

December 6, 2019

Richard Broad, Director of Public Works

Subject: Investigation of Towing and Recovery Internal Control Concerns

The attached report contains the results of our investigation of towing operations in the Department of Public Works. We based the focus of our review on the contents of a complaint received through our Fraud, Waste, and Abuse Hotline. The complaint alleged a lack of internal controls over the change fund, removing items from vehicles, and disposing of scrap metal. It also stated that a maintenance agreement is not in place for the security camera system. During the investigation, we noted:

- There are no internal controls in place for safeguarding the change fund;
- The absence of accountability and transparency when removing personal property items from towed vehicles before an auction;
- The lack of written procedures and accountability for the disposition of scrap metal; and
- There is no maintenance agreement to ensure the security camera system is operating at its full capacity.

Therefore, included in this report are recommendations we deemed necessary to mitigate potential risks to the City. We appreciate the courtesies and cooperation extended to our team during the investigation. If you have any questions, please contact me at extension 4-4044.

Respectfully submitted,



Tammie Dantzer  
City Auditor, MBA, CFE

cc: Honorable Mayor Dr. Kenneth Alexander  
Honorable City Council Members  
Dr. Larry "Chip" Filer, City Manager

The Office of the City Auditor has completed an investigation in the Department of Public Works, Towing and Recovery Division. This report presents the results.

### **Legal and City Policy Requirements**

1. Per the Code of Virginia, §15.2-2511.2, the City Auditor is required to investigate all allegations of fraud, waste, and abuse.
2. In accordance with City Ordinance No. 44,000, (b) (2), *“The City Auditor is hereby requested to dedicate a telephone line, and a website, if cost-effective, through which employees and residents of the City of Norfolk may report anonymously an incidence of fraud, waste, or abuse committed by any City officer or employee, or within any City department or program.”*
3. Per the City Code, Sec. 16-59.(b)(1), Fraud is defined as *“The intentional deception perpetrated by an individual or individuals, or an organization or organizations, either internal or external to the city, that could result in a tangible or intangible benefit to themselves, others, or the city or could cause detriment to others or the city. Fraud includes a false representation of a matter of fact, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive.”*
4. The City’s Internal Control Policy (10.1), Section II. Policy states the following: *“It is the policy of the City to establish and maintain internal control systems to reasonably assure the achievement of organizational objectives in operational efficiency and effectiveness, reliable financial reporting, safeguarding assets and compliance with laws, regulations, and program compliance requirements.”*

### **Allegation**

We received a complaint on the Fraud, Waste, and Abuse hotline which contained several issues related to internal controls, accountability, and transparency. The complaint also noted that the security camera system at the tow yard is not functioning at its full capacity.

### **Background of Allegation**

We performed a surprise cash count of the Towing and Recovery Division change funds during an auction. We observed actual practices of how monies were accounted for and handled. We did not note any discrepancies in the change fund; however, we found some internal control weaknesses over the cash handling processes. We also discussed the procedures and practices of removing personal items from vehicles before an auction, as well as the disposal of scrap metal and batteries with towing staff. During the discussion, we ascertained that the Towing Operations Manager (manager) has the sole responsibility of removing personal property items from vehicles before an auction. Also, the manager does not maintain a record of the items removed to ensure accountability, transparency, and proper disposition.

The manager is responsible for the disposal of scrap metal and batteries without dual controls and verification of disposition to ensure the proper accounting of proceeds from the sale of items. We also noted that the security camera system is not in good working condition.

**Findings** – Based on the investigation methodology, we observed the following:

- 1. Lack of internal controls over the change fund** – A lack of internal controls existed over the change fund processes. All employees on duty had unrestricted access to both unsecured daily and auction change funds. We further observed an employee who was not a part of the auction process was making change from the auction change fund without dual control to verify receipt of cash. Additionally, the towing staff did not use cash count sheets at the beginning and end of each shift for accountability and verification of the money on hand. Lastly, on several occasions during the auction, cash was removed from the auction proceeds drawer without being counted and verified by the auction custodian. The absence of internal controls could cause a misappropriation of funds.
- 2. Absence of transparency when items are removed from vehicles** – The manger solely removes tangible items such as cash, guns, drugs, computers, and other unclaimed properties from towed vehicles before an auction without controls in place to ensure accountability and verification. In addition, there is no process in place to validate and verify: (1) the cash removed was counted, recorded, and deposited into the City’s Treasurer’s Office; (2) guns and/or drugs were turned over to the Police Department; or (3) other tangible items were placed on an auction website and the proceeds were properly accounted for from the sale of such items. The lack of internal controls could result in misappropriation or selling of items for personal gain.
- 3. No written procedures for disposing of scrap metal** – The manager has sole responsibilities for the removal, disposition, and retrieval of proceeds from the sale of scrap metal from towed vehicles without a documented process to ensure proper disposal, accountability, and transparency. The lack of control activities such as policies, procedures, and segregation of duties could result in misappropriation or the sale of assets for personal gain.
- 4. No maintenance agreement in place for the security camera system** – The camera system that was installed to monitor and record activities in and around Towing and Recovery does not have a maintenance agreement in place. A maintenance agreement would ensure the camera system would receive regular inspections and tune-ups. The agreement could include, but not be limited to, examining the system for errors or video loss and ensuring the system monitoring is working as intended. The camera system in place is currently not working at its full capacity; however, the absence of a maintenance agreement could also result in an entirely nonfunctioning camera system that is not capturing unwarranted activities.

**Conclusion:**

Based on the findings noted during the investigation, we recommend the Department of Public Works:

- a) Provide an individual change fund cash drawer for each staff person with the responsibility of handling cash during regular day to day operations as well as during the auctions. Single cash drawers will enhance internal controls over the change fund and provide individual responsibility and accountability over cash handling.

**Management's Response:** Concur - Towing will add an additional change drawer so that the day shift and night shift supervisors each have their own change drawers. Each supervisor will be responsible for counting the funds in their respective change drawers at the beginning and end of their shifts, and recording date, time and initials on the change drawer log. The auction change drawer is a separate change drawer that is kept locked in the safe and only removed on auction days. The same counting procedure is followed for the auction drawer.

Note, that since Towing's inception, the change fund has been counted at the beginning/end of every shift. There is a log that is kept with date and employee's signature verifying funds were all accounted for. There was one incident in 2010 where cash was short \$50. Towing immediately contacted the Financial Management division and a missing/lost/stolen report was completed and submitted to internal audit. The Financial Management Division performs surprise cash counts. Cash has never been short on the surprise counts.

b) Discontinue the practice of employees having unrestricted access to make change from a shared change fund.

**Management's Response:** See answer to a) above.

c) Use cash count sheets at the beginning and end of each shift to provide a record and accountability of the change fund amount per the City's Cash Handling Policy.

**Management's Response:** Concur

d) Prepare a cash count sheet to ensure the custodian counts and verifies cash during the removal of money from the cash drawer during auctions.

**Management's Response:** Concur: The auction change fund is kept in a locked safe where only two employees have access. The funds are removed from the safe before the auction and counted. At the end of the auction the funds are counted and placed back in the safe. There is a log which documents the amount of funds, signed and dated.

e) Develop and implement written policies and procedures to govern the removal of personal property items from towed vehicles to include, but not be limited to, dual control during removal and the verification and disposition of properties removed to ensure accountability and transparency.

**Management's Response:** Concur - SOP's will be developed.

f) Develop and implement a written procedure for disposing of scrap metal and disposal items such as batteries and tires, to include, at a minimum, segregation of duties for taking scrap metal out of vehicles as well as picking up and depositing proceeds received from the sale.

**Management's Response:** Concur - SOP's will be developed.

- g) Conduct a cost analysis for a security camera system maintenance agreement to ensure cameras are always in proper working condition to maximize the City's initial investment and minimize the risk of misappropriation of assets in the City's custody.

**Management's Response:** Concur - We currently use the vendor that installed the security cameras (ASI Security) and have found them to be responsive to our requests for service. They typically arrive on site within 24-hours of our request for service or walk Towing personnel through procedures by phone on how to reset/adjust camera settings if that is all that is needed. They have also been very good about quickly replacing cameras that fail while under warranty. If this vendor becomes less responsive in the future, we will seek a contract for camera maintenance. The benefit of using the camera vendor is that the equipment and repair parts are all compatible with our existing equipment.