



**Audit of
City of Milwaukee
Department of Public Works
Tow Lot**

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

March 2002

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Office of the Comptroller

March 15, 2002

W. Martin Morics, C.P.A.
Comptroller

John M. Egan, C.P.A.
Deputy Comptroller

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Special Deputy Comptroller

Anita W. Paretto, C.P.A.
Special Deputy Comptroller

To the Honorable
the Common Council
City of Milwaukee

Dear Council Members:

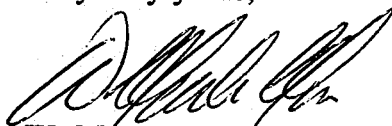
The attached report summarizes the results of our Audit of the Department of Public Works (DPW) Tow Lot. The scope of the audit included internal controls governing Tow Lot operations and the procedures utilized to execute such operations. The objectives of the audit were to determine whether towing and storage fees are calculated accurately, evaluate the adequacy of internal controls over fee collection, evaluate internal controls over contracts with and fees paid to Tow Lot vendors, determine whether the security of towed vehicles and Tow Lot offices is adequate and evaluate the procedures for inventorying and tracking towed vehicles.

The audit disclosed that towing and storage fees are calculated accurately. Fee collection procedures are adequate, but improvements are needed in procedures governing the waiving of fees, in limiting access to the Tow Lot safe and in the timeliness with which deposit information is provided to the Office of the City Treasurer. Controls over vendor payments are adequate, but improvement is needed in monitoring of vendor compliance with towing contract insurance requirements. Regarding the physical security of towed vehicles, improved monitoring is needed to ensure that locks are not left open and that unauthorized individuals are restricted from the cashiering area. The audit also disclosed that procedures for inventorying towed vehicles are adequate. The audit makes 12 recommendations for improvements in Tow Lot procedures. The Department of Public Works response indicates that they have implemented or will implement all recommendations.

Audit findings and recommendations are discussed in the Audit Results and Recommendations section of the report, which is followed by the Department of Public Works response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Department of Public Works.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Martin Morics', written in a cursive style.

W. MARTIN MORICS
Comptroller

AUDIT SCOPE AND OBJECTIVES

AUDIT SCOPE AND OBJECTIVES

The scope of this audit included internal controls governing Tow Lot operations and the procedures utilized to execute such operations. The audit included interviews of Tow Lot staff and observation of Tow Lot procedures, as well as examination of records supporting towing and storage fees assessed and collected, fees paid to Tow Lot vendors and the inventory and tracking of towed vehicles. The audit also included the observation and evaluation of the physical security of cashiering operations and of towed vehicles.

The objectives of this audit were to:

1. Determine whether towing and storage fees are calculated accurately.
2. Evaluate the adequacy of internal controls over fee collection.
3. Evaluate the internal controls over contracts with and fees paid to Tow Lot vendors.
4. Determine whether the security of towed vehicles and Tow Lot offices is adequate.
5. Evaluate the adequacy of procedures for inventorying and tracking towed vehicles.

**BACKGROUND AND ORGANIZATIONAL
AND
FISCAL IMPACT**

BACKGROUND AND ORGANIZATIONAL AND FISCAL IMPACT

The Tow Lot, located at 3811 West Lincoln Avenue, is operated by the Department of Public Works-Administrative Services Division Parking, Towing and Enforcement Section. The Tow Lot has two contracts with CHI Towing, Inc. for towing of vehicles to the Tow Lot that are illegally parked, abandoned or constitute a health nuisance. Under a third contract, CHI tows vehicles that are valued at less than \$200 and are to be recycled from the Tow Lot to Miller Compressing. CHI utilizes subcontractors to assist with City of Milwaukee towing during high-demand periods.

The Tow Lot is approximately 18 acres in size and has 2,106 spaces for vehicles. In the event more space is needed, there is an auxiliary lot available at the Summerfest Grounds. During 2001, the Tow Lot received 31,646 cars, a 14 percent increase from 2000. A vehicle can be towed if it has two or more unpaid parking citations, has been abandoned, is illegally parked, or has been identified as a health nuisance by the Department of Neighborhood Services. The Tow Lot is only responsible for collecting towing and storage fees, not citation fees. A representative of the City Attorney's Office stated that the due process provisions of the 14th Amendment to the U.S. Constitution prohibit the City from retaining a vehicle from its owner until all citation fees have been paid. Owners can reclaim their vehicles by presenting payment, adequate proof of ownership, and proper identification (i.e. state ID or Driver's License). Payments are accepted via cash, money order, cashiers check, or credit card. Actual revenue from towing operations was \$3,177,000 in 2000.

The Tow Lot, which is staffed by DPW employees, uses software provided by a joint venture of Professional Account Management and Enforcement Technology, Inc. (PAM/ETEC) to control its cashiering activities and to manage its inventory of towed vehicles. PAM/ETEC is the vendor responsible for citation processing, cashiering and other related services for the City. PAM/ETEC began work as the City's citation processing vendor on May 1, 1998.

**AUDIT RESULTS
AND
RECOMMENDATIONS**

AUDIT RESULTS AND RECOMMENDATIONS

1. Accuracy of Calculation of Towing and Storage Fees

The audit disclosed that towing and storage fees are calculated accurately.

At the time the audit fieldwork was performed, vehicle owners were charged \$80 per tow plus \$11 per day for storage. On January 1, 2002, fees were increased to \$95 per tow and \$20 per day for storage. The Tow Lot uses the PAM/ETEC software to calculate towing and storage fees. This system calculates each vehicle owner's total fees due. The audit included a manual recalculation of a sample of towing and storage fees. No discrepancies were found.

2. Internal Controls Over Fee Collection

The audit disclosed that fee collection procedures are adequate. However, improvements are needed in procedures governing the waiving of fees, in limiting access to the Tow Lot safe and in the timeliness with which deposit information is provided to the Office of the City Treasurer.

In order to reclaim a vehicle from the Tow Lot, vehicle owners must pay all towing and storage fees, provide proof of vehicle ownership, and provide proper identification. Fees must be paid to Tow Lot cashiers, who record the transactions on the cashiering system, provide a receipt to the vehicle owner and authorize lot attendants to release the vehicle. At the close of each day, each cashier closes out his or her cashiering station, counts the amount collected and verifies that the amount agrees with cashiering system totals. A second person authenticates the count and verification. The day's receipts are then placed in the safe. A courier deposits the fees in the bank the following morning. The audit included observation of cashiering procedures and reviewed documentation authorizing the release of vehicles and determined that the proper procedures were followed.

Towing and storage fees are waived when written authorization is granted by the Milwaukee Police Department or the Office of the City Attorney and when unclaimed vehicles are sold or recycled. A vehicle owner must present this written authorization, along with a certificate of title and a valid photo ID, to a Tow Lot cashier to retrieve his

or her vehicle. The cashier then enters the amount to be waived into the cashiering system. If the full amount is waived, the amount due will reflect a zero balance and the car will be released from the lot. One lot attendant, three vehicle intake booth operators, five cashiers and six backup employees have the necessary system access to waive fees. Tow Lot management does review fee waivers to determine whether waived fees are supported by appropriate authorization. However, management is not able to ensure that all fee waivers are submitted for approval. Tow Lot personnel stated that they did not know of a way to obtain a list of all fee waivers processed from the cashiering system. The number of individuals who have system access to waiver transactions and the lack of supervisory review could allow unauthorized fee waiver transactions to be completed.

Recommendation 1:

Designated Tow Lot supervisors should review and approve all waivers. Tow Lot management should contact PAM/ETEC to determine whether the cashiering system could require supervisory approval of all fee waiver requests. An alternative could be a report listing all waiver requests for "batch" supervisory review and approval as appropriate. A system modification may be necessary. The Tow Lot should also reduce the number of individuals who have the necessary system access to waive fees. Only the on-site supervisor should approve a waiver.

Written authorizations for fee waivers from the Milwaukee Police Department include the tow number, the name of the vehicle owner, the make and model of the vehicle, the license number, the vehicle identification number, the date of the waiver and the signatures and payroll numbers of the Police officer and supervisor authorizing the waiver. Written authorizations received from the Office of the City Attorney include the tow number, the name of the vehicle owner, the date of the waiver and the initials and payroll number of the person authorizing the waiver. Some, but not all written authorizations include the reason for the waiver.

Recommendation 2:

To ensure that waivers are appropriate, a standard waiver form should include the vehicle, vehicle owner name and date of birth, license number, date of waiver request, waiver disposition and reason for granting or rejecting the waiver.

The audit disclosed that six individuals know the combination to the safe in which the day's receipts are stored. The number of individuals with access to the safe increases the risk that receipts could be misappropriated. While any loss of money could be identified daily through comparison of amounts collected to the cashiering system record, it would be difficult to identify the person responsible for a loss.

Recommendation 3:

To minimize the risk of loss or misappropriation of receipts, the Tow Lot should reduce the number of individuals with access to the safe.

When a cashier goes on break or to lunch, a back-up cashier covers the cashiering station. The cashiering system currently does not allow a cashier to sign off temporarily. In order for a cashier to sign off for lunch/break, the cashier has to completely close out and count the cash drawer as if it were the end of the day. This system limitation requires cashiers to expend unnecessary time (1-1½ hours per day per cashier) and increases the number of documents involved in the Tow Lot Assistant Manager's daily review of cashier reconciliations.

Recommendation 4:

The Tow Lot should work with PAM/ETEC to modify the cashiering system to allow a cashier to sign off and be replaced temporarily without requiring complete close-out.

Daily deposits of receipts are made by a courier service. The Tow Lot provides copies of the bank deposit slips to the DPW Parking Office located at 841 N. Broadway on a daily basis. The DPW Parking Office records the deposits on the City's accounting system and sends documentation of the deposits to the Office of the City Treasurer. Deposit information is only sent to the Office of the City Treasurer on a monthly basis. Treasurer's Office personnel stated that this causes a delay in the investment of this money as well as delaying their reconciliation process.

Recommendation 5:

For more timely investment of City funds, DPW should provide documentation of deposits of Tow Lot receipts to the Office of the City Treasurer at least weekly.

3. Internal Controls over Tow Lot Vendor Contracts and Payments

The audit disclosed that controls over vendor payments are adequate. However, improvement is needed in monitoring of vendor compliance with towing contract insurance requirements.

The Tow Lot's major vendor is CHI Towing Inc., which holds all four of the City's towing contracts. CHI is assisted by five subcontractors. In addition, the Tow Lot obtains office supplies, equipment maintenance, etc. from vendors selected from the City's approved vendor list. The audit reviewed three of the vendor files maintained at the Tow Lot for questionable or duplicate payments. No exceptions were noted.

The towing contracts require CHI to have both a performance and payment bond in the amount of \$30,000. The contracts also require a minimum of \$1,000,000 of general liability insurance. The Tow Lot does not maintain adequate documentation showing that the necessary liability insurance is in force. During the audit, current insurance documentation was requested from CHI for themselves as well as the sub-contractors utilized to service the Tow Lot contracts. CHI and the Tow Lot were unable to furnish any proof of insurance for CHI. Also, two of the sub-contractors fall below the required liability insurance amount.

In the event of a mishap that results in damages exceeding the contractors' insurance liability limits, the lack of adequate insurance coverage poses financial risk to the City.

Recommendation 6:

Tow Lot management should require each of its vendors and subcontractors to immediately comply with insurance contract requirements. Tow Lot management should also establish a procedure to enforce contractual requirements regarding liability insurance, including obtaining annual vendor proof of adequate liability insurance.

4. Security of Towed Vehicles and Tow Lot Offices

The audit disclosed that the physical security of towed vehicles is generally adequate. However, auditors observed instances when security gates were left unlocked. In at least one instance, this oversight may have led to the unauthorized removal of a towed vehicle. A capital project is planned for 2002 that will improve security.

Improved monitoring is needed to ensure that locks are not left open and that unauthorized individuals are restricted from the cashiering area and from managers' computers.

The Tow Lot uses both secured fencing and surveillance cameras to ensure that vehicles maintained on the lot are protected. Access to the main lot requires either a key to the padlock on a secondary gate or an electronic gate opener for the main entrance gate. This lot along with the Tow Lot lobby and offices are monitored via surveillance cameras. The cameras cover various angles of the Tow Lot, cashier stations, and office area. The cameras are on 24 hours a day and are monitored by the Tow Lot Assistant Manager and the employees in the vehicle intake booth.

Unclaimed vehicles worth less than \$200 are recycled rather than sold. Vehicles scheduled to be recycled are kept in a lot separate from the main lot. There is a secondary gate in the main lot fence which allows off street access to the lot and through which vehicles are moved to the recycle lot. This gate is secured by a padlock. During the audit, this padlock was observed to be unlocked several times. A vehicle was stolen from the Tow Lot during the audit and may have been removed via the unlocked gate. Currently there is a project in process to upgrade the physical structure of the Tow Lot. This project will include converting this gate to an electronic gate similar to the main entrance gate. This improvement is scheduled to be completed in the first few months of 2002.

Recommendation 7:

Management should perform random checks during and at the end of the business day to ensure that the all gates are locked to minimize the chances for any future theft. Tow Lot Management should follow through with its plans to improve the main lot's secondary gate entrance.

A DPW-Water Works facility is located next to the Tow Lot. Tow Lot personnel stated that large Water Works trucks are parked close enough to the Tow Lot fence to allow unauthorized individuals to climb the trucks to propel themselves over the fence. An instance occurred in which an unauthorized person(s) climbed a Water Works truck and gained access to the lot. Once on the grounds the individual(s) shattered several car windows that had to be replaced at the expense of the Tow Lot.

Recommendation 8:

DPW-Water Works should no longer park trucks next to the Tow Lot fence.

During the audit, it was noted that unauthorized individuals occasionally entered the cashiering area. These individuals included employees' relatives, postal workers, delivery people, and individuals bidding on unclaimed vehicles. Unauthorized individuals in this area could distract cashiers and could be responsible for the loss or misappropriation of cash receipts.

Tow Lot personnel stated that a capital project is planned which will reduce the number of people entering the cashiering area. Security doors with badge access will be installed to seal off this area. Currently, this is an open area separated only by an unlocked half door.

Recommendation 9:

Tow Lot Management should clearly identify those cashiers and supervisors who may enter the cashiering area, prohibiting any unauthorized entry. Signs should also be posted indicating that access to the cashiering area is restricted. Any unauthorized individuals who gain access to the area should be escorted out immediately. The planned security improvements restricting access to the cashiering area should be completed.

Tow Lot supervisors' offices are not locked during business hours. The audit noted occasions when a supervisor was logged on to a computer but was not in his or her office when another individual was in that office. Since supervisors have access to computer system functions not available to all employees, this could result in someone performing unauthorized transactions.

Recommendation 10:

Tow Lot supervisors should activate the screensaver password on their computers to minimize the possibility of unauthorized transactions.

5. Inventorying and Tracking of Towed Vehicles

The audit disclosed that procedures for inventorying and tracking towed vehicles are adequate. An audit sample of 11 vehicles on the lot was traced to the computer inventory records. A second audit sample of 18 vehicles on the computer inventory records was traced to the vehicles on the lot. No errors were found.

6. Other Audit Observations

As described in the Background and Organizational and Fiscal Impact section of this report, the Tow Lot releases vehicles to their owners upon payment of towing and storage fees. Owners are not required to pay for unpaid citations. Tow Lot personnel stated that there have been instances in which cars have been towed multiple times for the same unpaid citations. A member of the City Attorney's staff stated that the due process provisions of the 14th Amendment to the U.S. Constitution prohibit the City from requiring owners to pay citation fees to obtain their vehicles. The audit disclosed that a number of other cities, including Columbia, Missouri, Ann Arbor, Michigan and Canton, Ohio, do require payment of outstanding citation fees before vehicles are released.

Recommendation 11:

Tow Lot management should request a formal City Attorney's opinion regarding the legality of requiring payment of citation fees before vehicles are released to owners. The opinion should also address the legality of lesser requirements which may assist in collecting unpaid citation fees. For example, it may be possible to require vehicle owners to make partial payments or to agree to a citation payment plan. Alternatively, it may be possible to require owners to attend court proceedings regarding the unpaid citations. If vehicle owners have outstanding unpaid citations, it would be irresponsible not to make all efforts that are legally permissible to collect the amounts owed.

Vehicle towing and storage fees are established by action of the Common Council. As noted earlier, these fees were increased as of January 1, 2002 in response to a request by DPW. The new fees were based on a review of towing and storage fees charged by other cities. Prior to this change, these fees had not been increased since 1998.

Recommendation 12:

Tow Lot management should review towing and storage fee levels and request adjustments in those fees on a regular basis, either annually or biennially. The requested fees should be based on the full cost of towing and storing vehicles as well as fees charged by other cities. Costs to be considered in establishing fees should include overheads including indirect and central service costs. Tow Lot management may wish to obtain the assistance of the Office of the Comptroller in using the City's indirect cost plan to obtain these costs.

It has been the Tow Lot's practice to hold unclaimed vehicles valued at less than \$200 for 22 days before sending them to be recycled. Due to concerns that the Tow Lot's capacity could be exceeded by the number of cars towed at certain times, DPW requested an opinion from the City Attorney regarding whether this holding period could be decreased. A City Attorney's opinion dated October 3, 2001 stated that the period can be reduced to 15 days after notice has been sent to the owner's last known address to provide the owner an opportunity to challenge the tow and the calculation of fees. Accordingly, as of January 1, 2002, the Tow Lot reduced the holding period for vehicles worth less than \$200 to 15 days after notice has been sent.

DEPARTMENT RESPONSE



Department of Public Works

Mariano A. Schifalacqua
Commissioner of Public Works
James P. Purko
Deputy Commissioner of Public Works

March 13, 2002

Mr. W. Martin Morics, CPA
Comptroller
Office of the Comptroller
Room 404, City Hall


RE: Response to Tow Lot Comptrollers Audit

Dear Mr. Morics:

Enclosed is a copy of our Audit Response Report entitled "Audit of City of Milwaukee Department of Public Works Tow Lot." We request that you review this report before Common Council submission so that we may discuss it and make any necessary changes.

A member of my staff will contact you to make any modifications. If you have any questions about this matter, please contact Mr. David Lawrence, Towing and Meter Manager at 286-5974.

Very truly yours,


Mariano A. Schifalacqua
Commissioner of Public Works

MAS:DAL:cp

Enclosure (1)

c: Dorinda Floyd
Tom Sanders
David Lawrence
FILE

City of Milwaukee

Tow Lot

Department of Public Works Response

Friday, February 15, 2002

Audit of City of Milwaukee
Department of Public Works
Tow Lot

Departmental Response

Recommendation No. 1: Management Review of Waivers

- Tow Lot Managers will review, approve and sign each waiver. The Tow Lot Manager will reconcile waivers with the PAM TECH waiver report on a monthly basis. The Manager will identify any inconsistencies and take the appropriate actions.
- a) A Manager's signature as defined below is required on all waivers effective March 1, 2002.
 - b) PAM/ETECH will create a waived fees report by April 1, 2002.
 - c) The Tow Lot Manager will review and reconcile each waiver and take appropriate corrective actions when necessary.

Managers Authorized to Review Waivers

<input type="checkbox"/>	Tow Lot Manager
<input type="checkbox"/>	Assistant Tow Lot Manager
<input type="checkbox"/>	Salvage Supervisor
<input type="checkbox"/>	Office Supervisor

Recommendation No. 2: Waiver Information Revisions

Tow Lot Management in cooperation with the City Attorney's Office and the Milwaukee Police Department will work to standardize waiver forms. This form will include officer name, supervisor authorizing the waiver, city attorney name, name of vehicle owner, date of waiver, reason for waiver and authorizing signature.

- DPW met with the City Attorney's Prosecution Division on Friday February 22, 2002. A plan to reconcile inconsistencies and improve communications was established.

Recommendation No. 3: Cash Security

The combination for the safe has been changed. Only Tow Lot Managers (previously listed) will have access. The safe will be moved to the secure Cash Counting Room which is under constant video surveillance.

- a) The safe combination has been changed.
- b) A secure, designated cash counting area has been constructed.
- c) Continuous, time activated digital video surveillance of all cash handling areas has been installed.
- d) A Manager will secure, verify and reconcile daily cash receipts prior to pickup by armored vehicle contractor.
- e) The facility will be rekeyed by March 1.

Recommendation No. 4: Logging out Cashiers

The Cashiering System has been modified to include a third payment window and cash register.

- a) Each cashier will reconcile his or her cash drawers at the end of the shift.
- b) A Manager will verify and reconcile cash receipts and sign out each cashier.
- c) A cashier who has been designated to cover for another cashier on break will use the third register.
- d) Registers will be locked when not in use.

Recommendation No. 5: Monthly Tow Deposits

The DPW-Administration will send tow deposits to the Treasurer's Office on a weekly basis instead of on a monthly basis.

Recommendation No. 6: Contractor Insurance Reviews

Insurance certificates for all Towing Contractors and Sub-Contractors will be sent to the DPW Contract Administration Office for each renewal. The certificates will be evaluated for compliance.

Current insurance certificates are being reviewed and deficiencies will be corrected within contract specifications.

Recommendation No. 7: Site Security

- a) The Manager on duty is required to perform a facility check after the Tow Lot has closed to the public.

- b) Automatic gates and closing systems have been installed to each gate.

Recommendation No. 8: Large Water Department Trucks Parked near Gates

The Department will contact the Water Department to review parking arrangements at the Water Department facility.

Recommendation No. 9: Restricted Entry Cash handling

The Cash Handling Area will be restricted to cashiers and managers only. The Customer Service Office has been moved to a separate area. No customers, contractors, bidders, or unauthorized employees will be allowed in this area.

- All persons entering the Tow Lot must sign in and wear an ID badge.
- Entrance to these areas will require sign-in and all areas will be posted accordingly.
- The Cash Handling Area will be closed to all traffic during nightly register closeouts.

Recommendation No. 10: Password Security on Computers

Screen Saver Passwords have been installed on all computers.

Recommendation No. 11: Opinion Regarding Required Citation Payment at Tow Pickup

DPW will request an opinion from the City Attorney's Office regarding this issue.

Recommendation No. 12: Scheduled Fee and Storage Increases

The Common Council has the sole authority to increase or decrease towing and storage fees. The 2002 towing and storage fees were increased as part of the 2002 budget.

Tow Lot Management will evaluate the fee structure annually to determine whether fees are sufficient to cover operational costs and will make recommendations accordingly.