



CITY OF ST. LOUIS CITY OF ST. LOUIS

STREET DEPARTMENT

AUTO TOWING AND STORAGE DIVISION

REVENUE REVIEW

JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

PROJECT #2018-RR 04

DATE ISSUED: NOVEMBER 14, 2018

**Prepared By:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER



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CITY OF ST. LOUIS



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November 14, 2018

Jamie Wilson, P.E. PTOE
Director
Street Department
1900 Hampton Avenue
St. Louis, MO 63139-2988

RE: Revenue Review- Auto Towing and Storage Division (Project #2018-RR04)

Dear Mr. Wilson:

Enclosed is the Internal Audit Section's revenue review report of the Auto Towing and Storage Division- Street Department. A description of the scope of work is included in the report.

Fieldwork was completed on August 21, 2018. Management responses to the observations noted in the report were received on November 13, 2018 and have been incorporated into 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) 657-3454.

Respectfully,

Ishmael Ikpeama, Ph.D
Internal Audit Supervisor

Jason Fletcher, C.P.A
Internal Audit Manager

Enclosure

Cc: Kent Flake, Street Commissioner

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SUMMARY

Background

Auto Towing and Storage Division is responsible for clearing the right of ways and improve neighborhood appearance and safety by removing, storing and selling vehicles as requested by the St. Louis City police and other City agencies.

The revenue received from towing fees and weekly auction of vehicles in fiscal year 2018 were \$1,270,203 and \$1,455, 176. The estimated revenues from the towed and auctioned vehicles in fiscal year 2019 were approximately \$1,550,000 and \$1,300,000 respectively.

Purpose

Auto Towing and Storage Division was selected for review based on the annual risk assessment. The last audit on the Division was performed in 2012. The purpose was to determine if the Auto Towing and Storage Division effectively and efficiently manage its risks pertaining to revenue from towing fees and auctioned vehicles to ensure:

- All revenues were recorded and reported in a timely manner.
- Revenues are properly classified and adequately described.
- Revenues policies and procedures exist, adequately and properly applied on a consistent basis.
- All City Ordinances, State Statutes or other legal guidelines are being followed.
- Proper safeguarding of assets.

Scope and Methodology

The scope of the review was for the period January 1, 2017 through December 31, 2017. 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.
- Analytical review of revenue for the past three years from towing fees and weekly auction of vehicles.
- Compliance with policies and procedures, as well as applicable laws and regulations.
- Follow-ups on prior audit observations.
- Reviewed and observation of cash handling & receiving.
- Observed of weekly auction.
- Limited tests of revenues received and recorded, and
- Other procedures as considered necessary.

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Status of Prior Observations

Internal Audit Section performed audit of the Auto Towing and Storage Division (Project # 2012-29). The report was issued on May 25, 2012. The observations noted in the report and the statuses are as follows:

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

Conclusion

The Division has integrated its technology to improve operations and increase efficiency by converting its operations and database technology to the REJIS (*AKA: Regional Justice Information Service Commission*).

The opportunities exist for the Auto Towing and Storage Division to improve controls over its fiscal activities. The following are the observations resulting from the review.

1. Opportunity to Update and Establish Comprehensive Written Policy and Procedures **(Repeated)**
2. Opportunity to Improve Control Over Cash Payments for Auction Vehicles
3. Segregation of Duties and Improve Controls Over Accounting Functions Performed by the Account Clerk II
4. Opportunity To Improve Security in Transporting Daily Deposits **(Repeated)**
5. Opportunity to Establish A Written Policy for the Distribution of Excess Auction Monies **(Repeated)**
6. Need to Document Cost of Administering Auctions and Establish a Fee to Recover Costs **(Repeated)**

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1. Opportunity to Update and Establish Comprehensive Written Policy and Procedures (Repeated)

The Division has not developed a comprehensive written policies and procedures manual for all its fiscal and operational activities. This was also noted as an observation in the prior audit report dated May 22, 2012.

The update should include, but not limited to the following:

Fiscal (Revenue):

- Cashier daily functions, cash advance procedures and controls
 - Refund over payments of towing fees and adjustment to towing ticket charges
 - Cancellation of towing tickets
 - Excess of the auction vehicle payment over the administrative cost and the Escrow account
 - Distribution of the balance in the Escrow account at the end of the year
 - Vehicles Auction day procedures (collection of auction proceeds)
 - Accounting and reconciliation processes for the towing fees payments (cash/debit/credit card) transactions; proceeds of vehicles auction; Daily deposits at the Treasurer's Office (RCFs') and posting in the Comptroller's monthly general Ledger report

Operations:

- Receiving and assigning of police calls and towing of abandoned/accident vehicles
- Towing -Retrieval of a Towed Car
- Preparing for the weekly auction of vehicles
- Pre- Auction day and Auction Line procedures

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

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

The Account Clerk II prepared and provided copies of written policies and procedures on Cashier, Auction Line and Pre-Auction activities upon request during the audit.

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Management has not delegated and assigned the development of a comprehensive written policies and procedures manual for the Auto Towing and Storage. Copies of written policies and procedures prepared by the Account Clerk II on Cashier, on Auction Line and Pre Auction activities have not been reviewed and approved by Management. The position of the Auto Manager who may be responsible for developing a comprehensive manual of written policies and procedures has not been filled by the Department's appointing authority.

Lack of written policies and procedures increases the risk that:

- Control procedures may not be effective or may be over-ridden.
- Employees may not be effectively trained.
- Appropriate performance standards and measures may not be developed.
- Assigned functions or job may not be understood by staff, and may not be consistently performed and in accordance with management goals and objectives.

Recommendation:

We recommend that management:

- Develop a comprehensive written policies and procedures manual
- Review and update the recently developed policies and procedures on Cashier, Auction Line and Pre Auction activities and incorporate in the written policies and procedures manual.

The written policies and procedures manual, when developed should be:

- Approved by the Appointing authority and dated
- Formally communicated to the staff and the communication documented
- Reviewed and updated periodically

Management's Response:

A procedures manual with written policy will be created.

Currently several memos are in circulation stating work rules, policy rules, accounting rules, etc. We will look towards other departments and the private sector to find examples that will encompass what is needed for the Towing Division. Once completed, employees will receive a copy and will need to complete a signature sheet for the procedure manual. This will be living document that may be continuously updated as technology and other factors evolve.

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2. Opportunity to Improve Control Over Cash Payments At The Auction

As observed during the sales, a company successful in bidding for any of the vehicles or equipment at the Auction makes payment with company checks. A signed blank check was provided by company personnel to the Towing Supervisor prior to the start of the auction. At the end of the auction, the Account Clerk II identified all the vehicles bought by the company at the auction, machine tape the total amount. The total amount is written on the check for deposit. A receipt was issued to the company for the total amount written on the check, in addition to the bill of sales for each vehicle sold.

During the sale of towed vehicles, which were also confirmed with the Towing Supervisor and the Account Clerk II, individuals with successful bids were required to pay in cash, providing driving license to confirm identity and age. The successful individual bidder is provided with the bill of sale by the Account Clerk II confirming the sale of the towed vehicle.

At the auction, cash paid by successful individual bidders were placed in the cash box after they have been counted by the Towing Supervisor. The cash box was placed, inside the truck between the Towing Supervisor and the auctioneer in sight of prospective bidders surrounding the truck. An armed police detective was on stand-by to ensure peaceful and uninterrupted sale of towed vehicles at the auction.

Internal Audit Section (IAS) noted that about **\$18,675 and \$19,250** were collected in cash as proceeds at the auctions held on May 24, 2018 and June 7, 2018 respectively.

IAS considered the auction environment a high risk with cash proceeds placed in the cash box while the sales of the towed vehicles were in progress.

Good management practices of cash payments for vehicles sold at the auction require safety of the public and security of asset.

Management considered the presence of a police detective at the auction adequate for the protection of the cash and the people.

The substantial amount collected in cash at every auction increases the risk of potential armed robbery or criminal attacks during any of the auctions. The attack if it happens may result in loss of revenue and possibly loss of lives.

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Recommendation

We recommend the Management modify the cash payments procedures at the auction as follows:

- Provide the successful individual bidder with Auction Bid Receipt (suggested copy provided by IAS) completed with the following information:(i) Auction date (ii) Receipt # (iii) Auction/Purchase Amount (iv) Auction vehicle number (v) Name of the individual (vi) Description of the vehicle (vii) Auction personnel approving sale
- Individual takes the completed Auction Bid Receipt with the cash payment to the Cashier at the Window and obtain printed receipt for the amount paid
- The individual provides the Auction Personnel with the printed receipt from the Cashier and obtain a bill of sale for the vehicle/equipment sold
- Auction Personnel (Account Clerk II) obtain the Auction Bid Receipts from the Cashier for the Total number of vehicles sold and cash payment received
- Account Clerk II reconciles the receipts from cash window with the auction list, and with the copy of the bill of sale before the buyer removes the sold vehicles /equipment from the facility.

Management's Response

The City Towing Division plans to implement the Auction Bid Receipt provided by the Internal Audit Section. This receipt system will allow bidders to pay at the internal window once the auction is complete. Issues exist with this system. All bidders, excluding salvage yards, are cash only. City Tow would have to trust cash bidders to be able to pay in full at the end of auction. These cash bidders could also cause a significant rush on the internal window once the auction is complete.

3. Segregation of Duties and Improve Controls Over the Accounting and Other Functions Performed by the Account Clerk II

The Account Clerk II appears to be performing several conflicting and compromising functions without any compensating controls, direct oversight or additional level of direct supervisory review.

The Account Clerk II performs accounting and wide varieties of administrative support functions.

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The Account Clerk II maintained in- house cash journal to record daily Cashier's collections (Cash, checks and credit card payments) for redeemed towing tickets and the proceeds of the sale of towed vehicles at the weekly auction. As observed during one of the auction, the Account Clerk II prepared bill of sales on each of the vehicle sold, collected the payments (cash & checks) at the end of the auction, balanced the days sales and prepared RCF for the deposit of the proceeds of sale of towed vehicles at the Treasurer's Office and updating the cash journal with the RCF's number for the deposit made.

The Account Clerk II is also responsible for reconciling the cash journal /book, the RCF's and the Credit Card processing statement (monthly) with the City general ledger (G/L).

However, the following were noted:

- No evidence of the monthly reconciliation of the Cash Journal and the RCF's to the city general ledger (G/L).
- The monthly credit card processing statement for the credit card payments have not been properly and adequately reconciled to the cash journal and the general ledger (G/L). Some credit card payments posted in the credit card processing statement could not be traced to the cash book maintained in-house and some credit card payments recorded in the cash book not traced to the credit card processing statement. The amount transferred to the Treasurer's Office by the Credit Card bank for the month does not agreed with the amount stated in the credit card processing statement. The difference in amount could not be determined. For example, in July 2018, the sum of \$30,239.02 was transferred to the Treasurer's Office as against \$31,911.93 stated in the statement as amount due to the city. The difference amount in question is \$1,672.91.
- Information (download on spreadsheet) on Redeemed Towing Fees and Sale of towed Vehicles (auction) provided from the newly converted database system (REJIS) incomplete and not up to-date. Some months transactions not downloaded. The total amount for each month does not agree with the amount posted on the general ledger.

In addition, the Account Clerk II performs the following responsibilities:

- Processing vendor's invoices and preparing payment vouchers with the Commissioner's approval which are transmitted to the Comptroller's Office for payments.
- Interact on regular basis with the Police Departments, Insurance Companies, Lien Holders and Citizens to resolve issues.

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- Investigate and resolve customers' complaints /issues or concerns that affect the overall operations.
- Prepare all necessary documents for auction including resolving line up issues with the auto theft detectives.

Good management practices require proper and adequate internal controls over functions to ensure no one individual should perform conflicting or compromising duties within the Division.

- There is no direct oversight or supervision of the duties performed by the Account Clerk II at the Division. The position of the Auto Towing & Storage Service Manager remains vacant and not filled. The Street Commissioner claimed to be reviewing and monitoring on-line the activities at the Auto Towing Service.
- Responsibilities for incompatible duties were not assigned.
- Errors and omissions committed due to inadequate segregation of duties may go undetected. Individual performing conflicting functions may abuse the opportunity and may result in loss of fund. The City may be losing some money to the Credit Card due to non-reconciliation of the credit card processing statement to the daily records (journal) maintained in house for the credit card payments received.
- Funds may be spent improperly.
- Inadequate or loss of controls.
- Inefficient use of human resources.

Recommendation:

Internal Audit Section recommends:

- The numerous functions perform by the Account Clerk II and considered conflicting and compromising be segregated.
- Proper monthly reconciliation of the Credit Card processing statement to the cash book and the general ledger be performed by another individual or the Auto Towing & Storage Division Manager when the position is filled.
- Direct oversight and supervision of the duties and functions performed by the Account Clerk II by a higher level supervisor at the location.

Management's Response

The Account Clerk II will be removed from any direct financial transactions with the public through the new procedures created in Opportunity #1. The Street Director's Office

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Accountant II will oversee all reconciliations until the Towing Service Manager position is filled.

4. Opportunity To Improve Security in Transporting Daily Deposit (Repeated)

Daily collections from the towing fees and the weekly auction of vehicles are placed in a locked bag, with keys to Account Clerk II and the Cashier (Treasurer's Office) and are transported to the Treasurer's Office unaccompanied and without adequate security by an employee of the Division (Towing Supervisor). Approximately \$2,956,837 and \$2,639,350, primarily cash and checks, were transported by employees in fiscal years 2017 and 2018 respectively.

This is a repeat observation and a previous recommendation to contract out the delivery service to a more secured Courier company has not been implemented.

Based on Internal Audit Section (IAS) inquiry, there is no city wide contract with any of the Armored Security Company for transporting funds. City Departments individually contract out these services.

Management should assess and compare the risk and cost involved with the current arrangement of transporting daily deposits.

Good management practices require a more reliable and secured means of transporting daily deposit to the Treasurer's Office to ensure the following:

- Safeguarding of assets.
- Protection of employees.

The performance standards for transporting money from Auto Towing office to the Treasurer's office are inadequate. The daily deposit is placed in a locked bag with access keys held by the Account Clerk II who prepared the deposit and the Cashier at the Treasurer's Office who received the deposit. The daily deposit is transported by the Towing Service Supervisor or another employee of the division.

Failure to establish proper and adequate security for the deposit of revenue may results in any of the following:

- Increases the risk of potential loss of funds through robbery and collusion.
- Lawsuits and workman compensation in case of armed robbery attack on the employee transporting the deposit.
- Negative publicity to the City in case of unexpected incident happening.

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Recommendation:

It is recommended that the management re-assess and reevaluate the risk involved and consider contracting out the services for transporting funds to the Treasurer's Office (Brinks Armored Security or others).

Management's Response

This has been repeatedly looked into and there is not a City of Saint Louis contract with a funds transportation service. This contract will have to be bid and contractually agreed upon. We will include a limit with our new procedures created in Opportunity #1.

5. Opportunity to Establish and Document Written Policy on Distribution of Excess Auction Monies (Repeated)

Auto Towing and Storage Division does not have a written policy approved by the management to determine what is considered Excess Auction monies and the distribution of the excess monies.

The Account Clerk II determined excess monies from the proceed of auction vehicles as it was explained to her. Currently, the balance from the auction proceeds after deducting the towing fees, storage and administrative fees is considered excess monies. The determined amount is deposited into a designated escrow account at the Treasurer's Office. At the end of each fiscal year, the Comptroller's Office transfers part of the balance on the escrow account to the general fund revenue account. Approximately \$111,925.00 was transferred to the general fund account during the fiscal year ended June 30, 2017. Balance on the escrow account was \$120,940.00 as of June 30, 2018.

The transfer of the balance in escrow account by the Deputy Comptroller to the City general revenue fund account is in line with **State Statute Section 447.090, RSMo** which provides, in pertinent part:

"If the rightful owner or his agent fails to demand such surplus within sixty (60) days of the time of such sale, then said surplus shall be paid into the county treasury, subject to the order of the owner."

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However, the process and calculations involved have not been documented. There is no evidence of a formal approval by management for the procedures adopted in determining the excess monies.

Written policies and procedures for determining and distribution of excess auction monies will ensure the procedures are:

- Effectively communicated and understood by staff.
- Accurately determined and consistently performed.
- Approved by management

Responsibility to develop written policies and procedures was not assigned. The Account Clerk II claimed to have better understanding of the procedures having been put through the process by the former Auto Towing and Storage Division Manager. She has been responsible for determining the excess monies from the auction of vehicles proceeds and depositing the amount into the designated Escrow account.

Lack of written procedures could result in the excess monies not accurately determined and not deposited into the appropriate account in case the Account Clerk is indisposed or resigns.

Recommendation:

It is recommended that management should:

- Document the procedures for determining the excess monies from the auction vehicles.
- Obtain and document approval of the procedures and communicate them to the responsible employees.

Management's Response

Internal Audit was provided with the formula that states which monies go to escrow and which funds are deposited into the general fund. This formula will be included in our procedures created in Opportunity #1.

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6. Documents Costs of Administering Auctions and Establish A Fee To Recover Costs (Repeated)

Based on telephone discussion with the Commissioner, the Division has an established administration fee which is assessed on each vehicle sold at the auction. The administration fee covers the costs of labor and paperwork involved in auctioning a vehicle. However, no documentation of how this fee was determined was provided despite the promise to make a copy available.

Good management practices require that management document the administrative costs of auctioning vehicles and update regularly to cover the costs of labor and paperwork involved in the process. The administrative fees charged should be set at a level sufficient to cover the costs of the auction process.

Authority was not delegated and responsibilities were not assigned.

The risk exists that the administrative fees if not documented may not be consistently applied to all auction vehicles. Cost of administering the auction may not be fully recovered

Recommendation:

It is recommended that the management:

- Document the administrative fees assessed on each vehicle sold at the Auction.
- Make copy available to the employees.
- Regularly review and obtain management approval for any upward review.

Management's Response

Internal Audit was provided with these costs as it is part of the escrow formula. This cost will be included in our procedures manual and updated as needed.