. Employees are dissuaded from committing theft or other transgressions because they know they are being recorded. In the event that a questionable transaction does occur, the employee monitoring the cameras or supervisory review of the recordings may discover the transgression. As such, fully operational cameras and recordings function as both a preventive control and a detective control. However, we noted the following issues that bring into question the effectiveness of the cameras and recordings at Towing Operations:

- The camera in the Money Count Room is positioned so that it records the back of the individual who is handling the daily cash receipts. Therefore, theft of cash could be concealed from the camera;
- The quality of the camera recordings is inadequate, resulting in the inability to discern detail in the recorded footage. For example, management was unable to determine from the footage whether or not cash was handed to the dispatcher because the recording was too grainy;
- The key to the recording device is located in cabinet of an open room at the Towing Operations facility, easily accessible by all employees. Although the cabinet is locked, the key is kept in the cabinet's keyhole and is easily visible; and
- The main monitoring station is unable to view the camera feed from the Money Count Room. As such, live monitoring of the Money Count Room is not consistent, taking place only if a supervisor specifically logs in to view the camera feed.

Deposits Made in Violation of AR21-1

Administrative Regulation 21-1 requires all monies received on weekends of greater than \$100 be deposited on the next workday. However, every other week Towing Operation's weekend revenues are deposited on Tuesday rather than on Monday, to accommodate the work schedule of the employee who prepares the deposit. Within a six-week period, approximately \$83,000 in deposits was delayed in this manner. Given the significance and exposure of the cash at hand, funds should be deposited the immediate next business day.

Recommendations to Issue #5

- 25) Install credit card machines that allow customers to process their own credit cards, rather than requiring them to relinquish the credit cards to Towing Operations employees;
- 26) Require independent supervisory approval for processing credit card voids and credits.
- 27) Work with the credit card company to ensure that full credit card numbers are not visible on receipts or batch reports.
- 28) Place records with customers' credit card information in a secure location with restricted access.
- 29) Restrict employee access to safes and cash areas to the minimum number of authorized employees. Ensure the level of access for each employee is appropriate given his job duties.
- 30) Eliminate the distribution of safe combinations cards to employees.
- 31) Consider relocating supplies and records so that only the safe remains in the Money Count Room.
- 32) Through additional training or policies and procedures, ensure keys are not loaned to unauthorized individuals.
- 33) Analyze and correct the placement of cameras that monitor cash handling so that the full range of cash handling activities may be observed.
- 34) Consider upgrading the camera and/or recording system to ensure the required level of detail is achieved.
- 35) Maintain the camera-recording device in a restricted area with limited access by authorized individuals.
- 36) Ensure weekend funds are deposited the next business day in accordance with AR21-1.

Appendix A

Management's Response

Department of Public Works

Public Works Management Response to Issue #1 Recommendations

	Issue	Date Corrected	Solution
1)	Continue to work with the software vendor to create an edit report that documents all modifications to the originals records.	11/20/2008	The "Edit Report" has been requested from the XYLISYS Corporation, (current software application vender). The TLS Division is currently waiting for the requested report to be developed.
2)	Management personnel independent of the detailed transactions should review the edit report on a routine basis, ask questions of line staff and supervisors regarding the transactions, and document evidence of the review. Consistently asking questions when performing management review of documents, even if the manager already knows the answer, is a preventive control, informing the employees that the transactions are regularly scrutinized.	12/15/2008	<p>The Division Superintendent currently runs a "Daily Detailed Sales Report" each morning to document the previous days transactions in detail. Each transaction is reviewed for errors and / or any un-authorized adjustments. The Lot Management Supervisor runs a "Daily Income Report" for each day of transactions and compares the "Daily Income Report" to the "Daily Detailed Sales Report". The two reports must match for a balanced bank deposit.</p> <p>This comparison process captures all clerk errors and all un-authorized adjustments. Upon discovery of un-authorized adjustment management will counsel the employee to mitigate all adjustments, transaction errors, or vehicle release policy issues.</p> <p>The TLS Division is currently waiting for a software update to produce an edit report. Once this report is functional it will be generated daily and evaluated.</p>
3)	Minimize the number of staff with edit and delete capabilities within Tow Administrator.	1/6/2009	<p>Once this issue was identified by the Auditors staff, all employees that had the rights to delete invoices were disabled. Only the Division Superintendent currently has the Delete Function enabled.</p> <p>Note: Due to program security level limitations deletion rights were enabled for Lien Sales Supervisor. This security level is required to allow the deletion of lien sale information to begin reprocessing when a lien process error is made,</p> <p>Embodiment of software update 07/07/2009, removed the ability of employees to delete charges, "unreleased" or reverse a vehicle release transaction, or change any monetary information with out leaving a record of the adjustment.</p> <p>Note: 24 employees did have edit information, only 4 supervisors had delete capability.</p>

Public Works Management Response to Issue #1 Recommendations, Cont.

4)	When significant adjustments to the Tow Administrator records are necessary, require supervisory approval by someone independent of the process.	1/6/2009	Embodiment of software update 07/07/2009, removed the ability of employees to delete charges, unreleased vehicles or monetary information. Should an employee attempt to change payment or miscellaneous fee information, a pop-up will ask for supervisor approval before any changes can be made
5)	Fully reconcile the vehicles physically in the tow yard with the computer records. Identify and resolve any discrepancies to arrive at a "clean" data set.	1/20/2009	The Towing Division is current working towards the goal of full physical inventory to paper invoice reconciliation. A "Clean Data Set will be available by September 30 th – 2009
6)	Eliminate the override of sequential invoice numbering in Tow Administrator.	1/21/2009	<p>This correction issue is specific to the "Standard Invoice" only. This type of invoice is generated when a vehicle is towed but not delivered to the Fleet Storage Yard. A "Standard Invoice" is also used to document any other type of service or transaction that does not involve impounding a vehicle. (See attachment #1). The Towing Division management has been, and is currently working with the software application vender to correct this invoice tracking issue.</p> <p>Sequential numbering of Impound invoices are locked and cannot be overridden by dispatcher or other employees.</p>
7)	Work with the software vendor to create a solution that automatically removes vehicles from current inventory when the vehicles are released.	7/15/2009	This issue is being addressed with the software vendor.
8)	Management should formally analyze the Tow Administrator database transactions on a periodic basis to identify operational trends and errors that may require correction. This analysis should be documented.	9/1/2009	The Superintendent audits the database monthly for errors and takes corrective action. The Division Superintendent will establish a Monthly Transaction Trend Report, and keep a record of all Trend Reports on the Towing Divisions "0" drive.

Public Works Management Response to Issue #2 Recommendations

9)	Develop a system of checks and balances so that one individual does not have the ability to perform more than one type of critical business function, as described above.	11/20/2008	<p>Division Management up-dated the Towing Cash Handling Manual in October of 2008 and implemented the procedures outlined in this manual shortly after this audit began. Further changes were made to the business function procedures based on suggestions made by auditor representatives.</p> <p>At the conclusion of this audit the Towing Cash Handling Manual will be updated once again to comply with all audit recommendations.</p>
10)	Develop a formal process for the release of vehicles that is independent of the cashiering function. Upon receipt of the vehicle, the customer should verify in writing the amount paid to the cashier and acknowledge receipt of vehicle.	10/1/2009	<p>In practice as of 7/1/08. The customer signs a receipt upon release of the vehicle at the release window.</p> <p>The TLS Division is working towards establishing a "Lot Release Invoice" and anticipates implementation of this procedure by 10/1/09. Implementation of this procedure will require any employee that allows the vehicle to leave the 3111 E. Willow lot to sign and return a copy to the lot manager of each invoice for every vehicle leaving the yard. This procedure will identify the customer service representative responsible for the release, and provide a daily lot inventory update.</p>
11)	Count and reconcile daily cash receipts in the morning with a witness present.	12/1/2008	<p>This money count process was immediately established upon the auditor's recommendation.</p> <p>All revenue collected by the TLS Division is now reconciled when two persons are available to total receipts and prepare deposits.</p>
12)	Reduce the handling of cash receipts by eliminating the back and forth transfers between the drop safes and the Money Count Room safe.	12/1/2008	<p>This transfer process was immediately established upon auditor recommendation. Receipts are currently transferred only once a day.</p>
13)	Develop and implement a written policy addressing the chain of custody of cash receipts by tow truck drivers. Ensure there is documentation signed by both parties when cash is transferred.	1/21/2009	<p>Established a written procedure (see attachment #2), distributed to all towing employees</p>

Public Works Management Response to Issue #2 Recommendations, Cont.

14)	Eliminate access to cash by supervisors and superintendents. Their access to cash should be only in a witness capacity, such as witnessing the cash count and deposit preparation.	11/20/2008	<p>Superintendent was taken out of the cash handling and reconciliation process. Safe combination was originally removed from Superintendent and reinstated after supervisor coverage issues were experienced relating to vacation coverage, furloughs, and the varied shifts of the supervision staff. We were severely hindered performing the reconciliation and armored courier deposit process.</p> <p>With reallocation of supervision staff, only supervision will retain access to safes. Written procedures will be enacted by 9/1/09 to maintain that two employees are present when handling cash from all drop safes. As of 9/1/09, the superintendent will be removed from safe access.</p>
15)	Establish procedures to ensure the individual making the deposit is not the individual that receives the discrepancy notifications from the bank or from the City's accounting personnel. These procedures should address notification by mail, as well as notification by phone, fax, and email.	12/1/2008	Request made to deliver all Union Bank correspondence to the Fleet Services, Superintendent of Operations.
16)	Implement periodic physical inventories of vehicles in the tow yard and related reconciliation procedures by independent personnel.	1/20/2009	Starting in FY10, towing management will work with the Fleet Services Bureau Manager to schedule employees from Fleet Services Bureau that are independent of the towing operation, to work in teams with lien sales personnel to accomplish a monthly vehicle inventory.
17)	Consider installing cash registers. Have personnel independent of the cashiering function reconcile the daily or shift printouts from the cash registers to the daily cash receipts.	On-Going	Towing operation will research the most efficient method of incorporating electronic cash registers at each release window. Evaluation and practicality of implementation to be completed by 5/31/2010.

Public Works Management Response to Issue #3 Recommendations

18)	Have independent personnel conduct periodic inventories of vehicles on the lot and reconcile the results to system and manual inventory records.	On-Going	The Lien Sales Section is now conducting inventory on a monthly basis. Employees will be scheduled from Fleet Services Bureau that are independent of the towing operation to work in teams with lien sales personnel to accomplish record reconciliation.
19)	Develop and enforce procedures to ensure manual inventory records are updated to reflect changes in the vehicles' corresponding computer records.	12/1/2008	The Division Superintendent audits electronic inventory records monthly and verifies accurate release and sale removal of vehicles.
20)	Follow up on the "lost" vehicles and the vehicle loaned to police department. Determine whether the vehicles were returned to the tow yard. Consider including in the written policies and procedures that loaning vehicles in inventory to any individual or entity is strictly prohibited.	10/1/2009	The towing division will work with Fleet Management to create a written policy prohibiting the practice of loaning "default" lien sale vehicles, without prior review and approval of the Fleet Review Committee. Guidelines will be established to specify time frames for the return of loaner vehicles and establish cost thresholds to the loaner department for repairs, smog and registration to ready the vehicle for department usage.

Public Works Management Response to Issue #5 Recommendations

25)	Install credit card machines that allow customers to process their own credit cards, rather than requiring them to relinquish the credit cards to Towing Operations employees;	10/1/2009	Will implement with FY10 budget.
26)	Require independent supervisory approval for processing credit card voids and credits.	3/1/2009 (Approx.)	This procedure was implemented immediately upon the auditor's staff recommendation.

Public Works Management Response to Issue #5 Recommendations, Cont.

27)	Work with the credit card company to ensure that full credit card numbers are not visible on receipts or batch reports.	10/1/2009	Towing Division will research the implementation of a credit card system that will eliminate full credit card information display. Anticipated research and implementation of an updated system by 2/1/2010.
28)	Place records with customers' credit card information in a secure location with restricted access.	10/1/09	All reconciliation credit card customer information are currently stored in the locked "Money Count" room, with four CSR, Grade- III personnel and one Superintendent with access to the "Money Count" room. All files will be relocated to the Towing Server room and the lock will be keyed uniquely limiting the personnel who will have access to invoices
29)	Restrict employee access to safes and cash areas to the minimum number of authorized employees. Ensure the level of access for each employee is appropriate given his job duties.	On-Going	Only supervision will retain access to all drop safes, with written procedures to be enacted by 9/1/09 to maintain that two employees are present when handling cash from all drop safes. By 9/1/09, locks to the Money Count Room will be uniquely keyed and numbered, and distributed only to Fleet Services Supervisors.
30)	Eliminate the distribution of safe combinations cards to employees.	8/21/2009	Currently the three Fleet Service Supervisors, and the one Division Superintendent have access to the safes. (This number of authorized employees are required to run a 24 hour operation accounting for vacations, furloughs and extended customer service hours). Beginning 9/1/2009 the combination code number will no longer be distributed in a printed form. It will be the responsibility of each Fleet Services Supervisor to maintain individual safe combinations.
31)	Consider relocating supplies and records so that only the safe remains in the Money Count Room.	10/1/2009	Will relocate to supplies room by 9/1/09.
32)	Through additional training or policies and procedures, ensure keys are not loaned to unauthorized individuals.	9/1/2009	Will be completed by 9/1/2009

Public Works Management Response to Issue #5 Recommendations, Cont.

33)	Analyze and correct the placement of cameras that monitor cash handling so that the full range of cash handling activities may be observed.	On-Going	Upon removal of file cabinets from Money Count Room, desk will be repositioned to enable all cash handling activities to be observed by installed camera. Windows A&C cameras will be repositioned during FY10 as funding is available.
34)	Consider upgrading the camera and/or recording system to ensure the required level of detail is achieved.	On-Going	Will make this a part of our FY10 budget when funding is available. Anticipated cost of camera upgrade will be \$25K
35)	Maintain the camera-recording device in a restricted area with limited access by authorized individuals.	9/1/2009	Will establish a policy by 10/1/09, requiring Electrical Facility Room to be locked at all times. Will also affix door placard stating "Door to Remain Locked at all Times" NOTE: Digital Video Recorder for camera system is located in an enclosure that alerts alarm company if it is opened.
36)	Ensure weekend funds are deposited the next business day in accordance with AR21-1.	10/1/09	Will redistribute supervision and reconciliation staffing to comply with the requirements of AR21-1, Section V; A, which reads; "Monies received by all City departments shall be deposited with Central Cashiering within 24 hours if over one hundred (\$100.00) dollars or within two days if less than one hundred (\$100.00) dollars. Monies received on weekends or on a holiday will be deposited on the next or second work day, Depending on the amount as previously described."

Public Works Management Response - Attachment #1


IMPOUND TOW / SERVICE INVOICE		STANDARD TOW / SERVICE INVOICE	
Any time a City Vehicle is dispatched to perform a service at any location other than the 3111 E. Willow Lot an Impound Tow Invoice must be created.		Any time money is collected at the Towing / Lien Sales Division for non-dispatch services or any time property is sold at auction a Standard Tow Invoice must be created.	
APPLICABLE FEE AND SERVICES CHARGE TYPES		APPLICABLE FEE AND SERVICES CHARGE TYPES	
TOWING FEES		EXTRA STORAGE DAYS	
RECOVERY FEES		DUPLICATE LIEN SALES DOCUMENTS	
CANCELLED CALLS		FILE ARCHIVE SEARCH	
DROP FEES		AUCTION PALLET SALE	
FIELD RELEASE		AUCTION PROPERTY SALE	
HOME TOW		LONG LIEN DEPOSIT DEFAULT	
SCHEDULED TOW		LOST BIDDER CARD	
CITY VEHICLE TOW		SCHEDULED RE-TOW	
TIRE CHANGE		FIRE TRAINING TOW	
JUMP START		DISPLAY CAR TOW	
CITY - VEHICLE UN-LOCK		BIDDER DEFAULT FEE - (Pending)	

Public Works Management Response - Attachment #2



City of Long Beach
Working Together to Serve

Memorandum

Date: January 21, 2009
To: «Employee», «Job_Functon»
From: Dan Ramos, Superintendent, Towing/Lien Sales 
Subject: Dispatch Cash Handling Processes When Receiving Cash From the Field

The Public Works, Fleet Services Bureau, Towing/Lien Sales Division Dispatch Office shall immediately implement the policy, outlined below, for the receipt of cash in the field by tow drivers.

When a tow driver performs a cash transaction in the field for a Field Release or Drop Fee, the cash shall be placed in a secure location in the cab of the tow truck. Upon returning to the yard, the cash and field receipt shall be immediately delivered to the supervisor on duty, for verification.

The supervisor, with the tow driver as a witness, shall reconcile the amount received against the copy of the receipt that was provided to the customer in the field.

After reconciliation, the supervisor and tow driver shall initial the receipt in a manner that can be clearly identified as to who had reconciled and witnessed the reconciliation.

Once the reconciliation is completed, a copy of the receipt shall be made, and the copy provided to the dispatcher for data entry into Tow Administrator. The cash and receipt shall be delivered to the clerk on duty, at the front release counter. The clerk shall enter the release amount into the Tow Administrator window, and drop the money in one of the safes.

Should the receipt of cash in the field be received after normal business hours, the receipt shall be reconciled, and signed by the duty supervisor and tow driver. The receipt shall be annotated with **"this invoice not released yet"**, and the cash and receipt shall be dropped in the Window "A" safe.

At any time, if the supervisor on duty is not available, the cash and receipt shall be reconciled, and clearly initialed by the dispatcher and Garage Service Attendant-III (GSA) or GSA-II. The receipt shall then be annotated with **"must be reconciled by a supervisor, this invoice not released yet"**, and the cash and receipt dropped into the Window "A" safe.

During after hours, when a clerk is not available to receive money, *both* parties who reconcile and sign the receipt, shall deliver the money to the safe.

Failure to follow the above procedure could result in employee discipline.

My signature above designates that I have received this policy memo

Appendix B

Management's Response

Department of Financial Management



City of Long Beach
Working Together to Serve

Memorandum

Date: September 23, 2009

To: Danica D. Rogers, Deputy City Auditor

From: Lori Ann Farrell, Director of Financial Management/CFO *LAFF*

Subject: **Response to Performance Audit of the Cash Handling Procedures for Towing Operations - REVISED**

Please find responses to Towing Operations Audit recommendations applicable to the Department of Financial Management below.

Management Response:

The Department of Financial Management discovered the misplaced armored car deposit during its routine daily bank reconciliation process, and the deposit discrepancy was communicated immediately to staff in the Towing Operations Bureau as well as Treasury staff once identified. During the daily deposit reconciliation process, the Department of Financial Management communicates discrepancies to departments if and when identified. It is the normal course of business for this communication to occur via telephone, and it normally happens the following business day.

The Department of Financial Management's internal controls led to the identification of the discrepancy. The situation was identified and then communicated to the City Auditor. After the armored courier completed its investigation, the City was fully reimbursed.

Discrepancies in deposit amounts are usually routine and not materially significant. Large discrepancies are unusual, however, and need to be handled on a case-by-case basis. The deposit discrepancy noted in the audit was identified and was communicated to the Towing Operations Bureau and Treasury staff leading to a favorable solution for the City.

21) Modify written policies and procedures to address in more detail the logistics of the daily bank reconciliation and the write-off processes performed by the Accounting Bureau and the Treasury Bureau. Include instruction regarding who in each department should be notified and escalation procedures at certain dollar and time thresholds.

Representatives from the Accounting and Treasury Bureaus have discussed this issue. The current procedure of communications via telephone has proven to be an expedient and cost effective way to identify and correct discrepancies; however, we concur with the need to further modify our written policies and procedures to better address escalation procedures as well as what constitutes adequate notification to appropriate personnel within Financial Management and external departments.

22) Improve the daily bank reconciliation process by retaining records of significant communication with departments and following up on variances until resolved.

The Department of Financial Management concurs with this recommendation. The process for identifying significant discrepancies, considered discrepancies over \$1,000 that have not been reconciled through normal business processes, has been modified to ensure that more formal communication and follow-up through resolution is included. Most existing procedures governing minor deposit discrepancies are followed and are adequate to cover more routine events.

23) Ensure monthly bank reconciliations are performed in a timely manner.

The Department of Financial Management concurs with this recommendation.

25) Consider implementing a tracking mechanism that allows management to analyze trends in deposit discrepancies.

The Department of Financial Management would require additional resources to create or monitor such a system. In addition, this type of system, used to track minor deposit discrepancies, would cost substantially more to create and maintain than the potential future benefit, if any, that could be derived. The creation of new record retention and escalation policies for larger deposit discrepancies, as recommended by the City Auditor, should serve to promote a more adequate tracking mechanism.