



Richmond City Council

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Richmond, Virginia

OFFICE OF THE CITY AUDITOR

REPORT # 2011-04

AUDIT
Of the

Citywide Towing Contract

December
2010

OFFICIAL GOVERNMENT REPORT

Richmond City Council
OFFICE OF THE CITY AUDITOR

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*Committed to increasing government efficiency, effectiveness,
and accountability on behalf of the Citizens of Richmond.*

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City of Richmond
City Auditor

Executive Summary

December 14, 2010

The Honorable Members of Richmond City Council
The Richmond City Audit Committee
Mr. Byron C. Marshall, CAO

Subject: Towing Contract Audit

The City Auditor's Office has completed an audit of the City's towing service contract. The objectives of the audit were to:

- Evaluate compliance with the contract terms;
- Evaluate the effectiveness and efficiency of towing services provided under the contract; and
- Evaluate the internal controls with regard to the vendor selection process and contract administration pursuant to City policy.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Salient Findings:

- The auditors concluded that the overall internal controls in the towing contract are inadequate. The contract administration responsibilities are not clearly assigned to a particular department or individual. Accordingly, no one is administering this contract. In this situation:
 - The vendor's compliance with contract terms may not be assured;
 - The receipt of all revenues due the City may not be verified; and
 - Services may not be furnished, received, invoiced and paid as specified in the contract's terms and conditions.
- There are no formal procedures available to provide instruction on the administration of the towing contract or to train new employees on this task. Without such procedures, consistent contract administration is difficult.
- Neither RPD nor Fleet Services personnel referred to a price list to confirm appropriateness of the prices being charged by the vendor. Controls over the verification of revenue received from the vendor are inadequate. Under the current process there is a risk that all citations may not be accounted for. Missing citations may result in lost revenue.

- Currently, citizens whose cars are missing have to call RPD to find if the vehicles are towed or possibly stolen. This can be a time-consuming and discouraging process. Providing towed vehicle information online would significantly improve customer service.

The City Auditor's Office appreciates the cooperation of the Richmond Police Department, Fleet Services and the City Department of Finance. Please contact me for questions and comments on this report.

A handwritten signature in black ink, appearing to read "Umesh Dalal", with a long horizontal flourish extending to the right.

Umesh Dalal, CPA, CIA, CIG
City Auditor

#	COMPREHENSIVE LIST OF RECOMMENDATIONS CITYWIDE TOWING CONTRACT AUDIT 2011-04	PAGE
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2	<i>Develop formal detailed procedures for monitoring the towing contract that can be used for reference and training.</i>	4
3	<i>Provide appropriate training to the towing contract administrator and all others assigned contract administrative duties.</i>	4
4	<i>Develop and use a checklist that identifies all towing contract deliverables (e.g., timeliness of response to towing requests) to gain assurance of compliance and proper performance.</i>	4
5	<i>Have RPD and Revenue Administration agree on control procedures to ensure that all public towing tickets written by RPD are coded "424" and received by Revenue Administration in a timely manner to facilitate timely and effective vendor revenue reconciliations.</i>	6
6	<i>Require Revenue Administration to work with DIT to develop an automated reconciliation and identification of exceptions between the vendor's records and Revenue Administration's records, if found to be cost effective.</i>	6
7	<i>Have Revenue Administration and the Richmond Police Department work with DIT to develop a City Internet website that will enable citizens and visitors to find and recover their towed vehicles with greater ease and promote the more efficient and effective use of RPD personnel.</i>	10

Introduction

Introduction

The City Auditor's Office has completed an audit of the City's towing service contract. The audit period covered towing activities from July 2008 through February 2010. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Management Responsibility

The management of the City of Richmond is responsible for maintaining relevant records and maintaining a system of internal accounting and management controls. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of the project and the control procedures.

Objectives and Methodology

The objectives of the audit were to:

- Evaluate compliance with the contract terms;
- Evaluate the effectiveness and efficiency of towing services provided under the contract; and
- Evaluate the internal controls with regard to the vendor selection process and contract administration pursuant to City policy.

Auditors employed the following methodologies to complete this audit:

- Interviewed management, staff and the vendor;
- Reviewed relevant policies and procedures;
- Reviewed financial data, supporting documents and data flows;
- Tested calculations for accuracy; and
- Conducted other tests as deemed necessary.

Background

The primary users of the towing contract are the Fleet Management Division of the Department of Public Works (Fleet) and the Richmond Police Department (RPD). Fleet Management depends on the vendor to provide towing service for City vehicles. RPD uses the vendor to tow vehicles that are abandoned, cited for parking violations, or held for investigation. Both Fleet and RPD use the vendor for jumpstarts and lockouts at the contracted rate.

***Recent Contract
Renewal***

The vendor was awarded the towing contract at the conclusion of the City's competitive bidding process which was reviewed during the audit. The new contract increases the City's profit share on tows from \$15 to \$19. If a proposal to City Council is passed to raise the standard towing rate to \$95, then the City's profit share would rise from \$19 to \$22 per tow. The auditors estimated the annual increase to the City to be about \$25,000.

The new contract also provides free standard towing and free roadside assistance for City vehicles within the City limits. The new contract's maximum annual expenditure limit is reduced from \$100,000 to \$9,295.

Observations and Recommendations

Internal Controls

According to Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance.

***Overall internal
controls for the
towing contract
are inadequate***

Based on the audit methodology employed, auditors concluded that the overall internal controls in the towing contract are inadequate, primarily for the following reasons:

1. Inadequate contract administration

The contract administration responsibilities are not clearly assigned to a particular department or individual. Accordingly, no one is administering this contract.

***Currently, contract
administration
responsibilities are not
assigned to a specific
department or individual***

In this situation:

- The vendor's compliance with contract terms may not be assured;
- The receipt of all revenues due the City may not be verified; and
- Services may not be furnished, received, invoiced and paid as specified in the contract's terms and conditions.

The Commonwealth of Virginia has the following requirements for contract administration:

- "All continuous or term contracts shall be assigned to an administrator in writing.

- A contract checklist should be developed for each contract. This checklist or chart is developed directly from the contract by extracting specific requirements.
- Specific delegated tasks should be outlined in the designation letter which may include acceptance of goods or services, approval of invoices, scheduling and monitoring of project progress, coordination of the provision of agency or other resources when part of the contract, and favorable or critical feedback to the contractor and buyer.”

The above appear to be prudent contract administration guidelines. Establishing and mandating guidelines similar to these would improve the contract administration process.

2. Lack of formal policies and procedures

There are no formal procedures available to provide instruction on the administration of the towing contract or to train new employees on this task. Without such procedures, consistent contract administration is difficult.

Recommendations:

- 1. Designate a contract administrator for the towing contract to ensure the vendor's and the City's compliance with the contract terms.***
- 2. Develop formal detailed procedures for monitoring the towing contract that can be used for reference and training.***
- 3. Provide appropriate training to the towing contract administrator and all others assigned contract administrative duties.***
- 4. Develop and use a checklist that identifies all towing contract deliverables (e.g., timeliness of response to towing requests) to gain assurance of compliance and proper performance.***

Accountability

According to the contract terms, the vendor was authorized to charge \$60 per tow to citizens cited for violations and remit \$15 of that charge to the City. The vendor submits electronic files and a paper report of monthly parking citation activities along with a check to the Revenue Administration Division.

Variety of Citation Codes Used by RPD

RPD officers use a variety of standard 3-digit codes printed on the citation to describe the violation, such as:

- “423” - for parking in a tow away zone;
- “424” - for a vehicle towed for a traffic violation;
- “434” - for parking in a prohibited alley;
- “443”- for parking in a prohibited area of highway or part thereof
- “447” - for parking within 20 feet of a crosswalk or intersection.

Controls over the verification of revenue from the vendor are inadequate

RPD is required to identify tows that qualify for a \$15 remittance as “424”. However, they used other codes as described above for such tows. This creates a problem for the Revenue Administration Division, which only tracks citations with a “424” violation code into its database system. The use of non-424 codes by RPD prevents Revenue Administration from verifying the accuracy of the tows reported by the vendor and related revenues due to the City. The auditors compared the electronic files obtained from the vendor and the Revenue Administration’s Clancy System for the period of June 16, 2008 through December 31, 2009. Auditors found that only 6,410 records matched out of a possible 9,065 records, a 29% difference.

The paper tow tickets are transported manually from RPD to the Revenue Administration Division, and there is no control procedure to ensure that Revenue Administration has received all of the tickets from

RPD. Under the current process, Revenue Administration waits about two months before comparing the vendor's reported activity against the RPD tickets. Consequently, the reconciliation control is not timely, and there is a risk that all citations may not be accounted for. Missing citations may result in lost revenue.

Recommendations:

- 5. Have RPD and Revenue Administration agree on control procedures to ensure that all public towing tickets written by RPD are coded "424" and received by Revenue Administration in a timely manner to facilitate timely and effective vendor revenue reconciliations.***
- 6. Require Revenue Administration to work with DIT to develop an automated reconciliation and identification of exceptions between the vendor's records and Revenue Administration's records, if found to be cost effective.***

Controls over invoice processing and approval

The auditors observed the following during their evaluation of the towing invoice approval process:

Controls over the approval of invoices are inadequate

- Detailed policies or procedures to verify all of the authorization of service, performance of service and appropriateness of price charged by the vendor in accordance with the approved price list or to the purchase order do not exist. Without such procedures, any overpayments to the vendor cannot be identified.
- The RPD employee responsible for verifying invoices did not have access to a list of signatures of RPD personnel authorized

to approve towing-related transactions or any other means to determine if a towing activity was authorized.

- Neither RPD nor Fleet Services personnel referred to a price list to confirm appropriateness of the prices being charged by the vendor.
- The auditor observed that a summary invoice of \$8,799 included the following:
 - Ten citations showed a tow rate of \$150. This rate does not appear in the approved contract price list.
 - There was one charge for \$325 for two disabled trucks. The contract price list does not include this rate, but the invoice was approved and paid.
 - Extra mileage charges noted on fourteen citations totaled \$457. There were no odometer readings or other information on the citation to confirm the reasonableness of the extra mileage charges even though the vendor's parking citation has a mileage start and mileage ending box where the information can be entered.

The Fleet Services Manager noted that the contract language could not adequately address all the towing incidents that occur beyond routine tows. When the rate charged did not appear on the rate chart used by the vendor, the auditors were informed that the vendor would verbally negotiate a rate. The Fleet Services Manager noted that he approved the summary invoice as long as a rate looked "reasonable" since he relied upon his

personnel to perform the price verification. There was no evidence of price verification.

The new contract provides free towing and roadside assistance for City vehicles and the amount of approved expenditures was reduced significantly; therefore, the future risk of approving transactions at prices not found in the current contract is almost entirely negated.

Allegation of Overcharges

No towing overcharges were noted

During the audit, the City Auditor's Office received allegations of overcharges to Fan District residents by the vendor. The auditors solicited the Fan District Association (FDA) to ask their members whether they had any complaints about towing overcharges. The FDA contacted its members, but no one offered a response alleging improper towing charges. The auditors confirmed with the vendor that, due to limited parking space, towing activity tends to be heavier in the Fan due to illegally parked cars than in other City areas. The auditors also reviewed vendor invoices to customers and found no instances of overcharges to customers.

Customer Service

The auditors learned that RPD enters private towing-related citations into its Fox Pro system and that vendor tows are not included in the Fox Pro data base. Private tows occur when a vehicle is illegally parked on private property. These are not handled by the vendor. Since RPD does not specifically track public tows, which are conducted by the vendor, it can only advise a citizen who reports a missing vehicle to check with the vendor to see if the vehicle has been towed.

Currently, citizens whose cars are missing have to call RPD to find if the vehicles are towed or possibly stolen. This can be a time-consuming and discouraging process. Some jurisdictions, such as Fayetteville, North Carolina and Fulton County, Georgia, have

implemented technological solutions allowing citizens to visit relevant websites to verify a tow and to learn about the process to reclaim their vehicle. Some of these jurisdictions have contracted with vendors to provide this service which cost the citizens as much as \$7 per tow.

The City Auditor's Office contacted the City's Department of Information Technology (DIT) to discuss if such a mechanism can be developed in-house. In the past, DIT has developed websites that have facilitated citizens' access to information or to report problems. This Internet capability enhances the responsiveness and transparency of City government and increases the satisfaction of the City's citizens and visitors.

DIT personnel confirmed the feasibility of developing such a website at a minimal cost to the City. It may be possible to upload Revenue Administration data to the website. The website can serve as a repository of towed vehicle information and be available to 311 and other non-emergency help desk personnel to answer towing inquiries.

The creation of such a website will reduce vehicle recovery time and costs for vehicle owners as well as some of the frustration that owners feel when their vehicles are towed. Such a website will promote efficiency by eliminating time-consuming calls to non-emergency police lines and thus enable police personnel who administer the calls to perform more valuable services for the citizens.

Recommendation:

- 7. Have Revenue Administration and the Richmond Police Department work with DIT to develop a City Internet website that will enable citizens and visitors to find and recover their towed vehicles with greater ease and promote the more efficient and effective use of RPD personnel.*

**MANAGEMENT RESPONSE FORM
FLEET SERVICES - RICHMOND POLICE DEPARTMENT**

CITYWIDE TOWING CONTRACT AUDIT 2011 - 04

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
1	<i>Designate a contract administrator for the towing contract to ensure the vendor's and the City's compliance with the contract terms.</i>	Y	<i>Due to the many department's involved in the process of the towing contract, the Police Department has organized a committee with members from the Department of Finance, Police Department, DPW and DIT. This committee will advise the Police Chief and Director of Finance on the process for the administration of towing contract.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	RPD Deputy Director/Financial Svcs		31-Oct-10
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			<i>RPD Deputy Director/Financial Svcs is the Contract Administrator for the towing contract.</i>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
2	<i>Develop formal detailed procedures for monitoring the towing contract that can be used for reference and training.</i>	Y	<i>Due to the many department's involved in the process of the towing contract, the Police Department has organized a committee with members from the Department of Finance, Police Department and DIT. This committee will form a process for the administration of towing contract.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	RPD Deputy Director/Financial Svcs		Oct-10
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	<i>The policy has to go through a detailed approval process and approved by the Chief of Police. The Policy implementation date is 1-1-11.</i>		<i>The RPD has added contract management to the current Financial Management General Order 3-1, Section IV-B-8. (See Attached)</i>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
3	<i>Provide appropriate training to the towing contract administrator and all others assigned contract administrative duties.</i>	Y	<i>Due to the many department's involved in the process of the towing contract, the Police Department has organized a committee with members from the Department of Finance, Police Department and DIT. This committee will form a process for the administration of towing contract. Once the process is defined, appropriate training will be provided to ensure compliance with the contract is maintained.</i>

	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	RPD Deputy Director/Financial Svcs		31-Oct-10
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			<i>The RPD Financial Management Division will provide contract management training to all designated Contract Administrators and Program Managers for each contract issued.</i>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
4	<i>Develop and use a checklist that identifies all towing contract deliverables (e.g., timeliness of response to towing requests) to gain assurance of compliance and proper performance.</i>	Y	<i>Due to the many department's involved in the process of the towing contract, a committee is being formed of members from the Department of Finance, Police Department and DIT. This committee will form a process for the administration of towing contract to include contract deliverables.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	RPD Deputy Director/Financial Svcs		31-Oct-10
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			<i>A checklist form has been created to identify all contract deliverables for each contract that is implemented.</i>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
5	<i>Have RPD and Revenue Administration agree on control procedures to ensure that all public towing tickets written by RPD are coded "424" and received by Revenue Administration in a timely manner to facilitate timely and effective vendor revenue reconciliations.</i>	Y	<i>Due to the many department's involved in the process of the towing contract, the Police Department has organized a committee with members from the Department of Finance, Police Department and DIT. This committee will form a process for the administration of towing contract that will include control procedures.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	RPD Deputy Director/Financial Svcs		31-Oct-10
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	<i>Delayed implementation to 12/1/10 in order to train Emergency Communication Officers as well as proper notification of sworn personnel.</i>		<i>The Richmond Police Department has implemented new procedures for all tows. Tows will be called into the Department of Emergency Communication and input into the Virginia Crime Intelligence Network as well as the PISTOL Records Management System Towing Module. A report will be issued to Finance on a monthly basis identifying all tows. The process began on 12/1/10.</i>

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
6	<i>Require Revenue Administration to work with DIT to develop an automated reconciliation and identification of exceptions between the vendor's records and Revenue Administration's records, if found to be cost effective.</i>	Y	<i>Due to the many department's involved in the process of the towing contract, the Police Department has organized a committee with members from the Department of Finance, Police Department and DIT. This committee will form a process for the administration of towing contract that will include reconciliation procedures.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Revenue Compliance Mgr/Finance		12/31/2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	<i>The RPD and Finance Department are working with DIT to see if there can be an automated reconciliation between the Police Records Management Towing Module and Clancy Systems. Due to the 12/1/10 implementation of the Towing Input into the new module within the RPD, an automated connection was delayed.</i>		
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
7	<i>Have Revenue Administration and the Richmond Police Department work with DIT to develop a City Internet website that will enable citizens and visitors to find and recover their towed vehicles with greater ease and promote the more efficient and effective use of RPD personnel.</i>	Y	<i>Due to the many department's involved in the process of the towing contract, the Police Department has organized a committee with members from the Department of Finance, Police Department and DIT. This committee will form a process for the administration of towing contract that will include a feasibility analysis of web site development and implementation.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Safety Team Lead/DIT		12/31/2020
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	<i>DIT is continuing to work with both the Police and Finance Departments to build a viable website for towed vehicles. The RPD has requested, through the 2012 CIP, to move towing in-house utilizing city owned property on Belt Blvd.</i>		