

Audit Report

Internal Controls over Inventory and Revenue At the Division of Parking Enforcement Towing and Storage Operations

February 2019



Department of Audit and Control

Vanessa Glushefski, CPA, Esq.

Acting Comptroller

Kevin J. Kaufman, CPA

City Auditor

Audit Summary

Internal Controls over Inventory and Revenue at the Division of Parking Enforcement, Towing and Storage Operations



What we did

Conducted an audit to assess the internal controls over inventory and revenue at the Towing and Storage Operations of the Division of Parking Enforcement

How we did it

Interviewed DPE staff and management and reviewed DPE transactions to determine the strengths and weaknesses of the internal controls over inventory and revenue at Towing and Storage Operations of the Division of Parking Enforcement.

View other audit reports at buffalocomptroller.com

Background

The Division of Parking Enforcement, Towing and Storage Operations (DPE) records approximately \$1.7 million in revenue annually. Revenue is received from towing illegally parked cars, storage of these vehicles and auctioning unclaimed vehicles.

What we found

Completeness and Accuracy of DPE Revenue Cannot be Determined -

Due to the weaknesses listed below, it is possible for fraudulent transactions and errors to occur and go undetected.

Out-dated Computer Software - The software used to record transactions of the DPE is a series of Microsoft Access databases. This software has minimal internal controls and data recorded is not standardized. A separate computer system, the City's financial accounting software (MUNIS) is used to process payments. The computer systems do not communicate with each other.

No Reconciliation of Transactions - Individual transactions have never been reconciled between computer systems or to the supporting documentation.

Inadequate Segregation of Duties - A single employee can record the transaction, receive payment from the customer and post the deposit.

Lack of Supervisory Review – Management does not review the revenue process to mitigate the internal control weaknesses.

What we recommended

Obtain New Software – Software should be capable of accurately and efficiently recording transactions for both vehicle inventory and revenue. The software should interface directly with MUNIS.

Improve the System of Internal Controls - Segregate duties, so that one employee cannot record a transaction, receive payment from the customer and deposit funds for the same transaction.

Perform Regular Reconciliations of Transactions – Reconciliations of transactions are necessary to determine the accuracy and completeness of revenue. This reconciliation should be prepared by someone who is not involved in the revenue process and should be reviewed by management.

Preface

In accordance with the goals set forth in the Annual Audit Plan, we conducted an audit of the internal controls over inventory and revenue at the Parking Enforcement Division, Towing and Storage Operations (DPE). The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Background

According to the City of Buffalo website, DPE is responsible for providing affordable, safe and public parking citywide while enforcing parking ordinances and laws of the City of Buffalo and New York State. DPE performs three functions, including the Parking Violations Bureau, Parking Meters and Enforcement, and Towing and Storage Operations. This audit examines only the Towing and Storage Operations.

DPE is responsible for towing and storing illegally parked vehicles, vehicles impounded by the Police, vehicles from accident scenes, and vehicles obstructing City services and traffic. Vehicle owners are charged for the tow and storage at the impound lot, which is located at 166 Dart Street. Fees for towing and storage are listed in the City Charter, *Chapter 307 - Parking and Parking Lots and Chapter 175 - Fees*. Vehicles that go unclaimed at the impound lot are auctioned or sold for scrap by the City of Buffalo. Total revenue recorded for Fiscal Year (FY) 2018, from July 1, 2017 to June 30, 2018 was approximately \$1.7 million, consisting of approximately \$1.2 million of towing and storage revenue and approximately \$500,000 of auto auction and sale of scrap vehicles revenue.

The following terms will be used throughout the report:

MUNIS – City of Buffalo’s financial accounting software.

Parking Software – Software program used by DPE to maintain a database of towed vehicles, vehicles in storage at the impound lot and the fees for these services. The program is a series of Microsoft Access databases designed and maintained by the City of Buffalo’s Department of Management Information Systems.

Audit Objectives

The objectives of the audit are to document and evaluate the internal controls over inventory and revenue at DPE.

To achieve the objectives, auditors:

- Interviewed staff regarding the inventory and revenue processes. Documented the inventory and revenue cycles.
- Tested transactions to determine if the inventory and revenue processes perform as documented.
- Evaluated the processes to determine the strengths and weaknesses of the internal controls of the inventory and revenue cycles.
- Examined all FY 2018 revenue account transactions for towing and storage, auctions sales and sale of scrap vehicles to determine if all transactions entered into the Parking Software have been recorded in MUNIS and deposited with the Division of Treasury (Treasury) into a City bank account.
- Performed an inventory count of all vehicles stored at the impound lot and compared them to the inventory listing from the Parking Software.

Audit Findings

1. Completeness of Revenue Cannot be Verified

The total revenue for towing and storage, auction sales and sale of scrap vehicles for FY 2018 recorded in the Parking Software was \$1,725,687. The total revenue for towing and storage, auction sales and sale of scrap vehicles recorded in MUNIS for FY 2018 was \$1,707,375 a variance of \$18,312.

It is not possible to determine if the Parking Software data contains a complete record of all vehicles towed into the impound lot, released from the impound lot and paid for.

2. Parking Software is inadequate and does not interface with MUNIS

The Parking Software does not interface with MUNIS. Individual transactions are recorded in the Parking Software but are not recorded in MUNIS. There were 8,053 transactions, each representing a towed vehicle, recorded in the Parking Software during FY 2018 which resulted in 434 transactions in MUNIS during FY 2018.

Each day Treasury manually sums all transactions they have recorded in the parking software by revenue type. Treasury then records the manually calculated subtotal to each applicable revenue account in MUNIS. There is limited DPE supervisory review of activity recorded in the Parking Software and no DPE supervisory review of activity recorded in MUNIS. DPE does not perform a reconciliation of revenue between the computer systems. The internal controls over revenue are inadequate, and would allow for fraudulent and erroneous transactions to occur and go undetected.

Parking software is essentially a user interface for a Microsoft Access database. The program lacks basic features such as the ability to search for a vehicle by make or model. The software deficiencies cause employee inefficiencies and public frustration when calling DPE to locate their vehicle. Data integrity is also an issue as numerous fields contain inconsistent and inaccurate data. This data integrity issue is due to both human input error and software limitations. Data was sorted to include only paid release dates between 7/1/17 and 6/30/18. Paid release date is the date the vehicle owner paid applicable fees at Treasury representing FY 2018 revenue. The following were noteworthy data issues within the FY 2018 data:

- a) Fee Reduction - DPE notes on why storage fees were reduced. There were 1,197 different descriptions used as reasons to reduce storage fees. The five main reasons for reductions to storage fees are:
 - Weekends - no charges accrue for weekend storage
 - Accident vehicles - reduced per day charge from \$30 to \$20
 - Stolen vehicles - no charge for first seven days of storage
 - Police held vehicles - no charges while held by Police
 - First 24 hours rule - no charge for first day of storage
- b) Removal date - the date the vehicle was released from the impound lot:
 - 241 vehicles have removal dates prior to the start of the fiscal year, with the year of removal ranging from 1903 to 2017.
 - 360 vehicles have removal dates subsequent to the fiscal year end, with the year of removal ranging from 2019 to 4944.
- c) Release Type – Indicates who the vehicle was released to. The most commonly used descriptions include released to owner, released to lienholder and sold at auction.
 - Vehicles released with amounts due totaling \$4,485 do not have a release type recorded.

3. Lack of Segregation of Duties

DPE does not accept payments. Payments are only accepted at Treasury. A teller at Treasury receives a payment from a customer, records the payment in the Parking Software and provides a receipt to the customer. Each afternoon the Treasury teller prints a Parking Software report that lists all payments entered into the Parking Software by Treasury that day. The reports shows the individual payments and indicates the type of revenue i.e. towing/storage, auction sale or scrap. The teller must manually sum the types of revenue and then enter the total for each applicable revenue account into MUNIS. A process in which one party performs the transaction from start to finish creates the opportunity to record one amount and charge the customer a different amount. Due to the poor segregation of duties, fraudulent and erroneous transactions can occur without being identified.

4. Transactions Posted to Incorrect Accounts

DAC identified more than 10 revenue transactions posted to incorrect accounts.

- a) Auto auction revenue posted to towing and storage revenue.
- b) Towing and storage revenue posted to auto auction revenue.
- c) Auto auction revenue posted to a liability account, resulting in an understatement of revenue of approximately \$50,000.

DAC also identified numerous days in which the towing and storage revenue account activity recorded in the Parking Software did not agree to the deposit posted in MUNIS. DAC identified 125 days in which the daily activity recorded in the Parking Software was less than the daily deposit recorded in MUNIS. DAC identified 6 days in which the daily totals recorded in the Parking Software was greater than the daily deposit recorded in MUNIS.

5. Two Exceptions were noted During Inventory Count

The DAC performed a full inventory count of all vehicles. One vehicle was listed on the inventory report but not present at the impound lot. The vehicle had been paid for and picked up prior to the inventory count but not removed from inventory due to a clerical error. One vehicle was observed at the impound lot but not listed in inventory. Parking personnel had thought the vehicle was missing. A release form for the vehicle was printed at approximately 8 pm on a weekday when the impound lot was closed. The release form did not have a signature of a person authorized to pick up the vehicle. After the inventory count was performed by DAC the vehicle was placed back into inventory and picked up by the owner one week later. The ability to print a release form and remove a vehicle from the Parking Software without having received payment, without an individual present to sign for the vehicle and while the impound is closed, demonstrates internal control

deficiencies related to safeguarding of assets and the completeness and accuracy of revenue.

6. A Formal Policy for Reductions to Storage Costs does Not Exist

There is no standard documentation related to storage fee reductions. DPE personnel document reduction reasons within the Parking Software using free form notes. The process of reducing fees is based on DPE employees' discretion. Criteria for fee reductions are not documented. Based on a review of towing and storage bills, handwritten notes on the bill serve as adjustments to fees and are used to indicate the amount that should be collected by Treasury. This process creates the opportunity to charge a customer one amount and record a lower amount. There is no indication of the reduction amount, the reason for the reduction, the employee authorizing the reduction or the signature of the authorizing personnel. It was not possible to recalculate fees based on the bill and review of Parking Software notes. Due to the lack of a standardized policy, there could be preferential treatment or fee reductions for certain customers that would not be detected by management.

7. A Complete Fee Schedule for Towing and Storage Does Not Exist

City Charter Chapter 175 - Fees lists towing and storage fees, but it is not a complete or accurate list of all pricing and policies. DAC became aware of the following discrepancies when reviewing towing invoices:

- a) Invoices show a \$20 per day storage rate for vehicles in accidents towed to the impound lot as opposed to the \$30 per day storage rate stated in the Charter.
- b) In practice, 7 free days of storage is provided for stolen vehicles towed to the impound lot, nothing regarding free storage is in the Charter.
- c) Weekend storage rate policy – Many of the vehicles with storage fee reductions mention weekend storage. This is not listed in the Charter.
- d) An Accident clean-up fee of \$30 is charged, but this fee is not listed in the Charter.
- e) The tow charge on invoices for a large/heavy vehicle is \$141, but per Charter, \$136 is the allowable tow charge for a large/heavy vehicle.
- f) There is no mention of storage fee reductions in the Charter. Audit testing of the Parking Software found 5,423 vehicles that had storage fee reductions in FY 2018.

8. Auto Impound Security Measures Should be Improved

There is no record of who enters the impound lot outside of business hours. City tow truck drivers and third party contracted tow truck operators are issued entry remotes for the impound lot gate. There is no list maintained of who the entry remotes are issued to. There is no record maintained of who and when the remotes are used to open the impound gate after business hours. This could lead to the theft of vehicles or the theft of items in the vehicles. The

security cameras that monitor the impound lot rotate on a timed basis leaving certain areas unmonitored at times. The recorded footage is of poor quality and would be of little use in identifying trespassers.

On Wednesday August 1, 2018, DAC personnel observed the City of Buffalo auto impound auction. Prior to the auction, approximately 5 auction attendees, that work for scrap companies were permitted to come behind the DPE counter and enter the DPE employee work area. This is an office setting where the DPE employees are performing their normal job functions, including accessing COB computers, Parking Software and confidential documentation. Allowing non-employees in the DPE work area raises several concerns. These individuals could access COB computer systems and confidential documentation, which could harm the City, its employees and its citizens. Additionally, the general public attending the auction may perceive that certain auction participants are treated in a preferential manner and that the City's auction personnel are not impartial if certain bidders are allowed in the DPE employee work area.

Audit Recommendations

1. Obtain new Parking Software

DPE management should research software options available. New software could eliminate entering information into multiple systems, reduce errors in the data and aid in the oversight of revenue reporting, inventory management, budget projections and actual costs. Integration with license plate readers in use by DPE should be considered to further increase efficiency and strengthen internal controls over inventory and revenue.

In the interim, management should implement an interface that would export individual transactions from the Parking Software into MUNIS. This would increase efficiency and reduce the likelihood of transactions going unrecorded due to errors and fraud.

2. Each Bill Should be Recorded in MUNIS

Bills for towing and storage fees, auction sales and scrap vehicles sales should be billed from MUNIS. Currently all bills are generated from the Parking Software, which does not interface with MUNIS. For each transaction, a bill number is generated in the Parking Software, but not recorded in MUNIS. The bill number should be recorded in both the Parking Software and MUNIS. This would allow for a reconciliation between the systems and reduce the possibility of a payment for a vehicle not being received by the City. Fees

should be itemized on each bill, be easily recalculated and understandable to all parties. Treasury could then enter the payment received against the bill.

This would strengthen internal controls by creating proper segregation of duties in the revenue process and decrease the likelihood of input errors and fraud by eliminating the need for manually adding revenue amounts recorded in the Parking Software to post to each revenue account in MUNIS.

3. Perform a Reconciliation of all Computer Systems

A reconciliation of revenue recorded in the Parking Software and MUNIS should be conducted on a regular basis. Any discrepancies between the computer systems should be investigated. This reconciliation should be prepared by someone who is not involved in the revenue receipt process and should be reviewed by management. Employees performing, and management reviewing, the reconciliations should sign and date their work to document completion.

4. Improve Impound Security

DPE should improve overall security at the impound lot. Steps that should be taken include:

- a) Documentation and maintenance of a list of all individuals who can enter the security gate after hours, along with monitoring of such activity. Additionally, management should regularly review the list and determine if access is necessary for each individual.
- b) Improvement of the security camera system in order to monitor the entire lot and record video in sufficient quality to identify any issues that occur.
- c) The prohibition of anyone aside from DPE personnel in the DPE work area.

These improvements will increase the internal controls over inventory and revenue.

5. Establish Written Policies and Procedures

Establish and document policies and procedures that improve internal controls, increase efficiency and standardize processing. Policies and procedures should include a proper system of controls over the revenue process, including establishing a complete fee schedule and standards for storage fee reductions.

Audit of Internal Controls over Inventory and Revenue At the Division of Parking Enforcement Towing and Storage Operations

DPE Comments on the Status of Implementing Recommendation

Instructions: Please respond in the three fields listed under each Audit Recommendation including:

1. *Status of Implementing Recommendation*
2. *Implementation Date*
3. *Reason for not implementing recommendation (if applicable)*

Audit Recommendation 1

Obtain new Parking Software

DPE should research software options available. New software could eliminate entering information into multiple systems, reduce errors in the data and aid in the oversight of revenue reporting, inventory management, budget projections and actual costs. Integration with license plate readers in use by DPE should be considered to further increase efficiency and strengthen internal controls over inventory and revenue.

If this is not possible, management should determine if an interface could be developed that would automatically record transactions in all computer systems. This would increase efficiency and reduce the likelihood of transactions going unrecorded due to errors and fraud.

DPE Comments on Audit Recommendation 1:

Status of Implementing Recommendation:

- *We will be requesting that MIS attempt to integrate our PVB Software with the MUNIS application.*
- *Will reach out to vendors to quote price for inclusive software*

Implementation Date:

- *TBD*

Reason for not implementing recommendation (if applicable):

- *If MIS Tells us it isn't possible*
- *Cost benefit analysis may suggest it is not worth the investment. We will know this once the RFP is responded to.*

Audit of Internal Controls over Inventory and Revenue At the Division of Parking Enforcement Towing and Storage Operations

DPE Comments on the Status of Implementing Recommendation

Audit Recommendation 2

Each Bill Should be Recorded in MUNIS

Bills for towing and storage fees, auction sales and scrap vehicles sales should be billed from MUNIS. Currently all bills are generated from the Parking Software, which does not interface with MUNIS. For each transaction, a bill number is generated in the Parking Software, but not recorded in MUNIS. The bill number should be recorded in both the Parking Software and MUNIS. This would allow for a reconciliation between the systems and reduce the possibility of a payment for a vehicle not being received by the City. Fees should be itemized on each bill, be easily recalculated and understandable to all parties. Treasury could then enter the payment received against the bill. This would strengthen internal controls by creating proper segregation of duties in the revenue process and decrease the likelihood of input errors and fraud by eliminating the need for manually adding revenue amounts in the Parking Software to post to each revenue account in MUNIS.

DPE Comments on Audit Recommendation 2:

Status of Implementing Recommendation:

- *Will research options for implementation*

Implementation Date:

- *TBD*

Reason for not implementing recommendation (if applicable):

- *Not sure if this is a possibility. It may require us to RFP for a software solution that is compatible with MUNIS*

Audit of Internal Controls over Inventory and Revenue At the Division of Parking Enforcement Towing and Storage Operations

DPE Comments on the Status of Implementing Recommendation

Audit Recommendation 3

Perform a Reconciliation of all Computer Systems

A reconciliation of revenue recorded in the Parking Software and MUNIS should be conducted on a regular basis. Any discrepancies between the computer systems should be investigated. This reconciliation should be prepared by someone who is not involved in the revenue receipt process and should be reviewed by management. Employees performing, and management reviewing, the reconciliations should sign and date their work to document completion.

DPE Comments on Audit Recommendation 3:

Status of Implementing Recommendation:

- *Will research options for implementation*
- *Hire more staff to pull paperwork needed to reconcile transactions*

Implementation Date:

- *TBD*

Reason for not implementing recommendation (if applicable):

-

Audit of Internal Controls over Inventory and Revenue At the Division of Parking Enforcement Towing and Storage Operations

DPE Comments on the Status of Implementing Recommendation

Audit Recommendation 4

Improve Impound Security

DPE should improve overall security at the impound lot. Steps that should be taken include:

- a) Documentation and maintenance of a list of all individuals who can enter the security gate after hours, along with monitoring of such activity. Additionally, management should regularly review the list and determine if access is necessary for each individual.
- b) Improvement of the security camera system in order to monitor the entire lot and record video in sufficient quality to identify any issues that occur.
- c) The prohibition of anyone aside from DPE personnel in the DPE work area.

These improvements will increase the internal controls over inventory and revenue.

DPE Comments on Audit Recommendation 4:

Status of Implementing Recommendation:

- o *A list does exist of people assigned gate access. More staff would be needed to monitor more fully who is entering and exiting the gate.*
- o *The police department is responsible for our cameras. They will be contacted to see about putting up better cameras to monitor the yard once we move.*

Implementation Date:

- o *Following move to new yard as current yard is being sold. Most likely 3-6 months.*

Reason for not implementing recommendation (if applicable):

- o *Whole setup would change making the assigned clickers irrelevant*
- o *Availability of cameras are dependent on BPD*

**Audit of Internal Controls over Inventory and Revenue At the Division of Parking Enforcement
Towing and Storage Operations**

DPE Comments on the Status of Implementing Recommendation

Audit Recommendation 5

Establish Written Policies and Procedures

Establish and document policies and procedures that improve internal controls, increase efficiency and standardize processing. Policies and procedures should include a proper system of controls over the revenue process, including establishing a complete fee schedule and standards for storage fee reductions.

DPE Comments on Audit Recommendation 5:

Status of Implementing Recommendation:

- *There is a policy and procedure list.*
- *Once the new rates hit, it will change the process of "adding" fees.*

Implementation Date:

- *Active, ongoing*

Reason for not implementing recommendation (if applicable):

- *Not applicable*

Completed by: *Ki J. Huff*

Date: *3-4-19*