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**Audit of  
Department of Public Works  
Tow Lot Internal Controls**

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**W. MARTIN MORICS**  
City Comptroller  
City of Milwaukee, Wisconsin

February 2008

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Office of the Comptroller

February 8, 2008

W. Martin Morics, C.P.A.  
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To the Honorable  
the Common Council  
City of Milwaukee

Dear Council Members:

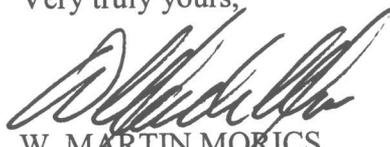
This report summarizes the results of our audit of internal controls in the Department of Public Works (DPW) Tow Lot. The objectives of the audit were to: evaluate the accuracy of towing and storage fees; evaluate the adequacy of internal controls over fee collection, vehicle inventory, and disposition of unclaimed vehicles; and evaluate the implementation of policies and procedures resulting from the Comptroller's 2002 audit of the Tow Lot.

The audit identified several control weaknesses that were subsequently corrected during the course of the audit. The audit also found that one recommendation from the Comptroller's 2002 Tow Lot audit concerning the timely posting and reconciling of Tow Lot revenues to the City's FMIS has yet to be implemented.

Audit findings and recommendations are discussed in the Audit Results and Recommendations section of this report, which is followed by DPW's response.

Appreciation is expressed for the cooperation extended to the Auditors by the staff of the Tow Lot.

Very truly yours,



W. MARTIN MORICS  
Comptroller

## **I Audit Scope and Objectives**

This is an audit of the internal controls of the City of Milwaukee Tow Lot. The Audit included observations of transactions performed at cashiering stations; observations of cash handling procedures, including cash drawer close-out and deposits; evaluation of the internal controls relating to the bidding for, and sale of, unclaimed vehicles, including the contract for the disposal of unsold vehicles; and a review of vehicle transfer records from March through June of 2007. The audit also included a review of the implementation of recommendations from the Comptroller's 2002 Tow Lot audit. The audit did not evaluate the quality and condition of the vehicles in inventory, sold, or disposed of under contract at the Tow Lot.

The objectives of this audit were to:

1. Evaluate the accuracy of towing and storage fees.
2. Evaluate the adequacy of internal controls over fee collection, vehicle inventory, and disposition of unclaimed vehicles.
3. Evaluate the implementation of policies and procedures resulting from the Comptroller's 2002 audit of the Tow Lot.

## II Organizational and Fiscal Impact

The Tow Lot, located at 3811 West Lincoln Avenue, is operated by the Parking, Towing and Enforcement Section within DPW's Administrative Services Division. Approximately 18 acres in size, the Tow Lot has 2,106 vehicle spaces. In the event additional spaces are needed, the Tow Lot has received permission to access the vacant Water Department property adjacent to the Tow Lot. Tow Lot operations run seven days a week, 365 days a year. Hours for vehicle reclamation and pick-up are from 8 AM to 6 PM Monday through Friday and 8AM to 12 PM on Saturday.

During 2006, the Tow Lot processed 30,712 vehicles, and generated \$5.8 million in revenues to the Parking Fund, an enterprise fund of the City. Given a typical week of operation, the Tow Lot processes an average of 95 vehicles and \$12,000 in deposits per day. Figure 1 is a schedule of Tow Lot revenues by revenue type.

Figure 1

	Amount	Percent of Total
Towing and Storage Fees	\$ 3,178,000	55.0%
Vehicle Sales	1,336,000	23.1%
Scrap Sales (Vehicles)	1,073,000	18.6%
Fines and Permits	149,000	2.6%
Leases	42,000	0.7%
 Total	 \$ 5,778,000	 100.0%

The largest revenue source of Tow Lot operations is from towing and storage fees, which were \$3.2 million in 2006, or 55% of total revenues. This revenue is generated by a towing fee of \$95 and a storage fee of \$20 per day for each day beginning after midnight of the day of the tow. Vehicle owners must pay the towing and storage fees to reclaim their vehicles.

Vehicles that are not reclaimed by their owners are either sold or scrapped. The second largest revenue source is from vehicle sales, which were \$1.3 million, or 23% of total revenues. Vehicles are sold through a bid process, termed J-Bid, which is open to pre-authorized bidders. According to J-Bid sales logs, the Tow Lot sold 2,614 vehicles in 2006. The Tow Lot announced an average of 46 vehicles for sale for each bid event and

received an average of 167 bids per event, for an average of 3.6 bids per vehicle. Of the 1,059 vehicles sold that were reviewed as part of this audit, the lowest priced sale was \$203 and the highest was \$11,885 with a median sale price of \$385.

Unclaimed vehicles not sold through the J-bid process are sold as scrap to Miller Compressing at an average contractual market price of \$150 per vehicle. This revenue source generated \$1.1 million in revenue in 2006, slightly less than 19% of total Tow Lot revenues. In addition to scrap purchases, Miller Compressing also leases space at the Tow Lot to dismantle and salvage vehicles. This lease payment was approximately \$42,000 in 2006.

Vehicle owners may pay their parking violations along with the towing and storing fees when reclaiming their vehicles. The Tow Lot interfaces with the Pam-Etech software system, the City's citation processing system, to identify fines due from parking violations. Vehicle owners are not required to pay their parking fines prior to reclaiming their vehicle, but may do so as a convenience. Night parking permits may also be purchased at the Tow Lot. Parking fines and permits sold at the Tow Lot were \$149,000 in 2006.

### **III Audit Results and Recommendations**

#### **1. Evaluation of the accuracy of towing and storage fees**

**The audit evaluated the calculation of towing and storage fees and found them to be accurate.**

The Tow Lot maintains a database of all vehicles in its inventory; this database is interfaced with the Tow Lot cashiering system. Towing and storage fees are automatically calculated based on vehicle intake. As most towing and storage fees are calculated automatically through the Tow Lot's vehicle intake system, error due to manual calculation is eliminated. The audit verified the accuracy of this automated system by selecting a judgmental sample and re-calculating towing and storage fees in that sample. This testing found the system to be accurate.

While the vast majority of towing and storage fees are automatically generated through the intake system, there are a limited number of instances where towing and storage fees are calculated manually. System generated fees can be overridden to allow for adjustments or waivers based on City Attorney and Municipal Court directives. Vehicle owners subject to these case specific directives must present copies of the directives prior to retrieving their vehicles. Tow Lot cashiers match the directives presented by the vehicle owners to copies faxed directly to the Tow Lot by the City Attorney's Office and the Municipal Court. The overriding adjustments or waivers are then manually entered by the cashiers. The audit evaluated a sample of these manual overrides and found their calculation to be accurate.

**The audit found adequate internal controls over the calculation of Tow Lot fees, including the manual calculation of adjustment and waivers.**

A system report of fee calculations is generated each day, including the adjustments and waivers that are manually calculated. This report is reviewed daily by the Tow Lot cashiering manager. In addition, prior to approval, the Tow Lot manager or the assistant Tow Lot manager reviews all adjustments and waivers, verifies the supporting documentation, and initials and dates all approved adjustments and waivers. The audit determined that through appropriate segregation of duties and required documentation, the process of calculating Tow Lot fees, including the manually calculated adjustments and waivers, is sufficiently controlled.

As stated earlier, vehicle owners may pay their parking violations along with the towing and storage fees when reclaiming their vehicles. These fines are extracted from the Pam-Etech citation processing system through an interface with the Tow Lot cashiering system. As the Pam-Etech system includes all parking violations written by the City and the payment of these violations at the Tow Lot constitutes a small portion of total parking violations paid, parking violations paid at the Tow Lot were considered to be outside the scope of this audit. As such the audit did not verify the accuracy or correctness of fines generated by the Pam-Etech system.

## **2. Evaluation of internal controls over fee collection, vehicle inventory, and disposition of unclaimed vehicles**

### **Fee Collection**

The Tow Lot has a written procedures manual that prescribes internal controls for cashiering. The audit determined that the Tow Lot's cash handling is in compliance with its written procedures manual. Specifically, the audit determined:

- The Tow Lot adheres to appropriate cashiering opening and closeout procedures as prescribe in the Tow Lot's cash handling procedures manual.
- Cash overage/shortage amounts are monitored by management, with an enforcement of a "three strike" policy as prescribed in the Tow Lot's cash handling procedures manual. This policy requires a verbal warning to a cashier after the first instance where a cash drawer's close-out overage or shortage exceeds \$20, a written warning after the second instance, and progressive disciplinary action, including termination for probationary or temporary employees, after the third instance.
- There is an appropriate separation of duties among cashiering staff and managers. Managers cannot operate the cashiering stations or access cash. Cashiers cannot override the system without a log-in by the cashiering manager. Managers must approve all system overrides by providing a date and signature.
- System controls appear to be adequate. There are adequate system transaction logs, several of which require managerial sign-off as part of daily operations. The cashier and head cashier must both log in and close the cash registers.

- Management constantly monitors Tow Lot operations either in person or by observing security camera video.

During the course of the audit, a number of control weaknesses were identified and disclosed to Tow Lot management. Prior to the conclusion of the audit, a follow-up site inspection by audit staff confirmed that these control weaknesses were addressed. The following weaknesses were corrected.

- **Waiver report sign-off:** A sample recalculation of towing fees charged to vehicle owners determined that the fees were calculated accurately and were approved according to Tow Lot guidelines. However, the audit observed that individual waivers were not signed and dated, but were marked with an "OK". Fee waivers are now initialed and dated by the person reviewing and approving the waiver for identification purposes, as recommended by the auditors.
- **Access to the cashiering area:** During observations of cashiering activities it was observed that one of the two doors to the cashiering office was unlocked. The unlocked door potentially provided access to the cashier's office to people other than authorized Tow Lot staff, including tow truck drivers and vehicle bidders. Both doors to the cashiering office now remain locked at all times, as recommended by the auditors. Electronic card key locks have been installed, allowing only authorized staff access to the cashier's office and providing management with a report of the individuals who have accessed the area.
- **Cash drawer access control:** The Tow Lot has three customer service windows, each with a cash drawer. Each cash drawer is locked, with the keys kept by the cashiers and Tow Lot cashiering manager. However, all cash drawers were identically keyed, allowing any cashier access all of the cash drawers. It was recommended that each cash drawer be uniquely keyed with that key being kept only by the assigned cashier and copies kept by the Tow Lot cashiering manager. A subsequent site visit during the audit confirmed that the cash drawer locks were re-keyed so that each cashier controlled only their own cash drawer and could not access any of the other cash drawers.
- **Access to vault/counting room:** During observations of cashiering activities it was observed that the door to the vault area was unlocked at the time cash counts were being conducted. It was observed that during one cash count, the cashier and head cashier were interrupted by other Tow Lot personnel entering the vault area. A cash close-out can total over \$2,000 for a typical shift. Counting this

amount of cash in an unsecured room that is accessible to unauthorized personnel presents a risk of theft. It was recommended that the vault door remain locked at all times, especially when cash counts are being conducted. A subsequent site visit verified that Tow Lot management had changed the door locks to a key card system, providing access to only the cashiers, the assistant cashiering manager, the cashiering manager and the Tow Lot manager. It was also observed that cash counts were occurring in the locked vault.

The audit verified that the control weaknesses identified were addressed by Tow Lot management. As such, the practices currently in place by the Tow Lot provide adequate controls over cashiering and are in compliance with the Tow Lot's own cash handling procedures manual.

### **Vehicle Inventory and Disposition**

**The audit evaluated the Tow Lot's internal controls over vehicle inventory and disposition of unclaimed vehicles and found them to be adequate.**

Vehicle security is adequate. Towed vehicles are stored in a secure facility that is locked, fenced, well lit and monitored by surveillance cameras 24 hours a day, 365 days a year. There is also a police presence at the Tow Lot during week days.

The audit determined that vehicle inventory records and supporting documentation are sufficient. The Tow Lot maintains an automated database of its entire inventory, which tracks vehicles from intake through release. This database is supported by intake and release documentation for each vehicle. All vehicles are tracked by a unique tow number and lot stall location code.

The audit found adequate internal controls over the release or disposition of vehicles. The Tow Lot's inventory database generates a report on each vehicle at the time it is to be released. These system generated reports are reviewed and approved by management prior to each vehicle's release. Vehicles are not released from the Tow Lot without appropriate supporting documentation. This applies to vehicles reclaimed by their owners, vehicles disposed of through the J-Bid process, and vehicles sold as scrap.

Owners reclaiming their vehicles are required to obtain from the Tow Lot cashier a receipt showing payment of the applicable towing and storage fees as well as an "out-

take” document. The “out-take” document includes a physical inspection report identifying any damage to the vehicle. Tow Lot personnel and the vehicle owner initial and date this “out-take” form prior to the release of the vehicle.

Vehicles that are deemed to have a value of \$200 or more and remain unclaimed for up to 30 days are sold to the highest authorized bidder through the J-Bid process. Each week, the Tow Lot posts a list of vehicles for bid at its facility. The J-Bid process is open only to preauthorized bidders who are allowed to view unclaimed vehicles on Tuesdays and Thursdays, accompanied by Tow Lot staff. Bidders are given until 12 PM on the Wednesday after the sale list is posted to submit their bids. Winning bids are posted on the Friday following the bid submittal date. Winning bidders have two days from the bid award date to make payment by check or money order prior to removing the vehicle from the Tow Lot.

Individuals acquiring vehicles through the J-Bid process must produce a receipt showing payment in the amount of the winning bid and a completed State title transfer form. Vendor invoices for J-bid sales are checked against logs of vehicle transfer by tow number. Payments are verified by the Tow Lot manager and also by staff at DPW Administration Division.

Vehicles that are not reclaimed by their owners or sold through the J-Bid process are recycled by Miller Compressing for a standard market based contract price per vehicle. Vehicles sold as scrap must be identified as scrap on the Tow Lot’s inventory database and have a receiver/receipt from Miller Compressing prior to release. As with J-Bid winners, vendor invoices for scrapped vehicles are checked against logs of vehicle transfer by tow number. Payments are verified by the Tow Lot manager and also by staff at DPW Administration Division.

### **3. Implementation of policies and procedures resulting from the Comptrollers 2002 audit of the Tow Lot.**

**The audit evaluated the implementation of policies and procedures resulting from the Comptrollers 2002 audit of the Tow Lot and found all but one of the 12 recommendations have been implemented.**

In 2002, the Comptroller audited Tow Lot operations and issued 12 recommendations. All but one of the recommendations have been implemented.

The audit found long delays in the posting of Tow Lot receipts and revenues to the City Financial Management Information System (FMIS) and in reconciling deposits and bank balances. DPW claims that FMIS systems problems delayed postings around March of 2006. However, untimely FMIS postings were also found in the 2002 audit.

Records from the Treasurer's Office indicate the posting of Tow Lot revenues has been sporadic. Deposits have been posted in batches rather than on a daily or weekly basis. For example, from March 14 through March 26, 2006, DPW posted 111 deposits or approximately nine weeks of business activity. DPW posted no activity until the May 7<sup>th</sup>. From May 7<sup>th</sup> through May 18<sup>th</sup> DPW posted 52 deposits or approximately four weeks of business activity. DPW made no further postings until October 26<sup>th</sup>. From October 26<sup>th</sup> to the end of the year, DPW posted 351 deposits. This ongoing batching of Tow Lot revenues has caused posting delays and leaves the City vulnerable to losses from bank errors, lost deposits, or missing checks. In addition bank reconciliations by the Treasurer's Office are also delayed by these practices.

### **Recommendation 1: Post Tow Lot revenues on a timely basis**

DPW should ensure that all Tow Lot revenues are reconciled and posted to the FMIS at least monthly.

### **J-Bid Sales**

In 2006 there was a criminal investigation involving the Tow Lot's J-Bid sales process. The outcome of the investigation resulted in criminal charges being filed. A conviction, terminations and disciplinary actions took place. In light of these events, this audit reviewed and analyzed six months worth of vehicle sales data and found no irregularities. However, the analysis revealed that 26 bids, or 2% of the sample, were awarded where the second highest bidder bid \$1 less than the winning bid. This may be coincidental, but it is notable that this occurred between the same two vendors in all instances. If this continues, it might indicate bidding collusion between vendors and warrant further investigation.

## **Recommendation 2: Monitor J-Bids**

In order to ensure that the Tow Lot is receiving competitive bids on its vehicles, Tow Lot management should periodically review J-Bids for any unusual activity and follow-up accordingly.

This analysis could include analyzing winning bids within dollar ranges and evaluating single bids where management expects multiple bidders. Vendors should be made aware of these monitoring efforts. This will improve the overall J-Bid process and reduce the potential that vendors work together in obtaining vehicles at a lower than market price.



Department of Public Works

**Jeffrey J. Mantes**  
Commissioner of Public Works

**James P. Purko**  
Director of Operations

January 23, 2008

Mr. W. Martin Morics  
City Comptroller  
City Hall, Room 404

Re: Audit of Tow Lot Internal Controls

Dear Mr. Morics:

We are in receipt of the audit of the Tow Lot Internal Controls. We appreciate the opportunity to work with your staff in evaluating the accuracy of towing and storage fees, and evaluating the adequacy of internal controls over fee collection, vehicle inventory and disposition of unclaimed vehicles.

As you know, in 2006 the Tow Lot processed over 30,000 vehicles. In addition, nearly \$5.8 million was generated from towing and storage fees, J-Bid sales, recycling sales, fines and permits and a lease agreement. Consequently, the Tow Lot must have adequate internal controls in place to efficiently and effectively process large numbers of vehicles and revenue on an annual basis. We are very proud of the outstanding work that the Tow Lot staff performs, often times under very difficult circumstances.

The audit found that towing and storage fees were calculated accurately including manual calculation of adjustments and waivers. In addition, the audit found that the Tow Lot's cash handling was in compliance with written procedures. Four control weaknesses were identified in the audit, which have since been addressed by the staff. Further, the Tow Lot's internal control over vehicle inventory and disposition of unclaimed vehicles was found to be adequate.

The audit makes two recommendations. Our response follows each recommendation.

**Recommendation:** The audit recommends that all Tow Lot revenues be reconciled and posted to the FMIS at least monthly. This was a similar finding in the 2002 audit.

**DPW Response:** The process of reconciling daily receipts from the Tow Lot is very labor intensive due to the volume and type of payments and the different purposes for which payments are made. The data is used by the Tow Lot staff and parking administrative staff to create various reports that aid in the reconciliation process. Because the data is often entered multiple times, errors can occur, slowing down the reconciliation process. Upon further examination, the department has determined that a resolution lies in making the process more efficient and effective, not allocating additional resources. To improve the reconciliation process, the department will develop an application in the first quarter of 2008 to track daily Tow Lot receipts. Creating an application will minimize errors, create multiple reports for staff and provide for better management of the reconciliation process.

**Recommendation:** In order to ensure that the Tow Lot is receiving competitive bids on its vehicles, Tow Lot management should periodically review J-Bids for any unusual activity and follow-up accordingly.

This analysis could include analyzing winning bids within dollar ranges and evaluating single bids where management expects multiple bidders. Vendors should be made aware of these monitoring efforts. This will improve the overall J-Bid process and reduce the potential that vendors work together in obtaining vehicles at a lower than market price.

**DPW Response:** Under the J-Bid process, all bids are submitted as closed bids and every bid is reviewed by at least two managers. Vendors do have access to the J-Bid summary report, which shows the bidding history of each vehicle. In addition, all vendors keep track of the current scrap metal values as well as the "book" value of each vehicle and bid accordingly. Therefore, the bids do not differ significantly.

Staff reviews any "unusual" bids where the prices range within 1%. Any vendor found falsifying bids or found to be in collusion with other vendors will have their bidding privileges permanently revoked. Further, any bids that do not achieve the current wholesale market price are rejected and sent to a secondary independent auction. In order to ensure that the Tow Lot is receiving competitive bids on vehicles, the Tow Lot staff works to ensure that competition is maximized by registering as many eligible vendors as possible and ensuring the bidding process is fair and equitable for all prospective vendors. In 2006, there were 49 vendors that bid on vehicles at the Tow Lot and 3.6 bids per vehicle. Although the number of vendors will fluctuate annually due to the economics of the salvage business and the number of vehicles made available through the J-Bid process, focusing on maximizing competition will continue to be a high priority for Tow Lot management.

Mr. W. Martin Morics  
January 23, 2008  
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We sincerely appreciate the opportunity to respond to this audit and to work with the auditing staff of the Comptroller's Office.

Very truly yours,



Jeffrey J. Mantes  
Commissioner of Public Works

JJM:DRF:ph

c: Dorinda Floyd  
David Lawrence  
Louis Black  
File