

# City of Long Beach, Office of the City Auditor

## Audit of Vehicle Lien Sales *Report Highlights*

The objective of this audit was to assess the adequacy of financial-related practices and internal controls surrounding the City's vehicle lien sales operations.

### Background

The Towing and Lien Sales Division is responsible for the operation of the City's vehicle towing and lien sales functions. The Division is a unit within the Fleet Services Bureau, which was moved from the Public Works Department to the Financial Management Department in early 2014 to provide for better financial oversight. The Division sells impounded vehicles that have not been retrieved, as well as the property removed from those vehicles, through a public auction held every other Tuesday. In the past three fiscal years, revenues from lien sales averaged over \$2.75 million per year, or \$106,000 per auction.

### Purpose

In 2009, the Office of the City Auditor conducted an audit of cash handling procedures involved in towing operations. The audit found serious internal control weaknesses in the revenue handling and vehicle inventory practices, such as deficient information systems controls and a lack of separation of duties. These weaknesses elevated the risk of fraud or other loss of funds or inventory. Building on this prior audit of towing operations, the City Auditor retained the firm of Harvey M. Rose Associates, LLC to conduct an audit of automobile lien sales operations with a specific focus on financial-related practices.

The attached audit report found that the lien sales operations have similar internal control weaknesses identified in the 2009 audit of the towing operations. This finding is concerning, since the Towing and Lien Sales Division is responsible for both towing and lien sales; at times, the Division utilizes the same personnel to perform both functions. The six main findings of the audit are:

1. Control deficiencies in revenue handling pose potential risk to the City.
2. Internal control weaknesses related to the Division's two primary information systems remain.
3. Current vehicle inventory management practices are vulnerable to errors and loss.
4. It is difficult to justify continuing the practice of removing and auctioning of personal property from impounded vehicles. Resources expended to perform this task and to mitigate its inherent risks can be better utilized within the Division, as revenues from this practice is minimal.
5. Revenues from lien sales have declined significantly in recent years. The City should re-assess the existing operational and marketing practices involved in the lien sales function.

6. The City does not have a formal contract agreement with the company responsible for scrap metal recycling.

1. *Revenue handling control deficiencies pose potential risk to the City.*
2. *IT systems control weaknesses remain.*

Each lien sale auction involves over \$100,000 in transactions. Those employees handling revenue have inappropriate access to transactional balance reports, creating an environment where fraud or misappropriation could occur and could go undetected. This situation is exacerbated by inadequate controls regarding access to the two major information management systems, iNovah and Tow Administrator. Too many individuals within the Division have high security level access to these systems. As was identified in the prior audit, the current configuration of Tow Administrator provides too much latitude in modifying key transaction fields.

In fact, 75% of Division staff have the ability to waive owed towing and storage fees and, thereby, release a vehicle from inventory without payment. In addition, in its review of the Tow Administrator Edit Report, the Division exports the data from the Edit Report into a document format that allows the edit data to be changed or deleted. Since this modifiable document becomes the record saved in the computer filing system as the Edit Report, it defeats the purpose of the Edit Report as a control for identifying changes to records and data irregularities.

3. *Vehicle inventory management practices leave the City susceptible to errors and loss.*

Although the Division conducts monthly physical inventory counts, the audit found discrepancies between the Tow Administrator inventory database and the actual inventory vehicles impounded in the lot. Approximately 4% of all vehicles listed in the inventory system at the time of our analysis could not be physically located by the audit team and no documentation was provided to account for their whereabouts.

The Tow Administrator system lacks automated features that can accommodate the dynamic nature of the vehicle impound lot, which requires regular system updates to reflect vehicle movement, transfers and returns to owners. Regardless of these system deficiencies, management should ensure that manual processes are in place and internal controls are adequate to maintain an

accurate inventory database. The Division must be more diligent in better tracking the movement of these vehicles through the tow yard.

***4. Risks inherent in the removal and auctioning of personal property from impounded vehicles make it difficult to justify the continuance of this practice.***

***Personal property sales is not a common practice among peer jurisdictions. Revenues generated are minimal and resources utilized can be better allocated to higher value uses.***

The Division's current practices involved in removing personal property from impounded vehicles to be sold at auction also have significant control weaknesses. Employees leave removed personal property outside of vehicles and unattended in the open tow lot for five days before being inventoried, creating a high risk of theft. Insufficient controls over surveillance security cameras, lot access, and inventory records also exacerbate the risk of theft to the Division.

In 2013, the Police Department investigated several citizen reports complaining of theft of various personal items, including cash and electronics, from impounded vehicles. This investigation led to disciplinary action against six Division employees, who are no longer employed by the City.

Management has emphasized that new controls had been implemented since this investigation, including the use of an audio recording of personal property found in the vehicles. However, audio recording was only recently implemented during the course of this audit and our audit team found discrepancies between the audio recording and the manual inventory.

In addition, these new controls do little to lower the risk of theft and require additional resources that reduce proceeds generated by personal property sales, estimated at \$7,452 in accrued net revenues in FY 2014. It would be more cost effective to discontinue the practice of personal property sales and redirect staff resources to other functions – such as inventory controls and management – that could benefit more from additional resources. In fact, four of the six peer cities benchmarked in this audit refrained from selling personal property, instead auctioning the vehicles “as-is” inclusive of the property stored inside.

Between FY 2012 and FY 2014, annual vehicle lien sales and revenues have decreased by over \$500,000, or 18%. While Division officials often cite a decline in the

***5. With revenues having declined significantly in recent years, the City should re-assess the existing operational and marketing practices involved in the lien sales function.***

number of vehicles to be auctioned as the primary cause for the revenue loss, the number of vehicles sold decreased by only 6% within the same period. Moreover, the net average price per sold vehicle has declined by 13%, suggesting that the volume of vehicles sold has not been the only factor associated with the City's overall loss in annual revenue from lien sales. Another contributing factor appears to be the change in the auction day from Saturdays to Tuesdays, which started in April 2013. This change resulted in an average revenue decline of 15% or \$16,310 per auction.

With the Division facing declining revenues and ongoing operational issues, it is perhaps an opportune time for the City to reevaluate how it performs the responsibilities of towing and lien sales. The Division needs to identify ways to encourage more competition and attract a greater number of potential bidders. Such approaches could include weekend auctions, the use of social media and more strategic advertising, and online auctioning.

***6. There is no formal contract agreement in place with the current contractor responsible for scrap metal recycling.***

Lastly, the Division contracts with an outside firm for recycling metal and scrap vehicles. However, the City and this firm currently do not have a formal contract in place codifying the performance obligations of the contractor. As a result, the City does not have a means of holding the contractor responsible for required revenue reporting, determining changes in recycling rates, standard indemnification requirements or other professional obligations.

We want to extend our appreciation to the staff of the Towing and Lien Sales Bureau for their cooperation during this audit. We respectfully request an update in six months on the Finance Department's efforts to implement the recommendations outlined in this audit.

**Audit of Vehicle Lien Sales**  
**City of Long Beach**

**Submitted by**  
**Harvey M. Rose Associates, LLC**  
1390 Market Street, Suite 1150  
San Francisco, CA 94102  
(415) 552-9292  
<http://www.harveyrose.com>

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# Introduction

Harvey M. Rose Associates, LLC was retained by the City of Long Beach to conduct an *Audit of Practices Regarding the City's Automobile Lien Sales* with a specific focus on financial-related practices.

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## Scope

The specific audit objectives were to determine:

1. Whether sold vehicles were competitively auctioned in public.
2. Whether proceeds from vehicle lien sales were collected, recorded and deposited accurately and timely.
3. The adequacy of internal controls in revenue handling associated with lien sales.
4. The sufficiency of security and safeguards to protect lien sales revenues during the auctioning process and thereafter.
5. The adequacy of procedures and internal controls in preparing vehicles for auction, including the removal, recording, storage, disposal and/or sale of vehicle contents.
6. The accuracy of lien sale records and the effectiveness of record-keeping procedures.
7. The adequacy of policies and practices with respect to lien sales, and the level of compliance with applicable State laws and local ordinances.
8. The level of compliance of the scrap vehicle removal company with contract terms and conditions.
9. The adequacy of controls to ensure scrap revenue is accurately processed and remitted to the City as required by the agreement (if applicable).
10. How current lien sale operations compare to those of benchmark jurisdictions and industry best practices.

The scope of the audit is Fiscal Years 2011-12 through 2013-14 to date. The City of Long Beach's fiscal year is October 1 through September 30.

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## Methodology

The audit was conducted in accordance with Government Auditing Standards, 2011 Revision, issued by the Comptroller General of the United States, U.S. Government Accountability Office.

In accordance with these requirements and standard audit practices, we performed the following audit procedures:

- Conducted interviews with management and employees at the Towing and Lien Sales Division.
- Conducted interviews with management and employees at the Fleet Services Bureau.
- Reviewed reports and studies regarding towing and lien sales auctions.
- Reviewed State regulations, including all relevant Civil and Vehicle Codes, City Council resolutions, and all internal rules, policies, procedures, memoranda, and other guidelines governing vehicle lien sales and auctions.
- Identified six jurisdictions throughout the United States that conduct municipally-operated lien sales auctions, and completed a survey of those jurisdictions to compare lien sales programs.
- Observed two lien sales auctions, as well as preparation days (including the removal and documentation of personal property).
- Conducted tests of record-keeping, cash handling and information systems controls on a sample of lien sales from FY 2011 through FY 2014.
- Conducted a physical inventory of the vehicle lot.
- Submitted a draft report, with findings and recommendations, to the Towing and Lien Sales Division on January 27, 2015; and conducted an exit conference with the Finance Department Director and the Fleet Services Bureau Director on February 12, 2015.
- Submitted the final draft report, incorporating comments and information provided in the exit conference, to the Towing and Lien Sales Division on February 18, 2015.

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## **Vehicle Lien Sales and Auctions**

The City of Long Beach Fleet Services Bureau's Towing and Lien Sales Division is responsible for providing timely towing service and vehicle storage for primarily the Police and Public Works Departments.

After a vehicle is towed and stored, the owner of the vehicle is responsible for all associated costs. Funds are collected through fees charged for towing, storage and lien sale services. Registered owners may retrieve their vehicles after all towing fees and ticket charges have been paid. When registered owners do not respond to the notice to retrieve their vehicles from impound, the California Civil Code grants the City the right to sell the vehicles in order to collect the fees that are owed.



The City of Long Beach Towing and Lien Sales Division maintains full responsibility for the selling of impounded vehicles. As such, the Division holds a lien sales auction every other Tuesday that is open to the public. These sales include impounded vehicles, as well as the property removed from the vehicles. All vehicles are sold “as-is” through an open, competitive auction.

The Division provided the audit team with a Lien Sale Procedural Manual in response to a request for documentation about the lien sales auction. This document, while helpful, has outdated information in several places that should be updated for future use by Division employees.

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## Laws and Regulations

A variety of laws and regulations govern the City of Long Beach’s lien sales program, including local ordinances and state codes.

### City Council Resolutions

The Long Beach City Council passed a series of resolutions establishing the charges related to the towing and storage of vehicles. Until 2006, storage fees were based on surveys conducted by Lien Sales employees. Since 2006, the City has adjusted the fees based on the Consumer Price Index.

### State Codes

There are various sections of the California State Civil and Vehicle codes pertaining to lien sales; the most relevant are below.

*California Vehicle Code:* Generally establishes the City’s rights (including fees) related to towing and impounding:

- 22850: Establishes City’s right to impound and release vehicles
- 22670: Enables City to determine value of vehicle within 3 ranges: \$500 or less, between \$501 and \$4000, greater than \$4000
- 22850: Allows City to establish administrative fees for towing, storage and release of vehicle

*California Civil Code:* Generally establishes City’s right to conduct lien sales

- 3068: Establishes right of owner to retrieve vehicle
- 3071: Requires City to apply for lien sale authorization from DMV and retrieve owner/interested party information
- 3072: Obligates City to begin lien sales process within 15 days of lien processing
- 3074: Establishes fixed charge for lien fee processing, at \$70 for a standard lien and \$100 for a long lien

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## History of City Management of Lien Sales Function

The City of Long Beach took over operation of the vehicle towing and lien sales functions in 1983 from Sim's Towing, a private contractor, in order to address concerns related to service performance and internal controls as expressed by the Director of General Services and Chief of Police at that time. The concerns were related to:

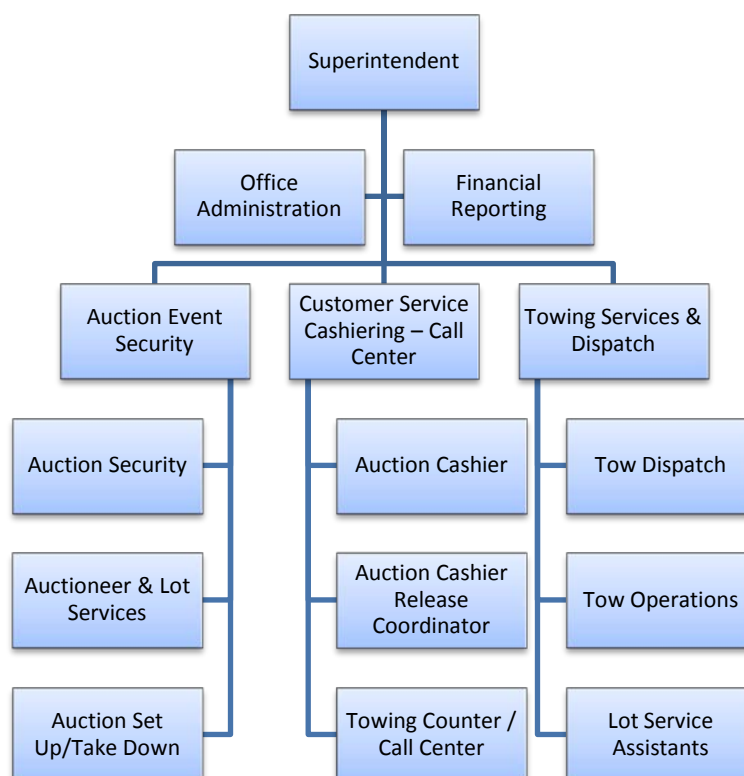
- Towing response times;
- Mitigation of claims against the City for theft of personal property from vehicles;
- Monitoring lien sale proceeds;
- Proper enclosure of impounded vehicles;
- Lack of available staffing to operate what was supposed to be a 24-hour operation;
- Lack of control over releasing vehicles and waiving fees when mitigating circumstances existed;
- Providing a well-maintained and professional business facility; and
- Contractor's refusal to accept credit cards and checks.

In early 2014, the Towing and Lien Sales Division under the Fleet Services Bureau of the Department of Public Works was moved to the Department of Financial Management in order to provide better financial oversight.

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## Lien Sales Division

As noted above, the City's Lien Sales function operates within the Fleet Services Bureau, under the Department of Financial Management. As of October 2014, the City of Long Beach's Lien Sales Division was staffed in accordance with the organizational chart below. The number of full-time employees in the Division declined from 43 to 26 in 2011 and has remained at that level since.

**Exhibit: Towing and Lien Sales Division Organizational Chart****Lien Sales Revenues and Activities, FY 2011-12 to FY 2013-14**

Over the period of the audit scope, from fiscal year 2011-12 to fiscal year 2013-14, the total revenues generated by the lien sales function has declined. As the exhibit below shows, the Division generates revenues from the actual sales of vehicles, as well as bidder cards (which were required of all potential bidders until October 2014) and property pallets (which include various items of personal property removed from lien sales vehicles by Division employees for sale to the public).

**Exhibit: Lien Sales Revenues and Results, FY 2011-12 through FY 2013-14**

	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
VEHICLE SALES - STANDARD	\$2,688,425.00	\$2,446,808.00	\$2,105,145.00
VEHICLE SALES - LONG LIEN	\$233,385.00	\$242,234.00	\$256,681.00
VEHICLE SALES - SCRAP	\$10,366.29	\$19,150.19	\$11,520.60
MISCELLANEOUS REVENUE	\$322.90	\$2,990.61	\$3,256.06
BIDDER CARDS	\$56,698.00	\$50,140.00	\$42,520.00
PROPERTY PALLET SALES	\$19,875.00	\$22,108.00	\$36,652.50
SALES TAX COLLECTED	\$1,339.69	\$1,457.29	\$2,536.42
<b>TOTAL GROSS SALE REVENUE</b>	<b>\$3,010,411.88</b>	<b>\$2,784,888.09</b>	<b>\$2,458,311.58</b>
TOTAL VEHICLES SOLD	2882	2957	2698
STANDARD LIEN VEHICLES SOLD	2759	2751	2,548
LONG LIEN VEHICLES SOLD	49	53	60
SCRAP VEHICLES	74	153	90
PROPERTY PALLETS SOLD	87	143	210
<b>AVERAGE PRICE PER VEHICLE</b>	<b>\$1,044.69</b>	<b>\$947.31</b>	<b>\$911.16</b>

Source: Lien Sales Division

## Benchmark Analysis

The audit team conducted a survey of other jurisdictions with municipally-operated lien sales programs. A total of seven municipalities were contacted and six responded to the survey, including: Boston, Kansas City, Knoxville, Philadelphia, Salt Lake City and Topeka. The team also confirmed that the ten largest cities in California retain a private contractor to perform the function of auctioning vehicles that are not retrieved from the tow impound facility. The contracts in the cities of Los Angeles, San Francisco and San Jose were obtained and analyzed. Highlights from the survey results and contract analyses are noted below.

### Auction Management

The majority of the surveyed cities indicated that their police departments run their auctions, rather than fleet services or another department. Philadelphia was the only city that operates an auction on the weekend. Philadelphia holds multiple auctions per week, while Boston only runs three auctions annually. None of the six cities surveyed auction vehicles online. While Kansas City employees prepare vehicles for auction, the auctioneering and cash handling process is performed by a contractor. The city receives a check from the vendor at the close of the auction.

### Establishing Bids

Three of the six cities have established minimum bids for the vehicles. The minimum bids range from \$25 to \$100, all of which are below the minimum bid used for vehicles in Long Beach. Four

of the cities also use starting bids greater than \$0 for the vehicles; the starting bid is determined based on the estimated value of the car. Half of the cities surveyed use a tablet computer to record the winning bid of a vehicle sold at auction. All of the cities record the winning bid on a piece of paper, as is done in Long Beach. Buffalo records the winning bid and bidder name, as well as the runner-up bid and bidder name. If the winning bidder does not pick up the vehicle by the deadline, then the runner-up is notified that he or she has won the vehicle, thus reducing the need to auction the vehicle again in the future.

#### Removal and Auctioning of Vehicle Property

Of the six cities surveyed, only Boston and Topeka remove property and sell it separately from the vehicles themselves. Boston auctions the property found in vehicles online, in addition to auctioning it during the lien sale. Both of these cities store property found in vehicles inside a locked room or compartment within their tow facility. The remaining four cities that do not remove property from vehicles for auction stated that the standard is to sell vehicles, “as-is,” inclusive of property stored inside.

#### Security

The six cities utilize controls that are similar to Long Beach to prevent employee fraud and to protect the vehicle inventory. Controls include the installation of cameras inside and outside of the facility, the performing of cash counts from individuals outside of the department that runs the auction, as well as the reconciliation of the vehicle inventory and the regular review of edit reports generated by information technology systems.

#### Findings from Other California Cities

The following information was collected from the ten largest cities in California, all of which contract with a vendor to auction vehicles that are not retrieved:

- None of the California cities auction property removed from vehicles.
- AutoReturn, a private company, manages the auction in San Francisco. The company removes property from vehicles and then donates it to charitable organizations.
- The vendor in San Jose, City Towing, has a hotline number for people to call about the auctions and the vehicles that will be sold each week. The hotline receives 50 calls per week.
- The City of Anaheim paints vehicles white prior to the auction. It also auctions the vehicles online and sells to buyers in other states.

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## **Acknowledgements**

Harvey M. Rose Associates, LLC (HMR) would like to acknowledge the staff of the Towing and Lien Sales Division of the Fleet Services Bureau in Long Beach, California. Requests for information, records and data were met promptly and thoroughly by the Superintendent of the Division throughout the audit period. Division employees worked cooperatively with the audit

team during interviews and provided helpful information. The audit team also thanks employees in the Technology Services Department and from the vendor of the Tow Administrator program who assisted in this audit process.

# 1. Bidding and Cash Handling

- Three risks related to cash handling on auction day expose the Towing and Lien Sales Division to loss through employee error or fraud: the incorrect recording of winning bid prices; the incorrect recording of prices in one or both of the Division's databases; and the potential exposure to cash theft on auction day.
- Inefficient cash storage procedures require cashiers to bundle cash and receipts for each sale deposited on auction day. This bundling allows cashiers to reconcile cash to receipts at the time of deposit, and creates delays in the counting process the following day.
- Despite policies requiring continuous drops into the safe during auction day sales, significant amounts of cash are collected at one cashiering station over the course of auction day, exposing the Division to the risk of theft.
- The Division has not sufficiently segregated duties and implemented controls related to transcribing and recording vehicle prices on auction day. As such, one cashier currently maintains custody of cash while regularly accessing, and entering price information in two information systems. The Division does not routinely reconcile system price records with the written bid sheet prices recorded at the auction.
- Although the Division creates audio and video recordings, neither allow for sufficient control. There are no existing policies for the retention or review of the audio records, and the video recordings capture only a fraction of the auction day cash handling activities.
- The Division has not implemented adequate policies to limit employee access to cash safes. There are no protocols establishing appropriate criteria for safe access, nor does the Division management execute regular review of safe access.

The Towing and Lien Sales Division collects a significant amount of revenue in cash at the lien sale auctions. Over the course of three auctions between September 23, 2014 and October 21, 2014, a total of \$112,521 was collected in cash, or an average of \$37,500 per auction. This cash collected amounted to 53% of total revenues for these three auctions.

## Cash storage practices on auction day expose the Division to theft

On auction day, the Division collects payments at two cashiering stations, each of which has a cash drawer holding a total of \$500 in cash at the beginning of the day. Typically, the collection of cash on auction day begins at the primary cashiering station, which remains open throughout

auction day. The adjacent secondary cashiering station opens for service at the end of the auction to speed the collection of payments from customers.

### **Transaction Bundling**

For each transaction, the cashiers generate an iNovah receipt that must be attached to the corresponding bundle of cash or the credit card receipt before it is dropped into the safe, which is located under the primary cashiering station. The cashiers drop these bundles into the safe for counting and reconciliation by money counters from another division the following morning.

This process of transaction bundling creates inefficiencies in the counting process, forcing the counters to unbundle every transaction. The iNovah transaction receipts do not need to be stored in the safes; final reconciliation should be based upon the total tender counted and the total tender tally from the summary iNovah report. This “blind drop” of tender would facilitate counting and would reduce the opportunity for theft by the secondary cashier, who currently creates cash bundles after all of the transactions have been completed. Payments should be periodically dropped into the safe four or five times per day, in labeled envelopes indicating primary or secondary cashier, and each cashier should count and record the total dropped per envelope.

### **Safe Drops**

According to the Division’s Lien Sale Procedural Manual, the cashiers must collect cash and credit card receipts and frequently drop them into the lien sale safe. The manual implies that the cash bundles and credit card receipts are to be continuously dropped into the safe throughout the collection of payments from customers. In Section 4.8 of the manual, it states, “Cashier will collect money: Cash or credit card only, and drop in safe directly under cashier counter.” The Superintendent of the Division noted that while the cashiers may not drop the cash bundles after every transaction, as they aim to keep an appropriate level of cash in the drawers to make change, they should usually deposit cash into the safe after approximately five transactions.

During an observation of the lien sale cashiering function in October of 2014, the audit team observed that while the Division’s primary cashier routinely drops cash and credit card receipts into the safe during the collection period, the secondary cashier puts the cash (as well as credit card and iNovah receipts) into the cash drawer, rather than in the safe. The secondary cashier finishes taking payments from customers roughly one-and-a-half hours after the lien sale window opens, after which the secondary cashier locks the cash drawer and leaves the cashiering window to enter the winning bid prices for all sold vehicles in the Tow Administrator information system, which is described further in the next section.<sup>1</sup> Roughly three to four hours later, this cashier returns to the cashiering station, opens the cash drawer, removes the iNovah and credit card receipts, assembles bundles of cash with receipts, and then drops all of the bundles into the safe.

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<sup>1</sup> The primary cashier is not involved in the task of entering vehicle prices into Tow Administrator.



With approximately \$37,500 collected in cash at each auction, this practice of leaving cash payments in the secondary cashiering drawer for extended periods of time on auction day puts thousands of dollars in revenue at risk. In keeping with its written policy, the Division should require that cash be periodically dropped into the safe four or five times a day in labelled envelopes during the collection process, as described above. To facilitate this, the Division should consider moving the current safe to a location more convenient to the secondary cashier or placing a second safe under that station.

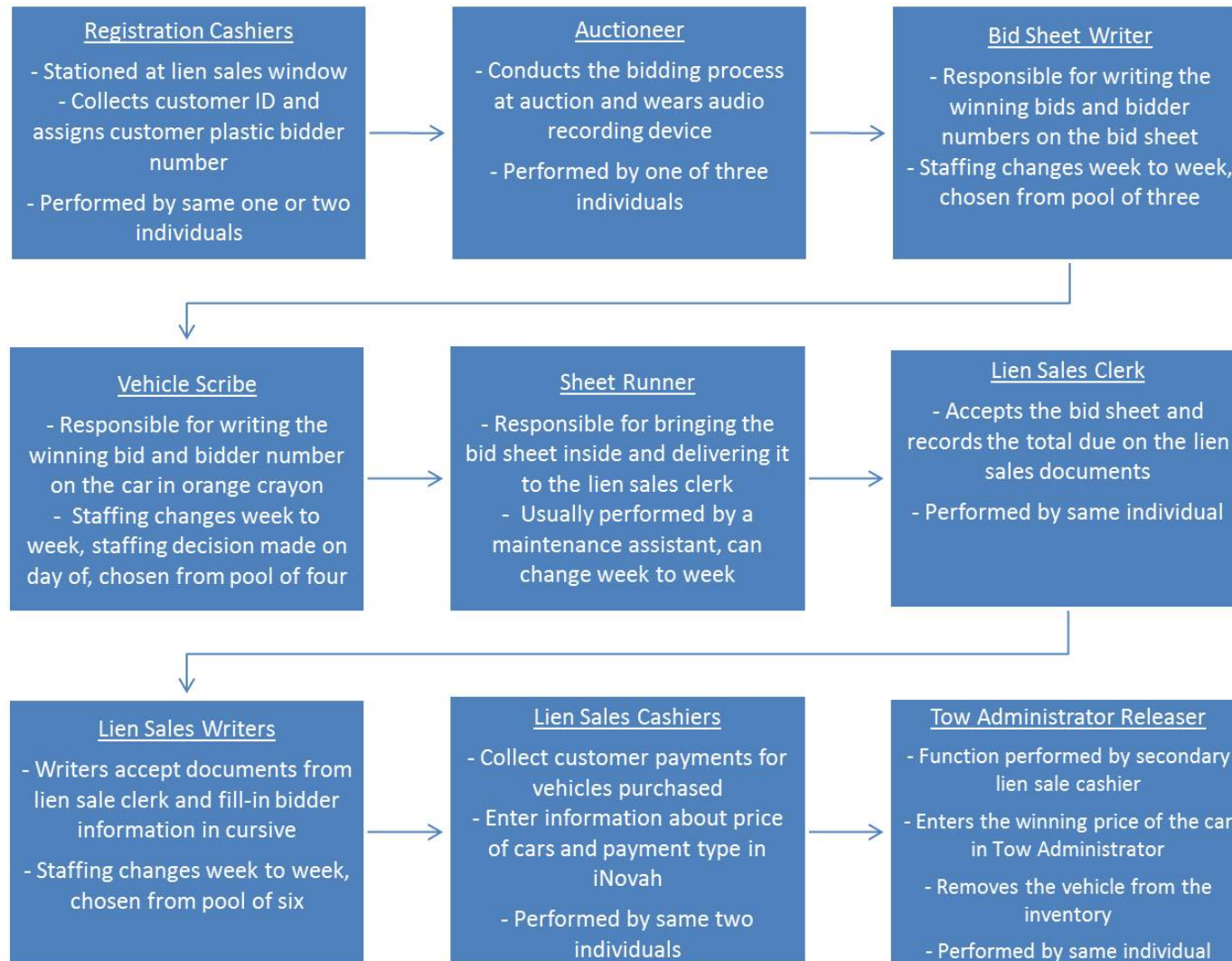
As will be discussed further in the section below on segregation of duties, there is also the possibility that the secondary cashier could enter lower, or incorrect, price values in both the iNovah cashiering system when the cash is collected, and then in the Tow Administrator system, all while still having access to the cash in the drawer at the cashiering station. If the secondary cashier removed the difference in cash between the price quoted to the customer and the price entered in the two information systems, it would be undetectable because the totals in iNovah and Tow Administrator would still match and these records are not routinely reconciled by the Division with the prices recorded on bid sheets on the day of the auction.

## **The segregation of duties related to transcribing and entering vehicle prices on auction day should be strengthened**

Currently, the Towing and Lien Sales Division ensures the accurate recording of winning bids by: 1) assigning different individuals to the various tasks associated with writing and entering the winning bid into the Division's information systems, and 2) rotating the individuals placed in these roles.

As depicted in Exhibit 1.1 below, numerous individuals participate in transcribing the winning vehicle bid on auction day, both inside and outside of the tow facility. Once a winning bid for a car is established during the auction, one individual writes the bid amount on a piece of paper known as the bid sheet, and another person writes the winning price on the vehicle itself. A third person brings the completed bid sheets inside the tow facility and hands them to the lien sale clerk. The individuals assigned to writing the winning bids changes from week to week except for the lien sale clerk function, which is performed by the same individual for each auction. Staffing decisions for the bid sheet tasks are usually made on the day of the auction.

**Exhibit 1.1: Bidding and Revenue Handling Process**



### **Written Records of Lien Sales Prices**

The lien sale clerk writes the winning bid on the Certificate of Lien Sale and the Vehicle/Vessel Transfer and Reassignment forms in the packet that is given to customers purchasing a standard lien vehicle. While the lien sale clerk is not involved in any other function during the auction, and never serves as a cashier or money handler, this task is always performed by the same individual, which increases the risk of collusion between the clerk and customers to change the price of the vehicle from the winning bid sheet. Although the Division does create audio recordings of all auctions to ensure price accuracy, Division management does not routinely review these audio records, as discussed below.

After the lien sale clerk has recorded price information on the documents, the Division's lien sale writers then fill in information about the buyer on the appropriate forms in the packet. The cashiers use the completed packets to determine the total amount owed by a particular customer.

### **Electronic Records of Lien Sales Prices**

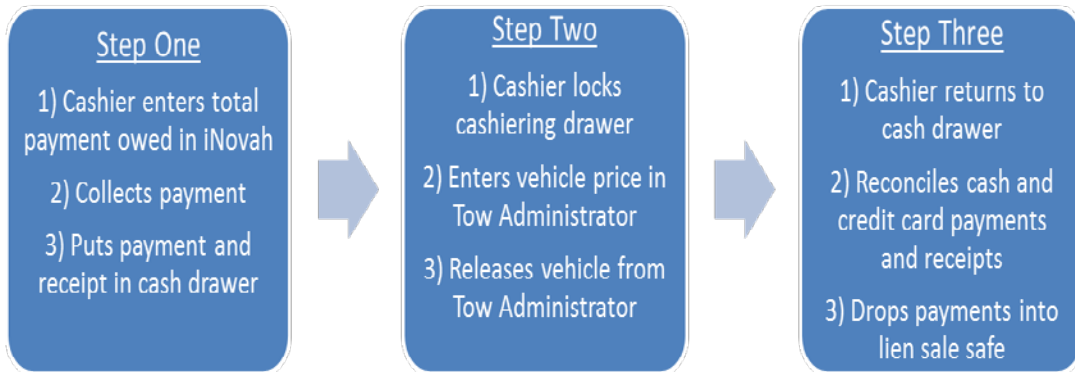
At the time of payment, the cashiers enter the winning price of a particular vehicle or palette using the vehicle sales documents as their source, as well as the other charges associated with a car, such as the key fee, into iNovah.<sup>2</sup> iNovah produces three receipts for each transaction: one given to the customer, one attached to the bundle of cash or credit card receipt and deposited in the safe, and the third attached to a copy of the lien sale documents that are stored in the Division's filing system. The secondary cashier also enters the final price of the vehicle in Tow Administrator. Once the price is entered into this system, the vehicle should be "released" and removed from the computer inventory. The release of the vehicle from the inventory is a manual process in Tow Administrator and does not occur automatically once a payment is entered for a vehicle in iNovah by the two cashiers. Vehicles may be released from the system at any time, before or after the lien sale.

The release of vehicles typically occurs after the secondary cashier finishes collecting payments. Once the vehicle price is entered in Tow Administrator and the vehicles are released, the secondary cashier returns to the cashiering station and deposits the cash and credit card receipts into the safe.

Exhibit 1.2 below demonstrates the current sequence of activities undertaken by the secondary lien sale cashier. As noted, this cashier does not routinely drop the bundles of cash and credit card receipts until after entering the vehicle price in both iNovah and Tow Administrator. As such, the secondary cashier maintains custody of cash while regularly accessing, and entering price information into system records.

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<sup>2</sup> The \$26 key fee, which is the fee a customer is charged when there is a key available for a vehicle, is now entered separately in the iNovah cashiering system, instead of being included in the total vehicle price due, as was done previously.

**Exhibit 1.2: Sequence of Activities Undertaken by Secondary Lien Sale Cashier*****Counting and Reconciling Cash and Credit Card Receipts***

After the lien sales cashing windows are closed on auction day, one of the two Division supervisors reconciles the total amount recorded in iNovah for vehicles sold and released on auction day, with the total amount recorded in Tow Administrator. If the totals do not match, the supervisor exports a list of auction transactions from Tow Administrator and investigates where a cashing mistake might have been made. This process continues until the auction day transactions in the two systems are reconciled.

Cash and credit card receipts collected during the auction remain in the safe underneath the lien sales window until the following morning, when the entirety of the collection is removed by one of the two Division supervisors and taken to the money count room. Cash and credit card receipts collected at the towing window are also moved to the money count room at this time.

The supervisor that typically performs this function is not able to change the amount paid for a vehicle in Tow Administrator, but can void a payment transaction in iNovah. The other supervisor who serves as the backup for this function can both change the payment entered for a car in Tow Administrator and void payment information entered in iNovah. Changes made in the systems to the final price of a vehicle and the fees collected for it are reported in the iNovah Void Report and the Tow Administrator 'edit report,' both of which are reviewed by the Superintendent of the Division.

Inside the money count room two employees from the Fleet Services Bureau count each bundle of cash or note the presence of a credit card receipt. They are given a sheet of paper with the Tow Administrator serial numbers and they write the total for each transaction next to the appropriate number. Next, cash is bundled and bagged according to the city's Administrative Regulations, and placed inside the safe that resides in the money count room. It remains in the safe until the armored courier arrives to transport it to the bank. Upon implementation of the "blind drop," policy, the money counters would instead count each envelope of cash and verify that the total is the same as what was recorded by the cashiers. They would no longer report an amount of cash collected for an individual transaction, but would instead report tender totals for the day to the supervisor, who would reconcile the totals with the daily transaction reports.

As discussed further in Section Three of this report, the two individuals that regularly conduct the cash count do not have access to Tow Administrator and iNovah, and cannot view anticipated cash or credit card totals prior to counting. However, the four individuals that serve as the backup pool for this function do have varying levels of access to the two systems.

## **Controls for audio and video recordings are lacking**

The Towing and Lien Sales Division primarily protects against theft and ensures accurate sales prices through the use of a surveillance camera focused on the auction cashier area and use of an audio recording device on auction day.

### ***The Cashier Area Surveillance Camera Only Captures One of the Two Cashiers***

Currently, the single surveillance camera in place to observe the cashiering function at the lien sales window records only the cash handling activities of the Division's secondary cashier and not the primary cashier. As discussed above, the secondary cashier typically only staffs the window for one to two hours, while the primary cashier handles cash transactions throughout auction day. The cashiering drawer of the primary cashier is entirely outside of the range of the camera lens. Although the Superintendent and the supervisors regularly walk through and observe the cashiering area during auction day, the surveillance camera's limited scope prevents the monitoring of at least half of the Division's auction day cash handling activities.

Further, Division management does not regularly review the footage that is captured by the surveillance camera on the secondary cashier at the lien sales window and the Division does not have a policy for retaining the footage from the surveillance camera used at the lien sales window. Footage remains on the internal tape in the camera for approximately six months, at which point new footage overwrites it.

### ***Auction Audio Recordings are not Being Used to Confirm Recorded Vehicle Sale Prices***

A second control frequently cited by Division management regarding the auction day process is that the auctioneer wears a recording device to capture the winning bid amounts. This control is intended to prevent any of the staff members who write or enter the final vehicle bids from changing them. However, the audio recording of the auction is only reviewed in the case that the customer disagrees with the price charged at the lien sale window.

Without a policy requiring regular review of the audio recording, the practice of recording the auction is not an effective control. Interviews with staff revealed that it is well known that the audio recordings are not reviewed. Further, there is no policy for storing the audio recordings so that they might be reviewed at a later date. Only a few audio recordings from previous auctions were available for review for this audit because one supervisor happened to have saved them on his computer, independent of any direction to do so.

### ***Solutions Implemented in Other Jurisdictions***

Other cities that conduct in-house lien sales auctions utilize tablet computers to capture the winning vehicle bids. Implementing this practice in Long Beach could insert an additional control into the transmittal of the winning bids. A related possibility is to capture the winning bid price that is written on the car by taking a photograph. The photograph could be taken with the tablet or another device. The responsibility for taking the photo could be assigned to the bid sheet writer, or the individual that enters the winning price into the tablet.

### **Staff access to the combination safe used on auction day is excessive**

There are four cash safes in the Towing and Lien Sales Division: one is used for collecting cash and receipts on auction day, two are used for collecting payments at the towing window, and the fourth is stored in the locked “money count” room. The fourth safe is referred to as the “armored safe,” because it is where the final deposit package is stored until the armored courier arrives. All of the safes are bolted to the ground.

The following five individuals have the single touchpad combination to the four safes, including the one used on auction day: two supervisors in the Towing and Lien Sales Division, the Fleet Services Bureau Finance Officer, a Fleet Services Bureau analyst, and a former Towing and Lien Sales Division employee who now works as a tire shop supervisor in the Fleet Services Bureau. Only one employee performs the task of removing the cash and receipts from the auction day safe and moving them to the money count room, as described above. This function is typically performed by one of the two Towing and Lien Sales Division supervisors.

The Division does not have written protocols regarding who may be given access to any of the four safes in the Towing and Lien Sales Division. Currently, only the Superintendent and two Supervisors have knowledge of this. The City of Long Beach’s Administrative Procedures for Cash Handling states that the number of authorized employees with access to the safe should be limited to the fewest number necessary for the conduct of business. As such, this access should be limited to the two Division supervisors and the Fleet Services Bureau Finance Manager.

### **Conclusions**

While the Division has put some controls in place, auction day cash handling practices continue to expose the Division to risks. The segregation of duties controls used by the Towing and Lien Sales Division on auction day could be strengthened by training a second individual to perform the lien sale clerk function. The cashier at the secondary cashiering station should not also be responsible for entering vehicle prices into Tow Administrator, and should make cash deposits immediately upon completing the collection of payments at the lien sale window. An additional camera at the lien sale window, as well as the regular review of the audio recording taken during the auction, is an additional control to ensure that prices are entered correctly and cash is stored correctly during payment collection. Finally, reducing access to the lien sale safe used on auction day will ensure that only the number of people necessary for the conduct of business has access to the cash.

## Recommendations

The Towing and Lien Sales Division Superintendent should:

- 1.1. Train a second individual currently employed in the Towing and Lien Sales Division or the Fleet Services Bureau to serve as the lien sale clerk and rotate the assignment of this position on a regular basis.
- 1.2. Amend the Division's Policies and Procedures regarding the collection and dropping of payments into the safe on auction day:
  - i. Require the lien sale auction cashiers to make periodic drops (4-5 per day) of revenues into the safe over the course of the auction and when there is a break in activity.
  - ii. Require the cashiers to count the money and write the total on an envelope before periodically dropping the envelopes into the safe.
  - iii. Eliminate the inclusion of iNovah transaction receipts in the drop envelopes.
  - iv. At the end of the day, the cashiers should each set aside \$500 for the beginning/ending cash amount, and drop the remaining revenues into the safe. Credit card receipts collected over the course of the day should also be dropped at this time, if not done during the prior periodic drops.
  - v. Explore the possibility of moving the existing safe closer to the middle of the two cashiering stations or purchase an additional safe that could be placed below the secondary cashiering station.
  - vi. Require the two money counters to count each envelope of cash, verify that the total is the same as what is written by the cashiers on the envelope, and note any discrepancies. They will no longer verify amounts collected for individual transactions, but will instead report tender totals for the day to the supervisor.
  - vii. The supervisor or someone who does not have access to the cash should continue to perform the single reconciliation of the revenue totals to the daily transaction reports. The supervisor would then prepare the deposit.
- 1.3. Ensure that the lien sale cashiers and money counters do not have access to reports in iNovah that provide end-of-day tender totals.
- 1.4. Investigate the possibility of training another individual to enter the vehicle price information in Tow Administrator, rather than having the secondary cashier also perform this function.
- 1.5. Shift the placement of the camera at the lien sale counter to cover both cash registers. If this is not possible, purchase a second camera that can directly monitor the primary cash register.

- 1.6. Limit the number of employees with access to the auction day safe to three. In keeping with the policy of the City of Long Beach, the number of authorized employees with access to the safe should be kept *to the fewest necessary* for the conduct of business. Access should be given to the two supervisors in the Towing and Lien Sales Division, and one individual outside of the Division, such as the Fleet Services Bureau Finance Officer.
- 1.7. Develop written policies governing access to the safes, as well as the locked rooms and filing cabinets that store financial information. Record this information separately from the Lien Sale Procedural Manual.
- 1.8. Request and train an analyst from outside of the Towing and Lien Sales Division to periodically verify auction sale prices recorded for a sample set of vehicles. This would include a comparison of recorded sale price information in Tow Administrator, iNovah, the audio record captured by the auctioneer, and on the bid sheet captured during the auction.
- 1.9. Investigate the possibility of using a computer tablet to record the winning bids during the auction, and to photograph the final price written on a vehicle.

## Costs and Benefits

Implementing these recommendations will cost an estimated \$9,584 in the first year. Included in this cost calculation is time for the Superintendent to train two individuals to serve as backups during the lien sale auction and payment collection period, and for those individuals to perform the work during subsequent auctions. The cost also includes twenty hours of the Superintendent's time to develop written policies regarding access to the lien sale safe, as well as the locked rooms and filing cabinets that store financial information. It includes time to train the cashiers and money counters in the new procedures for depositing money into the safe and then reconciling the daily total during the money count. Lastly, it includes analyst staff time for the review of documents and recordings that capture the winning vehicle price.

The main benefit from implementing these recommendations is the assurance of protection against theft from the Division on auction day. There will also be greater assurance that the winning bid is correctly transcribed and entered into the information technology systems.



## 2. Personal Property Removal

- Towing and Lien Sales Division policy requires that staff inspect auction vehicles and remove personal property to be sold at auction. According to current practice, employees leave removed personal property outside of vehicles and unattended in the open tow lot for five days before being inventoried, creating a high risk of theft.
- Insufficient controls over surveillance security cameras, lot access, and inventory records also exacerbate the risk of theft to the Division.
- Division policy restricting vehicle owners from claiming property from their vehicles no later than five days prior to an auction may conflict with State law stating that a lien on a vehicle does not apply to property in or on that vehicle. The City may also be liable for selling personal property found in long lien vehicles, or those valued at \$4,000 or more, that do not officially transfer ownership to winning bidders until 10 days after a lien sale.
- There is little to no financial incentive for the Division selling personal property removed from the lien sale vehicles. For Fiscal Year 2013-14, net revenue was only \$7,452 for personal property sales after accounting for the cost of labor associated with removing and preparing the personal property. In prior years, the cost of labor exceeded personal property sale revenues. By discontinuing the pallet sales program, but improving documentation of property found in lien vehicles, the Division would save approximately 7 hours of employee time per auction, or 182 hours per year, while mitigating the City's potential liability for handling personal property with little to no financial ramifications.

### Inventory of Personal Property

Every other Tuesday, the City of Long Beach Towing and Lien Sales Division auctions vehicles and personal property extracted from those vehicles. According to the Auction Vehicle Inspection/Property Removal policy, vehicles being prepared for auction are inspected through three phases:

Phase 1: On the Wednesday prior to the following Tuesday's auction, vehicles are first inspected by two Division employees for items containing personal identification information and keys for the cars. Documents and items containing personal identification information are collected and placed inside the vehicle on the dashboard to be inventoried that following Monday with other personal property extracted during Phase 2 on the following day. If keys are found, they are tagged and inventoried on a board kept inside the main office.

Phase 2: The next day, Thursday, two employees (typically, a Division Supervisor and a Customer Service Representative III) are responsible for searching through the lien sales vehicles and removing personal property deemed valuable. These items are pulled from the vehicle and left either on the roof or hood of the vehicle, or on the ground in close proximity to the vehicle, where they remain for five days until employees manually inventory this property the following Monday. If firearms or narcotics are discovered during this phase of inspection, employees contact the Police Department for assistance. If small amounts of marijuana are found during inspection, employees document the finding in their inventory and discard marijuana without notifying the Police Department.

Prior to this audit, Division staff did not record the property extracted during the initial Thursday inspection. However, during the course of this audit, Division management implemented an audio recording procedure whereby the supervisor in charge of property inventory vocally records information on the items removed.

Phase 3: On the Monday before the Tuesday auction, two employees produce a manual log of the personal property extracted from vehicles the prior Thursday. The Towing and Lien Sales Division does have a policy describing the practice of inventorying property; however, the detail in which property is recorded can vary from vehicle to vehicle, particularly with those vehicles that contain a high volume of contents. Property removed from vehicles is then sorted onto different pallets that are auctioned the following day alongside the vehicles.

### ***Control over Narcotics, Pharmaceuticals and Over-the-Counter Drugs***

During Phase 2 of the inspection process, the Division's inventory policy generally explains that any contraband found in vehicles be reported to Division supervisors who will subsequently determine whether assistance from the Police Department is required. Through the audit team's inspection of personal property inventory and interviews with Division staff members, we observed that the Division currently only contacts the Police Department when firearms, narcotics, or large quantities of marijuana are found. The Division may also contact the Police Department if suspicious items such as large sums of cash or tools indicative of criminal behavior are found in vehicles.

If pharmaceuticals, over-the-counter medications or small quantities of marijuana are found in vehicles, they are inventoried and disposed. Although the Division disposes of small amounts of marijuana, there are no guidelines or policies delineating a threshold of marijuana quantity or weight requiring involvement from the Police Department. By conferring with the Police Department, the Division can establish protocol for handling contraband and specifically delineating what circumstances require contacting the Police Department for assistance.

Similarly, the Division has no policies outlining the disposal process for pharmaceuticals and over-the-counter medications. While there are no Federal or State laws requiring specific disposal methods for household prescription and over-the-counter medications, the California

Department of Resources Recycling and Recovery recommends turning over household drugs and medications to local drug collection programs in order to mitigate medical waste from being disposed in landfills and subsequently seeping into groundwater, streams, and other local bodies of water. By conferring with the City of Long Beach Health and Human Services Department, the Division may be able to identify a local household drug collection program for drugs and medications found during lien sale vehicle inspection.

### ***Surveillance in the Impound Lot***

Security cameras covering the impound lot are located on light poles in the towing yard and can be moved via a pan tilt zoom control (PTZ). The control system for these PTZ cameras is managed through a web-based application wherein the security network administrator, a City Technology Services Department employee, can assign access rights to certain individuals. Currently there are nine program user profiles with access rights to move the cameras including two security vendor contractors, six City employees, and a vacant City user profile. The following individuals have access to the cameras:

- Towing and Lien Sales Superintendent;
- Two Towing and Lien Sale Supervisors;
- Two employees with First Digital, the program vendor;
- Fleet Services Bureau Manager;
- City of Long Beach Network Administrator;
- Refuse/Street Sweeping Superintendent; and,
- A Tow Dispatch user profile that is currently not in use.

While the access rights to move PTZ cameras is limited to City employees in management, supervisory and technical positions and the Division's security vendor, these cameras can be moved to create blind spots in the towing yard. Auction vehicles and extracted personal property rest in lanes B and D where there is only one PTZ camera covering the far north end of the lot. The ability to move the focus of this camera at any given time increases the exposure to theft as no other camera is placed to capture an overview of these lanes.

### ***Third Party Access to Impound Lot and Exposed Personal Property***

The Towing and Lien Sales Division operates a 24-hour secured and enclosed facility in which security cameras record the perimeter of the impound lot, including points of ingress and egress. Third party visitors must check in with City personnel through the main office in order to access the lot by foot or obtain permission to take a vehicle into the lot. Impounded vehicle owners wishing to access the lot, whether to retrieve their vehicle after payment of fees or to acquire personal belongings from vehicles, are always to be escorted by a City employee according to Division policy. Other third parties who may access the facility and lot for specific reasons include contractors who may be providing services to the City.

The Towing and Lien Sales Division does not have a set policy for allowing contractors and other City employees to access the lot. During the course of this audit, fencing contractors, portable toilet maintenance contractors, and scrap removal contractors were observed crossing through or in proximity to the auction vehicles and exposed personal property without an escort.

### ***Internal Control Deficits Lead to a High Risk of Fraud***

In recent years, the Towing and Lien Sales Division experienced alleged incidents of theft involving Division personnel stealing property found in an impounded vehicle. Appropriate actions were taken by the Long Beach Police Department, Civil Service Commission, and the Fleet Services Bureau management to ensure that employees involved or allegedly involved in this incident are no longer working with the Towing and Lien Sales Division.

Since this incident, Towing and Lien Sales Division management has implemented additional controls observed during the course of this audit including the newly implemented audio and longer-established manual inventory of personal property, pairing a supervisor with the line level staff whenever personal property is being handled for inventory, and removing camera control access rights from the Towing Dispatch console to prevent the opportunity for collusion. While these improvements have since been implemented, there are still opportunities for fraud and collusion as the risk of theft is inherent in the handling and safeguarding of others' property.

As discussed above, every other Thursday when personal property is extracted from vehicles being prepared for auction, that property remains resting on vehicles or on the ground next to the vehicles for five days until the property is manually inventoried and subsequently sorted onto pallets that following Monday. During these five days, there is a high risk for theft of personal property as, until the practice of making an audio recording of items removed began in August 2014, there has been no record of the property removed. While leaving personal property in the open lot creates the opportunity for theft, the risk of fraud increases with security deficits that include:

- Security cameras that can be adjusted to create blind spots in surveillance coverage;
- The ability of various supervisors to move where cameras are focused;
- Outside contractors conducting business with the City having the ability to access the facility or lot unescorted; and,
- Vague and ambiguous audio and video recording practices that fail to comprehensively account for property extracted from vehicles.

Property removed from vehicles in the tow lot could be stolen at any time between Thursday extraction and the Monday inventory without adequate record to detect what items may be missing. Although Lien Sales Division management implemented the audio recording control for the Thursday inventory while this audit was underway, vague and ambiguous recording practices still fail to comprehensively account for property extracted from vehicles. For example,

staff members could extract 45 hand tools and record these items as “a bucket of tools” on the inventory log, as was observed during the inventory evaluation. Without a detailed accounting of tools, there is no way to verify whether tools went missing between the initial extraction and sale. Currently there is also no document trail to verify that items manually recorded on the Monday prior to an auction are all sold that following Tuesday at auction since winning bidders are provided only a receipt of the transaction and not an inventory of what items are included with the pallet purchase. Without the detailed accounting of how many or what types of items are initially extracted for categorization, the risk of theft and fraud are present.

While it is difficult to decipher the vague and ambiguous recording practices of the audio recording and manual inventory, only two staff members perform this time-consuming function. During our observation, multiple vehicles being inspected were filled with garbage, debris, and various personal belongings. In order to inspect 92 vehicles and extract personal property took approximately six hours. If staff were to meticulously inventory personal property for every filled vehicle, it would require several more hours of staff time, which may not increase efficiency considering the marginal income accrued with the current level of dedicated staff time to this program.

An evaluation of the audio and manual inventories identified discrepancies with 17 vehicles in which items mentioned in the audio recording were not logged in the manual inventory. These items included:

- Clothes and accessories, including sunglasses and a watch;
- Books;
- Electronics, including an iPod, Xbox hard drive, Gameboy game, and phone chargers;
- Two gift cards and three credit cards; and,
- Hardware, including tool sets, individual hand tools, garden tools and a flashlight.

As mentioned above, there are no records to verify if the items manually recorded were the items sold at auction since pallet inventory lists are not created.

## Compliance with State Law

In addition to the high risk of theft, the City may be liable for claims stemming from inappropriately handling personal property. State law explains that when a lien is placed on a vehicle:

*“No lien shall attach to any personal property in or on the vehicle. The personal property in or on the vehicle shall be given to the current registered owner or the owner’s authorized agent upon demand and without charge during normal business hours... The lienholder is not responsible for property after any vehicle has been disposed of pursuant to this chapter.”* (California Vehicle Code Section 22851, subsection b)

The City's policy limiting registered owners from picking up their personal property to the Thursday prior to the Tuesday auction may conflict with State law requiring the lienholder to hand over property when requested since the City has not relinquished its lien on a vehicle until the car has been sold. This is especially pertinent for long lien vehicles (vehicles valued over \$4,000) in which the City must retain the vehicle for an additional 10 days after an auction sale, as mandated by State law. During this period the registered owner may still pay off the requisite fees and reclaim the vehicle. While the audit staff did not observe such an incident during the course of our evaluation, Towing and Lien Sales Division staff explained that there have been prior instances where owners of long lien vehicles have arrived during that 10 day grace period to reclaim personal property, only to be informed that the property had been sold at auction.

Towing and Lien Sales Division management did note that in prior years they have requested an informal consultation with the City Attorney's Office to determine the liability of searching vehicles in order to extract any personal property or documentation containing personal identification information. Division management determined that the handling of personal property for the sake of public safety (specifically, to mitigate the risk of identity theft) outweighed their liability risk; however, this discussion did not address the prior mentioned section of State law prohibiting a lienholder from withholding personal property from the owner of the impounded vehicle.

### ***Peer Benchmarking of Industry Standards for Handling Personal Property***

The City of Long Beach is unique in that it is the only large city in California, and one of few large cities in the Country, to operate the entire towing and lien sales function in-house. During the course of our study, we identified six other large cities outside California that perform this function in-house, including: Boston, Massachusetts; Kansas City, Missouri; Knoxville, Tennessee; Philadelphia, Pennsylvania; Salt Lake City, Utah; and Topeka, Kansas.

It is important to note that all of these cities are located in different states and are subject to their own respective state and local regulatory requirements. The results of this peer benchmarking assessment relied on self-reporting from these agencies.

With four out of the six peer cities refraining from handling personal property found in auction vehicles, the majority of the peer agencies report they choose not to handle property in order to mitigate the risk of liability.

Of the peers, only the Cities of Boston and Topeka auction personal property. Unlike Long Beach, however, Boston and Topeka place extracted personal property items in a secure facility rather than leaving items exposed in an open lot.

This audit team did not evaluate the applicable state or local laws regarding towing and lien sales for each of these agencies outside California, thus, with the information provided by the

Cities of Boston and Topeka, we were unable to determine the reasons or authority for auctioning off personal property.

## Financial Impact of Pallet Sales of Personal Property

Between Fiscal Years 2011-12 and 2013-14, revenue from sales of pallets containing personal property has incrementally risen. In FY 2011-12, the Towing and Lien Sales Division accrued \$19,875 in personal property pallet sales, averaging \$764 in revenue per auction. In FY 2012-13, the Division accrued \$22,108 in pallet sales, a total increase of 11 percent over the prior year. At the end of FY 2013-14, the City accrued total annual revenue of \$36,725 in pallet sales, an annual increase of 66 percent.

### Exhibit 2.1: Annual Property Pallet Sales Revenues, FYs 2011-12 through 2013-14

Fiscal Year	Pallet Sales	Pallet Sales - Exempt <sup>1</sup>	Total Annual Revenue	Average Revenue per Auction
FY 2011-12	\$16,035	\$3,840	\$19,875	\$764
FY 2012-13	\$16,308	\$5,800	\$22,108	\$850
FY 2013-14	\$28,183	\$8,470	\$36,653	\$1,410

Source: Towing and Lien Sales Division Auction Revenue spreadsheets

<sup>1</sup>Pallet sales – exempt consists of sales not subject to sales tax

### Cost of Labor Results in Little to No Financial Benefit

The operational costs incurred by the City to prepare for and conduct the sale of personal property at lien sale auctions totals approximately \$29,000 a year, or \$1,123 per auction. For Fiscal Year 2013-14, the Division accrued net revenue from the pallet sales function of \$7,452. A breakdown of inventory phases and their associated labor costs are provided in the exhibit on the following page.

**Exhibit 2.2: Estimated Annual Operating Costs and Sales Revenues for  
Property Pallets**

Personnel	Hourly Rate <sup>1</sup>	Phase 1 Hours	Phase 2 Hours	Phase 3 Hours	Cost of Labor
Fleet Services Supervisor I	\$48.55	3.5	6	3.5	\$631
Customer Service Representative III	\$37.85	3.5	6	3.5	\$492
Estimated Cost of Labor per Auction					\$1,123
Auctions per Fiscal Year					26
<b>Total Estimated Annual Cost of Labor</b>					<b>\$29,201</b>
<b>Total FY 2013-14 Revenue</b>					<b>\$36,653</b>
<b>Estimated Net FY 2013-14 Revenue</b>					<b>\$7,452</b>

Source: Financial information provided by the Fleet Services Bureau Finance Officer and Fleet Services Superintendent; Process time lengths provided by Fleet Services Supervisor.

<sup>1</sup>Hourly rates are estimates based upon the job classification's "loaded cost" or total compensation, inclusive of salary and benefits.

Assuming the same operating costs were incurred in Fiscal Years 2011-12 and 2012-13 as in FY 2013-14, the personal property pallet sale function resulted in program operating deficits in those years. Considering the high risk of theft under current conditions, possible conflict with State law, and minimal financial incentive to continue this program, discontinuing personal property extraction and pallet sales could result in a savings of approximately 182 hours of employee time per year that could be used for other assignments, such as vehicle inventory later discussed in this report. Employees would still continue to inspect vehicles for keys and personal identification information

## Conclusions

Overall, the personal property removal process is a time and resource intensive process that appears to have incurred operating deficits between Fiscal Years 2011-12 through 2013-14 and only realized a marginal net income in Fiscal Year 2013-14 through pallet sales, all while potentially exposing the City to liability risk for inappropriately handling personal property in accordance with State law. Even with recent internal control improvements, there are still many internal control and security deficits that also create opportunities to commit fraud and steal property from lien sale vehicles as the risk of theft is inherent in the business of handling and safeguarding others' property.



## Recommendations

The Long Beach City Attorney's Office should:

- 2.1 Evaluate the Towing and Lien Sales Division's compliance with State law regarding the withholding of personal property prior to a vehicle's lien sale and the City's relinquishment as a lienholder.

The Towing and Lien Sales Division Superintendent should:

- 2.2 Discontinue the practice of selling personal property separate from vehicles, and implement new procedures and internal controls for the handling of personal property, including:
  - i. Inspect vehicles for firearms and narcotics, and follow procedures and guidelines for the recording, removal and destruction of such contraband.
  - ii. Maintain an inventory of personal items found in vehicles. Leave all non-contraband items within the vehicles and sell the vehicles as-is. Do not remove and leave these items outside of the vehicles.
  - iii. Establish protocols for moving security camera coverage to ensure that high-risk areas, such as auction lanes with exposed personal property items, are continuously covered; and;
  - iv. Develop and enforce policies to prevent third party contractors and other City employees from potentially committing theft by either ensuring that third party contractors are operating under video surveillance or are accompanied by a City employee escort when surveillance coverage is not available.
- 2.3 Collaborate with the Long Beach Police Department to solidify guidelines for contacting the Police Department whenever contraband such as firearms, narcotics, or marijuana, is found in vehicles during initial vehicle inspections.
- 2.4 Confer with the City of Long Beach Health and Human Services Department, Bureau of Environmental Health, to determine how the Towing and Lien Sales Division can participate in a local Household Hazardous Waste collection program for pharmaceutical and over-the-counter drugs and medicine found during initial vehicle inspections.

## Costs and Benefits

Since employees involved in the inventory of personal property are salaried, discontinuing the auctioning of pallets containing personal property extracted from lien sale vehicles will have little to no financial impact. If pallet sales were to realize as much revenue as in FY 2013-14, the

Division would lose approximately \$7,452 in annual net revenue. However, assuming the Division would continue initially searching vehicles for car keys and items containing personal identification during what is currently classified as Phase 1, in addition to documenting (but not extracting) personal property found in vehicles, the Division would save approximately 182 hours of employee hours per year to redirect toward other responsibilities if Phase 3 was discontinued. The City may also absolve itself of potential liability for handling personal property, along with mitigating opportunities for employees and other third parties with access to the lot from committing theft and fraud. The cost of these staff hours could be covered by existing lien sale revenues, which exceed current costs.

### 3. Information Technology (IT) Controls

- The Towing and Lien Sales Division uses two information systems to record information about vehicles that are sold at auction: Tow Administrator and iNovah.
- A total of 15 people have access to the two highest security levels in Tow Administrator. The Division is lacking guidelines indicating who should be given access to the highest security levels and does not regularly review and update the list of employees to ensure that only appropriate individuals have these higher levels of security.
- Edit reports are produced for both information systems that allow supervisors to monitor any changes made to records in the systems. Due to weak controls over the production and review of the Tow Administrator edit report, the Division Superintendent could change and delete records in the system such as whether a vehicle is in the possession of the Division, price paid, vehicle ownership and other information. The Division Superintendent is the only individual who can export the edit report from the system into a document format that can be modified and reformatted, after which he locks a final version of the report in the Division's computer filing system.
- Upon arrival at the tow facility, vehicles are assigned to one of three value categories (\$0-500; \$501-4,000; \$4,001+). One Division employee reviews this appraisal, and can change the value category prior to the auction. The Tow Administrator edit report does not currently capture such changes. Because such changes in valuation by this Division employee could result in an inappropriate undervaluation of a vehicle, possibly in collusion with a bidder, the City faces the risk of undetected losses of potential auction revenue.
- Both IT systems also lack a standard information system control feature: the auto logout. Were an employee to leave either system open and unattended on a computer for an extended period, another individual could access the systems and make unwarranted, and possibly undetected changes, further exposing the Division to risk.

Personnel in the Towing and Lien Sales Division use two information systems to record information about vehicles sold at auction: Tow Administrator and iNovah. Upon the vehicles' arrival at the tow facility, Tow Administrator captures identifying information, including the amount of money owed as a result of unpaid parking tickets and other fines that must be paid before the car can be released to its owner. Tow Administrator also captures the vehicle's lien processing status; if the vehicle is sold at auction, it records the selling price of the vehicle and the tender used by the buyer in the purchase of the car. Vehicles are supposed to be manually "released" in Tow Administrator before they can be removed from the lot.

iNovah is a point of sale online cashiering system that records the selling price of each vehicle and the tender used to purchase the vehicle. Under the management of the Technology Services Department, all City departments use iNovah to record cash transactions. On auction day, Division cashiers enter the price of the vehicle, as well as any other fees associated with the purchase of the car into iNovah first. The secondary cashier then leaves the cashiering station to enter the price of the vehicles into Tow Administrator on a separate terminal located away from the cashiering station and is supposed to manually "release" the vehicles from the inventory to indicate that they have been paid for and removed from the tow facility by the customer.

## **An excessive number of employees have high-level security access in Tow Administrator**

Individuals with access to the Tow Administrator program are assigned by the Superintendent of the Towing and Lien Sales Division to one of six security levels, with level six providing the greatest level of access and the ability to change data entered into the system, including the price at which a vehicle is sold. A total of 15 people have level five or level six access: eight of these individuals are employed in the Towing and Lien Sales Division, six work in other areas of the Fleet Services Bureau, and one works in the Technology Services Department in City Hall. With 24 total employees in the Towing and Lien Sales Division, this means that one-third of the Division has access to the two highest security levels.

### ***Permissions Granted by Access Level in Tow Administrator***

Individuals with level six security access have the ability to modify all fields in a tow record, including the final price of a particular vehicle sold at auction and the date on which payment for the vehicle is received. They have this access in order to correct any mistakes made by the cashiers on auction day.

The individuals with level six security access in Tow Administrator are:

1. The Superintendent of the Towing and Lien Sales Division;

2. One of the two supervisors in the Towing and Lien Sales Division;<sup>1</sup>
3. A technical services network administrator located in City Hall;
4. A network administrator within the Fleet Services Bureau;
5. The Fleet Finance Officer in the Fleet Services Bureau;
6. The Fleet Services Manager in the Fleet Services Bureau; and
7. The Tow Administrator vendor.

While some individuals in the Division need level six access to correct price or other information accidentally entered into Tow Administrator, the number of individuals with the ability to change prices and other records listed above is more than needed for making such occasional corrections. Having so many employees with level six access raises the risk level of inappropriate changes being made to the price and other record fields in Tow Administrator.

Only two individuals with level six access are able to delete a record entirely: the Superintendent of the Division and the Tow Administrator vendor. The Superintendent indicated that Division policy is not to delete any records, although this policy is not written explicitly in the Division's Lien Sale Policy and Procedures Manual.

Employees with level five access do not have the ability to change vehicle prices, or to delete records. They may, however, change the vehicle valuation assigned to a particular vehicle when it first enters the facility if they also have an additional layer of access known as "configuration."

The chart below lists the permissions granted at level five and six security access and the number of individuals that has access to each.

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<sup>1</sup> The supervisor with level six access does not typically transport money from lien sales safe to the money count room, although he serves as a backup to perform this function.

**Exhibit 3.1: Permissions Granted in Tow Administrator at the Two Highest Security Levels**

Security Level	Level 5	Level 6
# of Employees	8	7
<b>Permissions Granted</b>	<ul style="list-style-type: none"> <li>• Ability to change the initial value category assigned to a particular vehicle, if given configuration access</li> <li>• Ability to view complete vehicle impound records</li> <li>• Ability to print/export search information</li> <li>• Individuals with security access may also download the edit report from the security menu</li> <li>• Inability to make the following changes to a particular record: <ul style="list-style-type: none"> <li>- Delete an interested party</li> <li>- Delete a miscellaneous charge</li> <li>- Delete a payment</li> <li>- Delete an attached file</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Same level of access as level five plus: <ol style="list-style-type: none"> <li>1. Ability to modify all information in a tow record, including the outstanding fees owed for a particular vehicle, the price at which a particular vehicle sold, and the payment date; and</li> <li>2. Inability to delete a record or to delete an interested party from a record (only two individuals can delete a record).</li> </ol> </li> </ul>

Source: Tow Administrator Advanced Security Policies

***The Risks Associated with High-Level Access to Tow Administrator***

As discussed above, that seven individuals with level six access can change the price paid for a vehicle in Tow Administrator presents a risk to the Division. It is conceivable that an individual with level six access could change the price recorded in the system and could collude with Division auction scribes, the lien sale clerk or primary cashier on the day of the auction to ensure that a lower price is recorded on the vehicle documents and entered in iNovah. This would allow those employees to siphon off the excess cash paid. Alternatively, a colluding customer could pay less than the winning bid amount and make an illicit payment to accomplice City employees for lowering the price in the system.

It should be noted that there are controls in place to prevent such activities from occurring, including the audio recording used to capture the winning bids and the placement of a surveillance camera at the lien sale window. However, as is discussed in other sections of this

report, the effectiveness of these controls is questionable as they are not being fully utilized by the Division.

The risks associated with level five security access are more limited. The primary risk, which is that an individual would change the initial value category assigned to a towed vehicle, only applies to those employees at level five access that also have configuration access. During the course of this audit, the Superintendent of the Division removed the configuration access granted to the primary auction cashier. The primary cashier had configuration access because this individual regularly reviews and make changes to the value category to which vehicles are assigned, a process that is discussed further below. The Superintendent did not state explicitly how many other employees with level five access also have configuration access. Individuals with level five security access are unable to change financial records in Tow Administrator.

### ***Security Levels and Permissions Granted in iNovah***

There are two levels of security access in iNovah: one for cashiers, and one for administrators. Employees with cashier access may cancel a current transaction before it is completed if they've made a mistake, but they may not void an existing transaction, which would allow them to change the original price entered for a car. They are also able to run a variety of reports, including a report that indicates the expected revenue totals, by tender, for a particular date.

Employees with administrator access in iNovah are able to perform a greater range of functions, including the ability to edit the starting cash amount (amount of cash initially placed in the cashing drawer), void transactions from the current batch of payments (a new payment batch is opened and closed daily), and re-open closed batches of payments for review or edits. A total of 18 City employees associated with the Towing and Lien Sales Division have administrator-level access in iNovah. Of this group, three are regularly involved with the lien sales auction, namely the two supervisors and the Division Superintendent. An additional five employees with administrator access perform backup roles at the auction. They serve as either a Sheet Runner or Lien Sales Writer when needed, neither of which requires them to transcribe a vehicle price, enter price information into the IT systems, or handle cash. These five employees may need administrator access in iNovah for other duties they perform related to the Division's towing function, which was not reviewed as part of this audit.

Because changes made to records, including the voiding of prices, are recorded in a void report that may not be modified and that is reviewed daily by the Superintendent of the Division, there is not the same degree of risk with having this number of employees with administrator access in iNovah as there is with high-level access in Tow Administrator.

### ***The Policy Governing Employee IT Access***

The Division does not have a clear and consistent policy dictating how access levels are assigned. The Superintendent of the Division stated that individuals sometimes gain elevated access for a particular project, and that such elevated access should be revoked when the project is finished. There is no regular review by the Division Superintendent or other managers in the Fleet Services Bureau of the security levels assigned to different individuals within the Division.<sup>2</sup> Similarly, when asked about the assignment of a particular individual to administrator-level access in iNovah, the Superintendent indicated that there did not appear to be a particular reason and that the decision may have been made by someone in the Technology Services Division.

The Division also needs to review the access granted to individuals that might perform the daily cash count for the Division. While the two individuals who regularly conduct the daily cash count do not have access to either Tow Administrator or iNovah, three of the backup counters have level four access in Tow Administrator, which means that they can see the price entered for a particular vehicle, and the fourth backup counter, who is the Fleet Finance Officer, has level six access. All of the backup counters can run reports with the tender totals for particular dates in iNovah, meaning that they would know ahead of time how much cash should have been collected and deposited in the safes.

### **Weak controls for Tow Administrator threaten system integrity**

As discussed in the previous section, an individual's ability to change information in iNovah and Tow Administrator is controlled by the level of security access that he or she is given. Management can track and monitor changes that are made to records through the use of edit reports that are produced by the two systems.

The Superintendent of the Towing and Lien Sales Division exports the edit report from the Tow Administrator program into a Comma-Separated Values (CSV) document and then converts it into an Excel version. This document is then reformatted and reviewed. The edit report documents changes that are made to the fees due for a particular vehicle, changes to the notes about a vehicle, and changes in the price entered for a particular vehicle sold at auction. Importantly, the edit report does not show changes made to the field in Tow Administrator that captures the estimated vehicle value. It is therefore unknown how often the value of vehicles are changed or by whom, and whether they have been increased or decreased. If the value of the vehicles is consistently being inappropriately lowered, the City could be losing revenue

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<sup>2</sup> During the course of this audit, the Superintendent of the Division reviewed the security levels assigned to Towing and Lien Sales staff and lowered the level of access granted to several employees.



because the bidding for the car starts at a lower value than it otherwise would and Division management would not necessarily be aware of such changes.

The value of towed vehicles is first assessed by the tow truck driver, whether a City driver or one of the privately contracted drivers, and is then entered into the Tow Administrator system by the towing dispatcher. Vehicles towed by the City of Long Beach fall into one of three value categories (\$0-500; \$501-4,000; \$4,001+). The primary auction cashier typically reviews the values assigned to the vehicles prior to the auction and makes changes to them in accordance with previous knowledge and experience.

The primary cashier is able to do this as a result of being assigned level five security access (with the additional configuration access); other employees with level five security access could also change the vehicle valuation if they were given configuration access although they typically do not.

### ***Review of the 'Edit Report' by the Superintendent of the Division***

Once the edit report has been sorted and reconciled in Excel, the Superintendent locks a version of the report in the computer filing system. Because the report is sorted and reviewed in Excel, values in the edit report can be changed and entries can be deleted by the Superintendent before he locks a final version in the filing system, which then serves as the Division record of Tow Administrator activities. To ensure that another individual can verify the results in the edit report, the original CSV version of the report should also be locked in the computer filing system.

The current version of the edit report was produced as a result of conversations that occurred between the Division Superintendent and the vendor following the previous audit conducted by the City Auditor's Office of the Division's towing function in 2009. While the Superintendent noted that he and the Fleet Services Bureau Finance Officer have discussed having an analyst in the Fleet Services Bureau review the edit report (prior to being sorted by the Superintendent) as an additional control measure, this practice has not yet been implemented.

In summary, the Superintendent of the Towing and Lien Sales Division is both able to modify the version of the edit report that is locked and filed in the computer system and is the sole person responsible for reviewing it on a regular basis.

### ***Staff Ability to Release Vehicles from Tow Administrator Inventory***

Once it is determined that a particular vehicle will be sold at lien sale, but prior to the auction day, any employee with the appropriate level of access may waive the fees owed for a vehicle and release it. The Tow Administrator edit report is the primary record indicating whether this has occurred. It serves as a weak control because the version of the edit report that is reviewed

by the Superintendent may itself be modified. This presents the risk that vehicles may be inappropriately removed from the lot prior to auction day.

Any employee with level three security access in Tow Administrator can release a vehicle from the inventory. Seventy-five percent of the Towing and Lien Sales Division staff has level three access or above. Typically, when a vehicle is released, information is entered on the Tow Administrator billing page indicating the total payment received to cover outstanding towing and storage fees owed for the vehicle or to indicate the price paid for the vehicle at lien sale. When information is entered on the billing page at the towing window, the Tow Administrator program interfaces with iNovah, where the payment amount is also recorded, before the vehicle can be released in Tow Administrator.

At the lien sales window, however, the Tow Administrator and iNovah programs are not interfaced. The cashiers enter the total paid for the vehicle in iNovah first, and the total amount is again manually entered in Tow Administrator later by the secondary lien sale cashier. The two programs are not interfaced at the lien sale auction window to minimize the time per transaction for lien sale auction payments. Interfacing the two systems at the lien sale window would mean the lien sale clerk would have to first enter price information in Tow Administrator, then switch systems and screens to enter payment information in iNovah, and then, finally, switch systems and screens back to Tow Administrator to release the vehicle. This would lengthen each sales transaction at the lien sales window and cause customer delays.

However, it is possible to release a vehicle from the Tow Administrator system without entering any payment information (for either towing fees or a lien sale purchase). To do this, any user with level three access can write-off the total dollar amount paid in fees for the vehicle on the storage screen of Tow Administrator, without entering any information when directed to the billing screen. As a result, no payment for the vehicle would be captured in iNovah either and no discrepancy would be found when cash collected is counted against receipts reported in the iNovah system.

The Tow Administrator 'edit report,' would indicate that the fees owed for a particular vehicle had been written off. However, as discussed above, the reviewed version of the edit report can be modified and fields deleted during the review by the Superintendent. Theoretically, the Superintendent or another employee could waive the fees owed for a vehicle scheduled to go to lien sale and then remove the vehicle from the lot, and then the Superintendent could change the edit report to delete the evidence that this had occurred.

The Division does have a protocol for reviewing which vehicles have left the lot on any given day. Before a customer can leave the lot, she or he hands the lot service escort a Tow Administrator receipt that is received inside the facility. The lot service escort initials the receipt and places it in a locked drop box; a supervisor compares the signed receipts to a list of released vehicles from Tow Administrator at the end of the day and attempts to reconcile any differences. If the superintendent or another employee were to waive the fees for a vehicle and

release it from the Tow Administrator system, Tow Administrator would still print the requisite receipt to be signed and placed in the lock box by the lot service escort. This control of collecting the receipts and reviewing them at the end of the day would not catch vehicles that were erroneously released from the system.

Only the Tow Administrator edit report would catch whether a vehicle's fees had been waived prior to the car being released from the system. It is therefore critical that records of any changes to information in the system are not deleted from the Tow Administrator edit report. Further, since the edit report is now currently only reviewed by the Superintendent, it makes sense to have the edit report periodically reviewed by an individual outside of the Towing and Lien Sales Division to ensure that fee waivers for vehicles are justified.

## **Both IT systems lack an auto logout feature**

The desktop version of Tow Administrator, which is used by the Towing and Lien Sales Division, does not have an automatic logout function. The Tow Administrator vendor stated to the audit team that it would be possible to implement this feature with minimal cost to the Division.

The client version of iNovah, which is used by all cashiering employees in the Towing and Lien Sales Division, also does not have an automatic logout feature. This means that individuals other than Division cashiers could access an unattended computer and make changes to vehicle records and sales information. The administrative version of the program does have this feature, however. This is true for users of the iNovah system citywide.

According to the iNovah administrator for the City of Long Beach, the program does not currently have the capacity to turn on the automatic logout feature in the client version. Changes would need to be made by the vendor of the software to enable this feature.

## **Conclusions**

While the Division has implemented IT controls for auction day activities, opportunities remain to improve controls, particularly on non-auction days. The Division must establish policies to guide the assignment and regular review of security access in Tow Administrator for employees in the Towing and Lien Sales Division. In addition to improvements in the edit report and logout protections on both systems, the Division should review practices for releasing vehicles, both electronically and physically to ensure that all efforts to protect the City's resources are made.

## **Recommendations**

The Towing and Lien Sales Division Superintendent should:

- 3.1. Develop a policy, to be approved by the Fleet Services Bureau Manager, regarding the level of security access necessary for each job function with the aim of minimizing the number of individuals with security access levels 5 and 6 for Tow Administrator and administrator access for iNovah to only those who need such access as a key component of their job.
- 3.2. Establish a protocol for regularly reviewing and updating the level of security access given to each employee.
- 3.3. Identify and train two additional individuals in the Fleet Services Bureau or another City department who can serve as the backup money counters and who would not have access to either the iNovah or Tow Administrator systems, or remove this level of access for the current backup counters.
- 3.4. Save the original edit report that is produced in CSV format along with the modified Excel version in the computer filing system to ensure that the results can be verified by another employee. Work with the Tow Administrator vendor to include a permanent field on the edit report that indicates every time vehicle valuations or other information has been changed, including the initial valuation of the vehicle.
- 3.5. Authorize and train a Fleet Services Bureau employee from outside of the Towing and Lien Sales Division to review the edit reports produced on a periodic basis.
- 3.6. Direct the Tow Administrator vendor to modify the desktop version of the program so that it will log out after a standard period of inactivity.
- 3.7. Direct the Tow Administrator vendor to reconfigure the software so that no records may be deleted, only voided.
- 3.8. Direct the Tow Administrator vendor to limit the ability to waive fees and release vehicles to those with level five security access and above.
- 3.9. Establish a Division policy so that only the two supervisors and the superintendent may waive the fees associated with a vehicle.

The Technology Services Department Director should:

- 3.11 Implement an automatic log out function so that the iNovah interface closes after a certain period of inactivity by a user. According to the iNovah vendor, it is not possible to implement an auto logout function for the cashiering version of iNovah at this time. It would be possible to use the Windows screen saver functionality to auto-block access to software, including iNovah, on Division work stations after a certain period of time. Configuring this control would be relatively straightforward.

## Costs and Benefits

Implementing the recommendations for this section will cost an estimated \$4,628 in the first year. Included in this cost calculation is the total needed to modify the Tow Administrator edit report to include changes made to the initial vehicle valuation and to print the edit report in a PDF format. The cost estimate includes 20 hours of the Superintendent's time for the development of policy guidelines related to high-level security access in Tow Administrator. It also includes five hours of training time for the Superintendent to train an analyst in the review of the Tow Administrator edit report, as well as 20 hours for the analyst to conduct a regular review over the course of the first year.

Benefits from implementing these recommendations include greater control over information technology systems and the level of security access granted to employees in the Towing and Lien Sales Division to reduce the Division's exposure to fraud.

## 4. Vehicle Lot Inventory

- The dynamic nature of the vehicle impound lot requires regular system updates to reflect vehicle movement, transfers and returns to owners. While the Division attempts to minimize the number of times vehicles relocate following impound, movement occurs to prepare vehicles for auction, pick-up by public safety and Corridor Recycling, and for other circumstances that may arise.
- Although the Division conducts monthly physical inventory counts, there is no automated or real-time process to update the inventory database. As such, the accuracy of the inventory is currently compromised by deficiencies in the Tow Administrator database and the Division's reliance upon manual data updates and insufficient controls over releasing vehicles from inventory.
- When vehicles are removed from the lot after an owner reclaims them or after they are purchased at auction, they are supposed to be "released" in the Tow Administrator system, which should serve as the control over releasing them from inventory and the tow impound lot.
- The audit team inspection identified several weaknesses in the Division's vehicle inventory and release protocols using the Tow Administrator system. In an inspection of all vehicles in the impound lot, 39 of 688 vehicles in the Division's Tow Administrator inventory could not be located by the audit team. Division staff provided documentation showing that 13 of the 39 vehicles had been removed from the lot but the inventory had not been updated. For the remaining 26 vehicles not found by the audit team in its inspection of all vehicles on the lot, Division staff claims that those 26 vehicles were in fact in the lot the day of inspection but does not have documentation available to confirm this.
- Technological enhancements to the Tow Administrator system currently in development, including bar code and radio-frequency identification (RFID) technology, would help the Division ensure an accurate, updated inventory. These solutions have been adopted by other jurisdictions and in the private sector and would offer important protections of the City's physical assets.

### Types of Inventory Systems

Contingent upon size, resources, and needs, organizations typically use one of two predominant systems to track inventory: perpetual and periodic. Perpetual inventory systems are the preferred standard for modern inventory tracking in both the private and public sectors.

In a perpetual inventory system, all transactions are tracked and transmitted to the inventory database, particularly with the assistance of technology, to maintain a current balance of inventory. In a periodic inventory system, while all transactions are documented, these transactions must be manually reconciled to adjust inventory after a defined period of time, such as at the end of every month.

Having an adequate inventory system in place serves as a control for the accuracy of records in an inventory database, but management must also determine how physical inventory counts are performed. According to industry best practice<sup>1</sup>, there are two predominant methods for counting physical inventory: cycle counting and wall-to-wall counting.

By applying the cycle counting method, an organization conducts physical inventory by counting a portion of the inventory at different intervals of time, such as on a weekly or monthly basis, until the entire inventory has been counted. In juxtaposition, the wall-to-wall counting approach requires the counting of an entire inventory usually at the end of a particular period of time.

## **Inventory of Long Beach Vehicle Impound Lot**

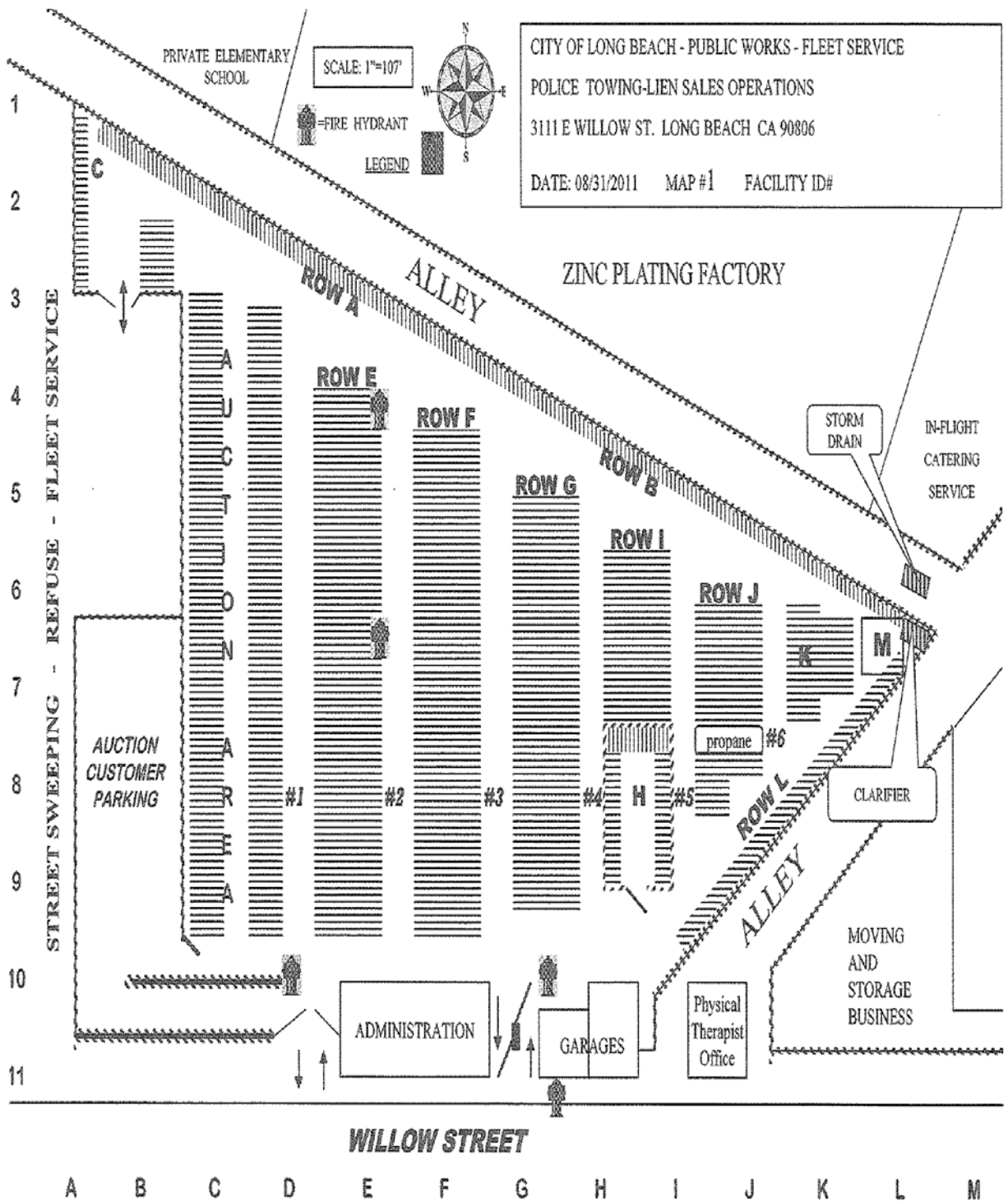
With a manual inventory system, the Towing and Lien Sales Division relies upon a periodic inventory system utilizing a wall-to-wall count method to verify its inventory accuracy. Specifically, the Division conducts a monthly physical count, and uses the Tow Administrator database to track vehicle inventory. In accordance with the Towing and Lien Sales Division's Vehicle Inventory Process policy, within the first two weeks of every month, the Towing and Lien Sales Division conducts an inventory of the entire main impound lot to reconcile its roster of vehicles from Tow Administrator. According to Division management, the inventory process usually requires three line level staff members over a course of two hours to physically count and identify vehicles in the tow yard compared to an inventory roster printed from the Tow Administrator database. A Supervisor subsequently spends an hour reconciling inventory check sheets. Depending on the number of discrepancies, additional time is spent to account for missing vehicles to determine whether they have been removed from or relocated within the lot.

As shown in Exhibit 4.1 on the following page, the Division separates the lot into sections labeled alphabetically "A" through "M", correlating with how lot inventory is sorted in the Tow Administrator database, the software system managing vehicle inventory. It is important to note that the current version of Tow Administrator is a stand-alone manual program without bar code scanning, RFID (radio-frequency identification), or other real-time tracking capabilities.

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<sup>1</sup>Government Accountability Office's Executive Guide for Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property.

# Exhibit 4.1: Map of Tow Yard





While the Division attempts to minimize the number of times a vehicle is moved once impounded, vehicles are moved from one section to another when preparing them for auction, pick-up by the Police and Fire Departments and Corridor Recycling, and for other circumstances that may arise. Certain low value and scrap vehicles are transferred from the impound lot to the Long Beach Fire Department Training Station and Police Department Academy for training purposes, as well as to Corridor Recycling for scrap recycling and dismantling.

### ***Need for Policy and Technology Improvements to Track Movement of Inventory***

As an active impound lot, vehicles constantly cycle in, out and around the tow yard. When a vehicle has been released to its registered owner, processed through a lien sale, or paid for by the scrap recycler, a vehicle's file is supposed to be manually updated in the inventory database to indicate that it has been removed from the physical inventory. While the Division's Lien Sale Procedural Manual and Vehicle Release Process policy details procedures for vehicles entering and exiting the lot, the manual fails to address how staff should track movement around the lot.

While Division management directs employees to complete a Vehicle Relocation form when moving vehicles within the yard, there are no guiding policies to clarify the completion of these forms (when and by whom) and the inputting of the forms into Tow Administrator.

In addition, when vehicles are lent to public safety for training purposes, staff members do not make any adjustment to that vehicle's inventory file to indicate that the vehicle is located off-site. In fact, under the system's current configuration, staff cannot indicate the transfer of a vehicle to public safety agencies; there is no existing field in Tow Administrator. Such a category has been created to track when vehicles are transferred to Corridor Recycling for scrap recycling; however, these transfers are not always immediately recorded in the inventory database, either. The accuracy of the database relies upon sufficient tracking capacity and continual staff updates. Failure to update the Tow Administrator system regularly results in inefficient physical counts, inaccurate inventory information and reduced management control over its inventory.

### ***Policies for Releasing Vehicles From Lot Should be Strengthened***

Despite clear procedures governing the release of vehicles from the inventory database when they are reclaimed by their owners or sold at auction, the Division does not appear to follow its own policies. The Tow Administrator release function does not currently serve as a sufficient control over vehicles leaving the lot and being removed from the Division's control, due to the heavy reliance on continual data entry. The system has not been designed to function in real-time, and as a result, the Division is not accurately tracking its inventory.

### **Results of Audit Team Lot Inspection**

During the audit team's inventory inspection in September 2014, the Tow Administrator inventory report listed a total of 688 vehicles on the lot. Of these, 39 could not be found. Of the 39 vehicles, Division management provided receipts showing that nine of them were reclaimed by their owners and removed from the lot the day of the audit inspection and one had been released earlier but the Tow Administrator inventory database had not been updated. Of the 29 remaining vehicles that could not be found on the lot by the audit team, Division management explained that two had been transferred to City public safety agencies for training purposes and one had been transferred to Corridor Recycling as scrap metal though neither of these transfers had been recorded in Tow Administrator. This leaves 26 vehicles that the audit team could not find but Division management claims were on the lot. The Division provided receipts for 11 vehicles showing that they were sold at auction on a date subsequent to the audit team inspection day. Division management also reported that the other remaining 15 vehicles that were not found by the audit team were in fact on the lot that day, according to their own inspection.

The audit team conducted an exhaustive inspection of the entire lot and even found 75 vehicles listed in the database that were not in the location listed in the database or had incorrect license plate or invoice numbers listed in the database or on the vehicle. These vehicles were found by the audit team by searching for them in sections of the lot other than those listed in the database and/or by matching vehicles in the lot with other characteristics in the database such as make and model. Despite these additional efforts to locate all vehicles in the inventory database, 26 vehicles were still not found by the audit team though Division management claims they were there.

The Tow Administrator system's structure and protocols, particularly the manner in which the inventory database is updated, does not provide assurance that vehicles reported as in the impound lot are, in fact, there. Further, as discussed in Section 2 of this report, controls over releasing vehicles from the Tow Administrator database and inventory are insufficient and provide further evidence that the system is not serving as an adequate control over the Division's vehicle inventory. Weaknesses in accounting for vehicles that have been sold, returned to their owners or transferred to the Police or Fire Departments or Corridor Recycling increase the risk of undetected vehicle theft.

Exhibit 4.2 summarizes the 39 vehicles that were not found by the audit team during the inspection. As shown, sufficient documentation explaining the location of 13 of the 39 vehicles has been provided by the Division. The Division provided documentation from Tow Administrator indicating that the other 26 vehicles were part of the physical inventory; however, such documentation does not guarantee that these vehicles were in fact located on the lot at the time of the audit team inspection. Based on the average sales price of auction vehicles in FY 2013-14 of \$911, the value of the inventory that was not found by the audit team was \$23,686.

**Exhibit 4.2**  
**Details on 39 Vehicles in the Division's Inventory not Found in Impound Lot by Audit Team**

# Vehicles in Tow Administrator database	688
<b>Not Found by Audit Team</b>	
Number of vehicles not found in the impound lot but reported by Division as being there	15
Number of vehicles not found in lot for which Division provided documentation showing they were sold subsequent to inspection.	11
Released to owners on day of inspection, as documented by Division	9
Transferred to public safety agencies, as documented by Division	2
Transferred to Corridor Recycling, as documented by Division	1
Released to owner prior to inspection, but inventory not updated	1
Subtotal	39

Due to the fact that vehicles being released from the tow yard are supposed to first be released through the Tow Administrator system and the City's cashiering system, the fact that the 26 vehicles missing from the tow lot were still listed in Tow Administrator indicates that this process is not being followed in all cases and that the release function is not serving an effective inventory control.

***Inventory System Upgrades Could Improve Inventory Efficiency***

According to the Tow Administrator vendor, a new version of the software program is scheduled to be released in calendar year 2015. While the current program does not have bar code scanning, RFID or any other real-time or automated tracking module, the new version will have bar code scanning integrated into the base platform with RFID available as an optional add-on feature. With bar code scanning capabilities, the Towing and Lien Sales Division could decrease the amount of time and staff needed to conduct and reconcile the monthly wall-to-wall inventory count as any physical movement of a vehicle could be automatically adjusted in the inventory database by scanning a tag placed on an impounded vehicle. If the Division invested in the RFID system, those tags would also emit radio frequencies that the inventory database could instantaneously track without the need to scan a vehicle every time it is moved. Although bar code scanning or RFID could prove to minimize the amount of manual adjustments needed in the inventory database, as with any program, the process would need to be enforced by documented policies and procedures and trained employees who uphold those policies and procedures.

## Conclusions

Internal controls for tracking vehicles from impound to release should mitigate opportunities for fraud or misplaced assets; however, the Towing and Lien Sales Division's policies and procedures for accounting for all vehicles including moving them around the impound lot or transferring them to public safety departments fall short of ensuring that the inventory database is always accurate, up-to-date and accounts for all physical inventory, as demonstrated by the at least four vehicles that were no longer physically in the tow yard but still listed in the inventory database and 26 vehicles that were not found by the audit team. This situation poses the risk of vehicles being inappropriately taken off the lot and not being detected by Division controls. Since Tow Administrator is a stand-alone manual inventory system, the Division relies upon monthly wall-to-wall inventory counts to confirm adjustments in the inventory database, which requires several hours and staff members to reconcile.

If the Tow Administrator system cannot be improved to suit the needs of the Division, management should consider procuring an alternative towing and fleet management software program. If the Division decides to continue using Tow Administrator, Division management should engage the program vendor to ensure the new system upgrades scheduled for release in 2015 are compatible with the Division's operational needs and provided at a reasonable price. A new real-time, perpetual inventory system could increase productivity by automatically adjusting inventory changes in the database, thereby increasing the integrity and accuracy of the inventory database, and subsequently decreasing the amount of hours and staff needed for monthly wall-to-wall counts and reconciliation.

## Recommendations

The Towing and Lien Sales Superintendent should:

- 4.1 If the Division continues using Tow Administrator, coordinate with the Tow Administrator vendor to ensure that anticipated system upgrades are compatible with the Division's operational needs, particularly the new bar code scanning function, and to work with the City Purchasing Division to ensure the new program is provided at a reasonable price and documented in a contract.
- 4.2 Request the Tow Administrator vendor to incorporate an additional code to ensure proper tracking of vehicles released to public safety departments for training purposes.

- 4.3 If the Tow Administrator system cannot improve to meet the operational needs of the Towing and Lien Sales Division, consider procuring an alternative towing and fleet management software program.
- 4.4 Revise the Vehicle Inventory Policy to detail specific processes and procedures such as when inventory is conducted, how the process is carried out, what tools are used to conduct inventory, the various responsibilities for different employees involved in the process, the reconciliation process, and what to do when errors are identified in the inventory count.
- 4.5 Ensure that policies and procedures provide for adequate controls over releasing and moving vehicles.
  - 1. If the inventory system remains manual, the policies and procedures should incorporate the Vehicle Relocation form including when it should be filled out, who is responsible for completing the form, where or who the form is to be submitted, how soon it needs to be submitted after a vehicle relocation, and who is responsible for ensuring the data in the form is input into the inventory database.
  - 2. If the inventory system is upgraded to a perpetual system with a bar code scanning platform, the policies and procedures should reflect the adjustment in technology such as how employees are to tag vehicles with bar codes, how to use the bar code scanner, who has permission or access to use the bar code scanners, when the bar code scanner is to be utilized, and how to ensure that physical changes in the inventory can be adjusted in the database with the bar code scanner.
- 4.6 Ensure that Division staff follows policies regarding the release of vehicles such that all payments are confirmed and Tow Administrator is updated before a vehicle can leave the lot.

## Costs and Benefits

While the cost of a new inventory system fitting the Division's needs is uncertain at this juncture, a perpetual inventory system will increase productivity, increase the reliability and accuracy of inventory data, decrease the labor costs associated with monthly wall-to-wall physical inventory count and reconciliation, and ultimately enhance internal controls to ensure the safekeeping of assets. If the Tow Administrator program cannot improve to meet the Towing and Lien Sales Division's operational needs, management should consider procuring an alternative towing and fleet management software program.

## 5. Ensuring Buyer Competition

- In order to maximize lien sales revenues, the City should take steps to increase competition among bidders and expand auction participation. Over recent years, however, changes made in the auction process—including scheduling and advertising—have instead coincided with reduced revenues.
- The City (through the Purchasing Department) previously advertised auctions in *La Opinion*, a local Spanish language publication. Given the high percentage of Spanish-speakers in the Long Beach area, the failure to utilize this publication resource may limit the access of Spanish-speakers to the City’s lien sale auctions.
- Although Division documents indicate the Division’s commitment to maintaining an “open competitive” lien sales auction, the recent rescheduling of the auctions from Saturdays to Tuesdays has coincided with a reduced number of bidders, fewer sales to individual buyers, and lower average revenue per unit and per auction. Held now on a traditional workday, the auctions may be less accessible to non-industry individuals interested in bidding on lien sales vehicles, and may reduce the competition and ultimately the revenues generated at the auctions, although it should be noted that five of the six jurisdictions surveyed for this audit also hold lien sales auctions on weekdays.

### Annual Lien Sales Revenues Have Declined in Recent Years

Since FY 2011-12, the City of Long Beach’s annual vehicle lien sales and revenues have declined by over \$500,000. While Division officials often cite a decline in the number of vehicles to be auctioned as the primary cause for the revenue loss, Exhibit 5.1 below shows that from FY 2011-12 to FY 2012-13, annual revenues declined even though there was an increase in the total number of vehicles sold.

**Exhibit 5.1: Annual Vehicle Sales and Auction Revenues, FY 2012-2014**

AUCTION REVENUE SOURCE	FY 2012	FY 2013	FY 2014
TOTAL NET SALE REVENUE	\$2,927,232.19	\$2,679,555.55	\$2,377,918.01
AVERAGE PRICE PER VEHICLE - NET	\$1,015.98	\$911.19	\$881.36
TOTAL VEHICLES SOLD	2,882	2,957	2,698

Source: Towing and Lien Sales Division data

In addition, Exhibit 5.1 shows that the average price per vehicle has declined by nearly \$150 since FY 2011-12, suggesting that the volume of vehicles sold has not been the only factor associated with the City's overall loss in annual revenue from lien sales.

## Impact of Auction Day Schedule on Revenues

In April 2013, in order to address challenges with staff scheduling and increased overtime, the Superintendent of the Division rescheduled lien sales auctions from Saturday to Tuesday. An analysis of the lien sales data provided by the Division shows that this change in auction schedule correlates with a reduction in average revenues, average number of vehicles sold and the average price per vehicle per auction during fiscal years 2011-12 through 2013-14.

**Exhibit 5.2: Average Revenues, Units Sold and Price per Unit, by Day of Sale, FYs 2010-11 through 2013-14**

	<b>Saturday</b>	<b>Tuesday</b>
Average Net Revenues per Auction	\$ 110,473.02	\$ 94,164.02
Average Vehicles Sold per Auction	112	106
Average Price per Vehicle	\$986.37	\$888.34

Source: Towing and Lien Sales Division data

Note: Auctions moved from Saturdays to Tuesday beginning April 23, 2013

While this change in schedule was made to reduce City costs related to increased overtime for staff coverage on the weekend, it is not clear that the Division analyzed the potential impact on public participation prior to implementing the change.

### ***Bidder Card Registrations Have Declined***

Although it does not retain attendance records from auctions, the Division does track bidder cards and revenues. Bidder registration cards, and a \$20 fee, were required of all auction participants wishing to enter a bid on a vehicle, until October 2014, as discussed below. As such, it can be shown that over the audit scope period, the average number of bidder cards declined following the rescheduling of auctions from Saturday to Tuesday. According to Division data, the average number of bidders that participated in Saturday auctions during the audit scope period (FY 2011-12, 2012-13, and 2013-2014, as of 9/9/14) was 107 per auction. The average number of bidders that participated in Tuesday auctions during the audit scope period was 84, reflecting a 21 percent decline in bidder participation.

**Exhibit 5.3: Average Number of Bidders in Audit Scope Period**

	Saturdays	Tuesdays	% Reduction in # of Bidders per Auction
Average # Bidders	107	84	21%

Source: Division data

***Auction Advertisements and Outreach Efforts Have Been Limited***

Since 2011, the Division has reduced its outreach efforts in local newspaper publications. The Division advertised in La Opinion (a local daily Spanish-language publication) from 2010 to 2011, but did not renew the one-year advertising contract with La Opinion in an effort to reduce costs, estimated at \$1000 per year. The other jurisdictions surveyed report additional advertising efforts made via additional websites (other than their respective city's site) and blogs. The City of Long Beach Towing and Lien Sales Division lists its auction vehicles on its website but does not use any third party websites or blogs to advertise its auctions.

***Online Auctions***

Currently, most other municipalities across the United States do not conduct live lien sale auctions. The majority of jurisdictions that sell impounded vehicles do so through online auction websites such as GovDeals.com and GSAAuctions.com. The City should explore opportunities to use these online services to supplement the live auction function, particularly in an effort to draw an expanded pool of bidders to increase competition.

**Recent Changes to Auction Process to Increase Competition**

According to the Division Superintendent, the Division has recently implemented a temporary policy change regarding the collection of bidder fees, whereby only successful bidders are assessed the fee. Beginning October 1, 2014, instead of requiring payment in advance of the auction for bid participation, the Division now collects bidder fees at the time of payment for a vehicle. This change has been made in an effort to encourage customer participation and increase the number of bid participants in order to increase sales prices and revenues. This and other changes in practices should be identified and tracked to determine the results of such efforts.

**Conclusions**

If the Division seeks to encourage competition in the lien sales auction process and increase revenues, it should identify ways to attract a greater number of potential bidders. This could be



accomplished through expanded outreach efforts to advertise the auctions. The Division's decision to reschedule auctions from Saturdays to Tuesdays appears to have been the result of management challenges regarding staff attendance, rather than the result of analysis showing that Tuesday auctions would increase revenues and/or participation at the auctions. In fact, whether coincidental or not, the opposite has occurred, and the Division should formally consider ways to mitigate this impact on lien sales revenues.

## Recommendations

The Fleet Services Manager should:

- 5.1. Conduct a cost-benefit analysis of rescheduling the auctions from the current practice of holding them on Tuesdays to Saturdays to determine if competition and/or revenues have been impacted. This should include an analysis to reduce staffing and other costs by holding auctions on Saturdays versus Tuesdays.
- 5.2. Ensure that the Purchasing Department expands or replaces current advertising efforts in the interest of reaching a broader population, such as by including *La Opinion* or other publications.
- 5.3. Analyze the costs and benefits of adding an online component via a third-party online auction site to the auctions and other possible means of increasing the number of bidders at auctions to potentially generate higher auction bids and revenues. Consult with other jurisdictions using such online auction sites to determine how best to structure agreements with the third-party provider.
- 5.4. Establish mechanisms to track the results of changes in Division practices and procedures to determine if they are achieving the intended results.

## Costs and Benefits

The costs of implementing the recommendations above are estimated at approximately \$2,000. This includes approximately \$1000 in annual fees related to additional auction advertising, and approximately \$1000 in staff costs for analysis related to recommendations 5.1 and 5.3. The audit team estimates 10 hours of analyst time and 2 hours of the Superintendent's time for the implementation of each of these recommendations. However, the benefits of expanded outreach and increased competition would likely result in increased revenues.

## 6. Scrap Metal Removal

- The Towing and Lien Sales Division delegates responsibility for recycling metal and scrap vehicles, or those not purchased through the lien sales auction, to Corridor Recycling, a private firm. The City and Corridor Recycling currently do not have a formal contract in place codifying the performance obligations of the contractor and responsibilities of the City. As a result, the City does not have a means of holding the contractor responsible for required revenue reporting, determining changes in recycling rates, standard indemnification requirements or other professional obligations.
- In its winning proposal, Corridor Recycling offered to pay the City higher rates for recycled materials than those offered by three other bidders for three of four material categories. However, four months after the scrap recycling services were delegated, Corridor Recycling reduced its rates to equal or less than those offered by the second lowest bidder and higher than the other two bidders for some of the material categories. Staff cannot explain the basis of these reductions due to turnover in Division and City procurement staff.
- Since the proposed term for services identified in the original RFP between the City and Corridor Recycling has expired without a documented extension, the City should issue a RFP for scrap metal recycling services to reassess scrap metal recycling rates in the region. The City should document its professional relationship with the winning bidder in order to hold the contractor responsible for upholding agreed upon recycling rates, reporting performance, indemnification requirements, dispute resolution processes, and other terms and conditions.

### Scrap Vehicle Removal and Recycling Contract

State law permits vehicle lienholders to initiate scrap recycling for vehicles valued at \$500 or less as a means of disposal without going through a lien sale process. However, the Towing and Lien Sales Division endeavors to auction all vehicles, including vehicles valued at \$500 or less, with the goal of optimizing lien sale revenue. Only when low value scrap vehicles fail to obtain a bid during auction does the City remit that vehicle to a dismantler for scrap recycling.

In the spring of 2010, the City released a Request for Proposals (RFP) for scrap metal recycling services, resulting in the selection of Corridor Recycling to provide these services for the Fleet Services Bureau, Towing and Lien Sales Division, Long Beach Airport, Public Works Department, and Environmental Services Bureau. Corridor Recycling is responsible for recycling all scrap metal, which includes not just vehicles but any other bulk metal that may be obtained through

the course of business. Our audit team did not evaluate the contractor's business relationship with these other departments or divisions as they were outside the scope of this audit.

Over the past three fiscal years, scrap recycling revenue for the Towing and Lien Sales Division has been a relatively small portion of the Division's total income with annual revenue, ranging between approximately \$10,000 and \$20,000, as displayed in Exhibit 6.1.

**Exhibit 6.1: Annual Scrap Metal Recycling Revenues, FYs 2011-12 through 2013-14**

Fiscal Year	Annual Revenue	Annual Change
FY 2011-12	\$10,366	-
FY 2012-13	\$19,150	85%
FY 2013-14	\$11,521	-40%

Source: Towing and Lien Sales Division Auction Revenue spreadsheets

As shown in Exhibit 6.1, these scrap recycling revenues declined significantly by 40 percent in Fiscal Year 2013-14.

***Lack of a Documented Contractual Relationship between the City and Contractor***

Although it selected Corridor Recycling to perform these services in 2010, the City never established a formal contract with the firm for services performed for the Lien Sales Division or any other City agency. Personnel from the City Purchasing Division explained that the original RFP bid form completed by Corridor Recycling acted as the agreement between the City and contractor in lieu of a formal contract. In accordance with the RFP, the City's service agreement with Corridor Recycling was to have lasted twelve months (beginning in 2010), with two options for one-year extensions. The City does not have documented records of those extensions, which would have expired in 2013. Without a formal contract, the City lacks standard protections usually provided in a contract such as indemnification requirements, established methods for resolving disputes, and other terms and conditions not addressed in the RFP and bid form. The bid form included only a table of various scrap metals for the bidders to list their proposed recycling rates.

Further, the contractor has failed to practice some of the requirements listed in the RFP. For example, according to the RFP, the contractor must submit a summary of all scrap metal and vehicles picked up the previous month by the 10<sup>th</sup> day of each month. Currently, the contractor provides the summary and support documentation of all recycled goods only sporadically, submitting reports and revenue remittances approximately every two months. As such, the City not only lacks a current agreement of any sort with Corridor, but also has neglected to enforce and monitor the terms of the prior agreement.

### ***Inexplicable Shift in Contractor Recycling Rates***

When it released the RFP for recycling services in April 2010, the City Purchasing Division granted the award based upon the highest percent of revenue compared to regional industry recycling rates according to the American Metal Market (AMM). Exhibit 6.2 provides an overview of the recycling rates of scrap metal bidders who responded to the original RFP.

**Exhibit 6.2: City of Long Beach April 2010 Scrap Metal Recycling Bid Results**

Bidders:		Corridor Recycling	Bidder B	Bidder C	Bidder D
Unit of Measure	Category	Percentage of American Metal Market Rates			
Ton	Scrap vehicles	152%	90%	85%	75%
Ton	White goods	1,150%	90%	85%	80%
Ton	Mixed scrap metal	195%	90%	85%	90%
Lbs.	Aluminum	27.14%	90%	85%	80%

Source: City of Long Beach Purchasing Division procurement database

As observed in the above exhibit, Corridor Recycling offered recycling rates to be paid to the City exceeding not only the other bidders, but also market rates according to AMM for three of the four categories of materials. Based on these quoted rates, the City Purchasing Division awarded the scrap metal recycling business to Corridor Recycling. However, City Purchasing Division records indicate that four months after the close of the RFP, and following the selection of Corridor Recycling for the recycling business, Corridor Recycling reduced its recycling rates that it pays to the City for three out of the four material categories to rates lower than those proposed by Bidder B, the second highest bidder. Corridor's revised rates for payment to the City were also lower for two of the material categories than those offered by Bidders C and D. Exhibit 6.3 below provides an overview of Corridor's rate adjustments.

**Exhibit 6.3: Corridor Recycling's Rate Adjustments between April and August, 2010**

Bidders:		Original Proposed Rates <sup>1</sup>	Revised Rates after Contract Awarded <sup>1</sup>	Bidder B Propose d Rates	Bidder C Propose d Rates	Bidder D Propose d Rates
Unit of Measur e	Category	Percentage of American Metal Market Rates				
Ton	Scrap vehicles	152.0%	90%	90%	85%	75%
Ton	White goods	1,150.0%	76%	90%	85%	80%
Ton	Mixed scrap metal	195.0%	77%	90%	85%	90%
Lbs.	Aluminum	27.1%	84%	90%	85%	80%

Source: City of Long Beach Purchasing Division procurement database

<sup>1</sup>The original proposed rates are as of 4/30/10 while the revised rates after the contract award is as of 8/31/10.

Due to turnover in management within both the Towing and Lien Sales Division and the City Purchasing Division since the issuance of the original RFP, no current City employees can offer any explanation or other documentation regarding this adjustment in recycling rates. However, this fluctuation in recycling rates clearly demonstrates the City's vulnerability in the absence of a formal contract to manage its obligations with the contractor.

## Conclusions

With the original proposed contract timeframe expiring in 2013, the City has exceeded the timeline to issue a new RFP for scrap metal recycling services. With inexplicably reduced rates paid to the City by Corridor Recycling and irregular reporting by the current provider, the City should engage in a written agreement with a winning vendor to ensure proper terms and adequate oversight.

## Recommendations

The City Purchasing Division should:

- 6.1 Coordinate with the Towing and Lien Sales Division and other participating City departments and divisions to release a Request for Proposals for scrap metal recycling services ensuring that the selected vendor codifies its business relationship in a documented contract that stipulates the performance obligations of the contractor and responsibilities of the City.

## **Costs and Benefits**

We do not anticipate any additional costs to occur from reissuing a RFP for scrap metal recycling services. After observing the fluctuation in recycling rates and seeing that other scrap recycling vendors were offering recycling rates higher than the current contractor soon after winning the RFP, the City may benefit by finding a new contractor offering higher recycling rates or negotiating with the current contractor for higher rates, as well as solidifying those rates, and any processes for adjusting them, in a written agreement.



Date: March 5, 2015  
For: Laura Doud, City Auditor  
To: Patrick H. West, City Manager *T.H.W.*  
From: John Gross, Director of Financial Management *J.G.*  
Subject: **Response to the Lien Sales Audit Report**

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Thank you for an opportunity to comment on the draft audit of the Lien Sales operations.

Management appreciates the recommendations in this audit and we generally concur with the recommendations and believe that appropriate implementation of the recommendations will improve Lien Sales operations.

The findings identify incremental, but potentially important improvements. The Lien Sales operations handles cash and assets convertible to cash and it is important to consider the items identified in this audit to further minimize risks and also to improve efficiency.

While we generally support and concur with the recommendations, Management has not had the opportunity to complete a full review and assessment of every finding and recommendation. At this time, we do not know whether we agree with the details of every finding; however, we intend to implement the recommendations unless we find practicality, cost, or other implementation issues. There was an audit of the Towing Operations in 2009. The recommendations in that audit were addressed and implemented. This 2014 audit has identified a few areas where further improvements in the areas identified and addressed in the 2009 audit can still be made. We will also address those recommendations.

Following are our responses to each of the six areas of recommendations.

- **Bidding and Cash Handling**

In general, Management concurs with the recommendations on bidding and cash handling are appropriate to consider. Management has started, and will continue, to implement those recommendations, where feasible and cost effective. As an example, one recommendation is the suggestion for blind drops of cash. Management has started planning for implementation. Management has also begun discussions on the best ways to implement other recommended changes. Management currently believes most of the bidding and cash handling recommendations are both feasible and cost effective.



- **Personal Property Removal**

Management concurs that the recommendations on personal property removal are an appropriate area to review and will do so. The findings and recommendations in this area focus on whether it is appropriate and cost effective to remove and sell personal property from vehicles and the security of that property while under the City's control. The practice brings in about \$35,000 a year in revenue to the City. The recommendations make it clear that the Auditor feels that the cost likely outweighs the revenue gained. That is possible, but it is not certain; additional review and analysis is required. We will review to determine if it is in the City's best interests to discontinue that practice and will further review the legal aspects as recommended by the audit. The audit also recommends improvements to procedures for the inventorying and security of personal property. Management agrees there are improvements that should be made. The selling of personal property from abandoned vehicles is a practice that has brought in revenue for over three decades. The recommendations by the Auditor are appropriate to consider to improve operations further and they will be implemented if, after further review, they are felt to be cost effective and in the best interest of the City.

- **IT (Information Technology) Controls**

Management concurs that the recommendations relating to reducing the number of individuals that have access to the computer systems should be considered. In addition, there is a recommendation that copies of non-editable control reports should be saved to official records along with the normal editable ones. Management concurs. Management will work with the Technology and Innovation Department to reduce the number of staff with high level access and to identify practical and effective ways to reduce potential issues with control reports. There are limits to access reductions due to the number of shifts and other issues, but it is felt that improvements can be made. A number of the findings and recommendations with reports and system access to Tow Administrator may be resolved through an anticipated software system upgrade or replacement of the system. Overall, it appears that the majority of the findings can be addressed within staffing and cost constraints.

- **Vehicle Lot Inventory**

These findings and recommendations relate to policy changes and the controls and efficiency of managing the vehicle lot and, among others, in particular a bar code or other scanning system to improve inventory control. Management concurs that the recommendations are appropriate to consider, subject to cost considerations. Management has begun looking at new systems as well as improvements to the Tow Administrator system. In particular, bar coding or other tracking seem likely to be cost effective and to be valuable in assisting with the tracking of vehicles, including those that are moved offsite for safety training or scrap recycling. Management concurs that the old system for vehicle management makes it difficult and time consuming to track vehicles. We believe that the difficulty inherent in taking inventory under the old system explains why the audit found unaccounted for vehicles. However, the



methodology and "real time" approach used by the staff, while inefficient compared to a modern system, does account for vehicles, and the lot, for many years, has not had any unaccounted for vehicles using our normal inventory approach. Management feels that the improvements described in the recommendations appear to be good ones and will improve the operation and make it easier to track vehicles and to prove that they are accounted for.

- **Buyer Competition**

In general, Management concurs that the recommendations with regard to improving buyer competition and attempting to receive higher sale prices of vehicles sold merits review. The recommendations will be reviewed and implemented where they appear to be cost effective. For example, staff will review holding vehicle sale auctions on a Saturday rather than on a Tuesday. However, it is not certain that such a change would either improve net revenue from vehicle sales or controls. The Auditor comments on the recent drop in sales revenue per vehicle and notes that it generally corresponds to the timing of the change in the auction date. While we concur with that fact, this is also the same time period of other changes. Management's preliminary analysis of the sales data shows that the drop in revenue that the Auditor notes is likely a result of a change in the type and value of cars received for sale rather than to a change in the auction day. There are supervision and staffing issues with a weekend auction that will also need to be reviewed before a change in the auction day is determined to be appropriate. However, Management concurs that all of the items should be reviewed and considered for implementation, and the recommendations warrant consideration.

- **Scrap Vehicle Removal**

Management concurs that the Scrap Vehicle sales process should be reviewed and Management intends to implement the Auditor's recommendations to perform a Request for Proposal (RFP) process. The amount of revenue received from scrap vehicle sales is small. Other priorities have precluded staff from having time in the past to address this matter. Staff is now working on this item and consistent with the Auditor's recommendation, the City's scrap removal contract is currently in process for renewal using an RFP.

In conclusion, Management appreciates the review of the Lien Sales operations and is particularly appreciative of the specific recommendations, many of which are believed can be implemented in one way or the other and will improve operations.

K:\EXEC\JOHN GROSS\MGMT RESPONSE RE LIEN SALES AUDIT RESPONSE FINAL (REVISED 3).DOCX

CC: PATRICK WEST, CITY MANAGER  
TOM MODICA, ASSISTANT CITY MANAGER  
ARTURO SANCHEZ, DEPUTY CITY MANAGER  
JYL MARDEN, ASSISTANT TO THE CITY MANAGER