



Legislation Text

File #: 11-0442, **Version:** 1

Recommendation to receive and file the Towing Operations Cash Handling Procedures Follow-Up Audit; and request City Management to review the recommendations, develop strategies for implementation and update the City Council and City Auditor in six months and in one year from the date of receipt and filing of this report.

In October 2009, our Office issued a report on the audit of Cash Handling Procedures at the Towing Operations (a division of the Fleet Services Bureau of the Department of Public Works). The report discussed the deficiency in computer controls and the lack of segregation of duties that created a high risk of potential fraud or misappropriation of funds without detection.

Due to the high volume of cash transactions at Towing, almost \$5.3 million in fiscal year 2010, and the severity of the control weaknesses identified, we performed a follow-up audit to determine if control and process corrections had been implemented. Our follow-up audit covered the period of October 1, 2009, through September 30, 2010.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

According to the October 2009 report, there was a prevalent lack of separation of duties as an excessive number of employees with access to cash also had the ability to edit or delete records within the Tow Administrator's software system without secondary authorization. In addition, management was not using edit reports to review the data for irregularities.

During our follow-up audit, we found that Management has made some process and system changes to tighten controlso However, significant control weaknesses remaino Employees continue to have the ability to modify system data without detection as management has not developed an effective tool to review and identify deleted or modified records. As a result, we are unable to determine whether all monies were appropriately charged, received and deposited. Specifically, we found:

- The Tow Administrator's software system, as currently configured, allows many critical data fields to be edited without supervisory reviewo Cashiers, and/or Supervisors acting as Cashiers, can manipulate rates (Base Towing Charge, Daily Storage Rates, Lien Sale Write-Off discounts), edit payment amounts, and change dates (vehicle pick-up, drop and payment dates). These type of changes impact what fees are charged to the customer and, ultimately, how the revenue is collected.
- The Superintendent is using the Daily Detailed Sales Report to monitor transactional information and cash balances. However, this report does not capture all the potential edits

that may occur and is inadequate to mitigate the software control weaknesses. Since the October 2009 audit, an Edit Report was developed, but is currently not in a format that Management can use to thoroughly evaluate the risk of system data modifications. In addition, the Edit Report does not provide adequate information on deleted items. During the audit period in question, there were over 950 deleted items not subject to secondary review.

It is Management's responsibility to establish and maintain adequate internal controls to protect the City's assets, particularly over operations where high volumes of cash are generated. Where staffing shortages or software deficiencies exist, Management must implement manual process controls to ascertain they are reducing the risk of fraud or misappropriation to a tolerable level. Currently, the risk of fraud or misappropriation of funds at the Towing Operations remains high.

We recommend Management take immediate action to establish preventative and detective controls within the software to ensure data integrity. In addition, the development of manual processes to increase supervisory review and support segregation of duties can assist in reducing risk levels.

We would like to thank the staff at Towing Operations for their time, information, and full cooperation provided to us during the audit

City Council approval is requested on May 10, 2011.

The Towing Operations Division collects significant revenues on behalf of the City totaling over \$8.5 million in fiscal year 2010, \$5.3 million of which is collected in cash. Management's efforts to address the recommendations outlined in the report will increase safeguards over this valuable revenue stream and help detect and deter any potential misappropriation of funds.

Approve recommendation.

LAURA L. DOUD, CPA
CITY AUDITOR