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CITY OF ST. LOUIS



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DR. KENNETH M. STONE, CPA
Internal Audit Executive

May 2, 2012

Todd Waelterman, Director
Street Department
1900 Hampton Avenue
St. Louis, Missouri 63139-2988

FILE COPY

RE: Auto Towing and Storage Services (Project #2012-29)

Dear Mr. Waelterman:

Enclosed is the Internal Audit Section's revenue review report of the Auto Towing and Storage Services for the period July 1, 2010 through June 30, 2011. A description of the scope of our work is included in the report.

Fieldwork was completed on February 27, 2012. Management's responses to the observations and recommendations noted in the report were received on April 25, 2012 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,


Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure:

Cc: Claude Gunn, Manager - Auto Towing and Storage Services



CITY OF ST. LOUIS

CITY OF ST. LOUIS

STREET DEPARTMENT - AUTO TOWING AND STORAGE SERVICES

REVENUE REVIEW

JULY 1, 2010 THROUGH JUNE 30, 2011

PROJECT #2012-29

DATE ISSUED: MAY 2, 2012

**Prepared by:
The Internal Audit Section**



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HONORABLE DARLENE GREEN, COMPTROLLER

CITY OF ST. LOUIS
STREET DEPARTMENT - AUTO TOWING AND STORAGE SERVICES
REVENUE REVIEW
JULY 1, 2010 THROUGH JUNE 30, 2011

EXECUTIVE SUMMARY

Purpose

Auto Towing and Storage Services was selected for review based on the annual risk assessment. The purpose was to determine if the Auto Towing and Storage Service's internal controls effectively and efficiently manages risks to ensure the following:

- Existence of adequate revenue policies and procedures that are applied on a consistent basis
- Proper recording and timely reporting of all revenues
- Reliability and integrity of financial information
- Compliance with applicable laws, regulations, policies and procedures

Scope and Methodology

The scope of the period of review included revenues collected from towing fees and auction of vehicles from July 1, 2010 through June 30, 2011. The review was confined to evaluating internal controls over the fiscal activities relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff
- Observations of relevant processes
- Reviews for compliance with policies and procedures, as well as applicable laws and regulations
- Limited tests of controls
- Follow-ups on prior audit observations
- Other procedures considered necessary

Background

Auto Towing and Storage Services is responsible for clearing the right of ways and improving neighborhood appearance and safety by removing, storing and auctioning vehicles as requested by the St. Louis City Police and other agencies. Revenues received from towing fees and weekly auctions were approximately \$3,000,000 during the review period.

Exit Conference

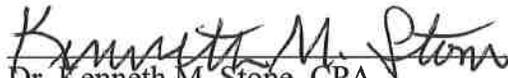
An exit conference was conducted at Auto Towing and Storage Services on April 18, 2012. Auto Towing and Storage Services was represented by the Manager and Internal Audit Section was represented by the Auditor-in-Charge and Auditor II.

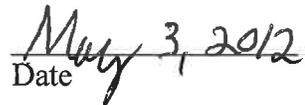
Conclusion

Auto Towing and Storage Services adequately addressed internal controls and risks relating to the objectives noted above, except for the following observations:

1. Opportunity to improve security in transporting daily deposits **(Repeated)**
2. Opportunity to adopt a policy for the distribution of excess auction monies **(Repeated)**
3. Opportunity to review and document costs of administering auctions and establish a fee to recover costs **(Repeated)**
4. Opportunity to update written policies and procedures **(Repeated)**

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
STREET DEPARTMENT - AUTO TOWING AND STORAGE SERVICES
REVENUE REVIEW
JULY 1, 2010 THROUGH JUNE 30, 2011**

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OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) followed-up on observations included in IAS' report issued on October 12, 2006 and the State Auditor's report issued June 2009. The status of IAS' observations is as follows:

- Opportunity to improve security in transporting daily deposits (**Not Resolved**)
- Opportunity to develop policies and procedures for credit card transactions (**Not Resolved**)
- Opportunity to improve supervisory review over the accounting functions and maintain a record of deposits (**Resolved**)

The status of the State's observations is as follows:

- Recover missing funds and work with law enforcement (**Resolved**)
- Document methods of payment for tow tickets and the composition of receipts deposited (**Resolved**)
- Record auction receipts and date received in a ledger and reconcile deposits (**Resolved**)
- Issue checks versus cash for overpayments made by credit cards (**Resolved**)
- Maintain documentation and approval for adjustments in towing fees (**Resolved**)
- Send letters of notification to vehicle owners by certified mail instead of first class mail (**Resolved**)
- Adopt a policy for the distribution of excess auction monies (**Not Resolved**)
- Review and document costs of administering auctions and establish a fee to recover costs (**Not Resolved**)
- Ensure fees for towing, storing and auctioning including administrative fees, are documented in the REJIS system (**Resolved**)

OBSERVATIONS

Summary of Current Observations

Several control procedures were noted in processing revenues. These included, but were not limited to, the following:

- Duties are properly segregated
- Tow tickets are sequentially numbered, logged and reconciled to fees collected
- All receipts are recorded in a cash receipts log and reconciled to the general ledger

The opportunity exists for management to improve internal controls over the Auto Towing and Storage Services' fiscal activities. The following are observations resulting from our review:

1. Opportunity to improve security in transporting daily deposits **(Repeated)**
2. Opportunity to adopt a policy for the distribution of excess auction monies **(Repeated)**
3. Opportunity to review and document costs of administering auctions and establish a fee to recover costs **(Repeated)**
4. Opportunity to update written policies and procedures **(Repeated)**

The observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. **Opportunity To Improve Security In Transporting Daily Deposits (Repeated)**

Daily deposits are transported to the Treasurer's Office without adequate security to safeguard the funds and the employees. The previous recommendation to contract out the delivery services with a private security company has not been implemented. Currently, employees are assigned on a rotational basis to deliver deposits to the Treasurer's Office, while other City departments contract out these services.

The management of Auto Towing and Storage Services has not followed up on receiving bids for using a security firm to transport daily deposits. Management should assess the risk and costs, and implement internal controls to safeguard City assets and improve the efficient use of employees.

The current system of depositing revenues increases the risk of loss of funds through robbery, collusion and could result in lawsuits. Approximately \$3,000,000, primarily cash, is transported by the employees annually.

Recommendation

It is recommended that the management re-assess the risk involved and consider contracting out the services for transporting funds.

Management's Responses (Received April 25, 2012)

The system we have used for the last 34 years has worked and there have been no problems. However, we do not want to be complacent in our approach to the safety of the employees or the funds that they carry.

We will research the costs and feasibility of contracting out this service and hope it can be implemented as soon as possible.

2. **Opportunity To Adopt A Policy For The Distribution Of Excess Auction Monies (Repeated)**

Auto Towing and Storage Services does not have a policy for the distribution of excess auction monies. Currently, auction proceeds exceeding the towing, storage and administrative fees are submitted to the City Treasurer's Office and deposited in an escrow account.

At the end of each fiscal year, the Comptroller's office transfers the unclaimed monies to the general fund revenue account. Approximately \$39,000 was transferred to the general fund account during the fiscal year ended June 30, 2011.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

2. Continued... ..

Management has not effectively addressed the distribution of unclaimed monies. Management should ensure that unclaimed monies are properly distributed in accordance with State and local laws.

Without a policy, management may be distributing unclaimed monies to the general fund which possibly should have been distributed elsewhere such as the State Unclaimed Property Fund.

Recommendation

It is recommended that management review the current accounting practice and adopt a policy to ensure unclaimed monies are distributed in accordance with State and local laws. The policy should be dated and approved by management.

Management's Responses (Received April 25, 2012)

This seems to be a matter that will require a legal opinion as to where this money should be deposited. I will ask for an opinion and do whatever is necessary.

3. **Opportunity To Review And Document Costs Of Administering Auctions And Establish A Fee To Recover Costs (Repeated)**

A \$200 administration fee is assessed on each vehicle sold to cover the costs of labor and paperwork involved in auctioning a vehicle. However, no documentation of costs or how this fee was determined was available.

Management should calculate and document the administrative costs of auctioning vehicles. The fee charged should be set at a level sufficient to cover the costs of the auctioning. Management has not effectively addressed the actual costs involved in the auction process. The risk exists that the fee is not properly approved by management and may not accurately reflect the cost of auctioning vehicles.

Recommendation

It is recommended that management review the costs involved in the auction process in determining the administrative fee. In addition, the fee should be approved by management.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

3. Continued... ..

Management's Responses (Received April 25, 2012)

We currently have a fee in place of \$200.00. The fee is broken down by various aspects of the auction process. However, it has been viewed as not detailed enough. We have itemized it in more detail and have come up with a new fee of \$320.00.

<i>Re-Tow</i>	<i>\$100.00</i>
<i>Processing</i>	<i>75.00</i>
<i>(Clerk – 5 hours @ \$15 per hour)</i>	
<i> Pulling Folders</i>	
<i> Pulling Tickets</i>	
<i> Pull up List</i>	
<i> Bills of Sale</i>	
<i> Register's Office (stamping)</i>	
<i> Bills of Sale (put in sale order)</i>	
<i> Closing out of Computer</i>	
<i> Filing</i>	
<i>Line – Up (Supervisor @ ½ hour @ \$20 per hour)</i>	<i>10.00</i>
<i>Laborer (1 hour @ \$15 per hour)</i>	<i>15.00</i>
<i>Auctioning (Two employees @ \$20 ea. per hr for 3 hours)</i>	<i>120.00</i>
<i>Total</i>	<i>\$320.00</i>

Auditor's Comments

It is recommended that the auctioning process and cost involved is periodically reviewed and documented. The documents and resulting administrative fee should be dated and approved by management.

4. Opportunity To Update Written Policies And Procedures (Repeated)

The current policies and procedures manual do not appear to be properly updated and approved by management. IAS observed that the policies and procedures were not dated and included corrections which were not identified. As noted in prior reviews, the manual does not include the following items:

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

4. **Continued...**

- Accounting and reconciliation process for credit/debit card transactions
- Security and privacy of the credit/debit card owner's number and other data
- Processing and reporting of auction receipts
- Processing refunds and adjustments to tow fees

Written policies and procedures assist in ensuring that control procedures and job functions are:

- Effectively communicated and understood by staff
- In accordance with management's goal and objectives
- Consistently performed
- Approved by management

Management has not assigned anyone the responsibility for reviewing and updating the manual. The lack of an up-to-date policies and procedures manual could result in the elimination of controls and result in loss or misreporting of funds received.

Recommendation

It is recommended that management review and updates the written policies and procedures manual. The manual should be dated and approved by management.

Management's Responses (Received April 25, 2012)

We agree the manual we have needs to be updated. It is a time consuming process and one that tends to be put off. We will start on this as soon as possible. Once completed and up-to-date, it will be easier for periodic additions or deletions.