

Date: August 12, 2013
To: Milton Dohoney, Jr., City Manager
From: Lauren Sundararajan, CFE, Internal Audit Manager *LS*
Copies to: Paul Humphries, Interim Police Chief
Kenneth Glenn, Director of Citizen Complaint and Internal Audit
Subject: **Cincinnati Police Department – Impound Unit Audit**

Attached is the Cincinnati Police Department – Impound Unit Audit report. This performance audit examined and evaluated the operations and internal controls in place for cash handling, inventory, tow companies, and security. We have completed the report in accordance with Internal Audit's (IA) Fiscal Year 2013 and 2014 Audit Work Plan.

The audit revealed several internal control weaknesses that impair the Impound Unit's ability to operate efficiently. Tighter internal controls over cash handling, vehicle inventory tracking, and recordkeeping are needed to meet the department goals and objectives.

We would like to thank the Cincinnati Police Department's management and staff for their assistance and cooperation during this audit.

If you need any further information please contact me.

Attachment

Cincinnati Police Department Impound Unit Audit

August 2013



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Executive Summary

Internal Audit (IA) performed an audit of the Cincinnati Police Department (CPD) Impound Unit operations. The audit objectives were to determine if the Impound Unit has a strong internal control structure for cash handling, inventory tracking, and asset security. IA also reviewed the rotation wrecker selection process to determine if staff is properly selecting towing companies from the police rotation list.

While conducting the audit, IA found several internal control weaknesses that prevent proper management of cash and inventory. Key internal controls such as management review of the daily cash receipt schedules, reviewing inventory data reports, conducting physical inventory counts, cash reconciliations and monitoring bank deposits were not performed. To have a strong internal control environment there must be daily checks and balances in place to ensure that financial data is accurate, reliable, and readily available. Additionally, to have proper accounting all transactions should be recorded. Impound Unit transactions stemming from the release of impounded vehicles are maintained in Permits Plus and a computer generated receipt is issued to the customer. However, the auction sales transactions are not recorded in a database and a receipt is not issued to the customer.

Recordkeeping is another important internal control. Sufficient documentation provides management with a paper trail when reviewing financial data. IA requested the titles for March and June 2012 to confirm sales prices and other auction activity. IA found in several cases that the vehicle titles were either missing or staff failed to copy the back of the title which contained pertinent information such as the vehicle sale price. In addition, the total amount of cash received from auctions held in prior years was not retained. IA also found inventory discrepancies that indicated a review of inventory data or a physical inventory count had not been performed. A physical inventory count would identify differences between inventory vehicles reported in Permits Plus and inventories actually on the lot.

IA's review of the wrecker's selection process indicated that wreckers appear to be selected fairly. However, IA found that some of the wrecker files did not contain a valid insurance certificate and contract agreements were not created for several of the wrecker companies used by the City. According to the IACP National Law Enforcement Policy, Impoundment of motor vehicles should use contract commercial towing services.

To establish a strong internal control environment and to ensure that controls in place are optimal, IA recommends implementing tighter controls over cash receipts, inventory tracking and recordkeeping. Additionally, management review of key processes should be performed on a daily basis and more staff training is needed to ensure that the department objective is achieved.

I. Introduction

Background

The Cincinnati Police Department (CPD) acquires hundreds of vehicles annually as a result of law enforcement operations. Vehicles are towed to the impound lot for a variety of reasons including illegal parking, delinquent parking infractions, impending traffic police orders (accidents, stolen, etc.), OVI violations (operating a vehicle while under the influence), not displaying license plates, and snow emergency violations. The vehicles are stored at the CPD Impound Lot located at 3425 Spring Grove Avenue. A management decision was made in 2012 to replace the uniformed supervisor position with a civilian. Current Impound Unit operations are overseen by a civilian supervisor with approximately 8 full time employees, and 1 part-time employee.

The Impound Unit database system, Permits Plus, was developed by Cincinnati Area Geographic Information Systems (CAGIS). Permits Plus maintains all of the Impound Unit transactions except for the auction transactions. The auction transactions are not maintained in a database.

The City utilizes 13 wrecker companies for towing vehicles to the impound lot. Each wrecker company must meet certain requirements and follow specific guidelines before being added to the CPD wrecker rotation list. According to CPD Standard Operating Procedure (SOP) 2.150, new wrecker companies assigned to the police rotation list must meet the standards set in the Wrecker Rules and Regulations, and SOP 2.145 requires wrecker companies to be inspected annually. Additionally, wrecker companies are required to maintain adequate insurance coverage as set by the city.

The CPD Communication Division is responsible for rotating wrecker companies by district. When a wrecker company is dispatched, personnel manually completes a "cincom" card which records the wrecker assigned to tow the vehicle, the date and time of contact. Wreckers are responsible for safely towing vehicles to the impound lot and submitting a tow report to the Impound Unit intake staff. Intake staff records the vehicle's identification into the blotter book and Permits Plus database and notifies the owner.

Basic impoundment charges are \$150, with additional fees, as follows: a \$25 per day storage fee and a \$75 extended storage fee for any motor vehicle not claimed by the owner within 120 hours after notice has been mailed or personally given to the owner.

The CPD Impound Unit also auctions unclaimed and forfeited vehicles and exercises supervision of private towing companies on the police rotation towing list. Auctions are held the 1st and 3rd Saturday of the month. According to the auction rules stated in the City Bulletin and the CPD website, terms of the sale are cash only and bidders must pay immediately after the sale. Vehicles that are not sold at the auction are generally sold to scrap dealers for \$325 per vehicle (the rate in 2012).

In 2012 the Impound Unit generated approximately \$1.8 million in revenue. Approximately 931 vehicles were sold in the auction and 371 vehicles were scrapped.

Audit Selection

The audit was conducted in accordance with the fiscal year 2013 and 2014 internal audit work plan.

Audit Objectives

The audit objective was to evaluate the strength of CPD Impound Unit internal control structure for cash handling, inventory tracking and inventory asset security. Internal Audit also reviewed the CPD's rotation wrecker process to determine if wreckers were being selected equitably.

Audit Scope and Methodology

The audit scope included an evaluation of receipts for March and June of 2012. A current year review of vehicle inventory records and a current year review of wrecker data files were also performed. The documentation supporting the wrecker selection method was evaluated for the period of March 1 through March 7, 2012 and the period of June 1 through June 7, 2012. Audit methods included recalculating March and June 2012 cash and credit card receipts and verifying bank deposits. Inventory was evaluated by randomly selecting 25 vehicles from the blotter book and verifying the vehicle physical location on the lot. Another 25 vehicles were randomly selected from the lot and traced back to the data record in Permits Plus. IA also reviewed the IACP National Law Enforcement Policies, made observations, interviewed Impound Unit staff and various other City department staff to gather relevant data for the audit.

Statement of Auditing Standards

As required by Article II, Section 15 of the City Administrative Code, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 3.96 pertaining to external peer review requirements. This exception did not have a material effect on the audit. Audit fieldwork was performed between March and June, 2013.

Commendations

Internal Audit commends the Impound Unit staff on their cooperation throughout the audit.

II. Audit Findings and Recommendations

The auction cash receipts transaction is not recorded in a database.

A well designed computer database system has many advantages; it serves as a useful tool to capture pertinent financial data as transactions occur, ensures accuracy, and provides historical financial data in a time efficient manner. Ensuring proper tools are in place to record, track, and monitor cash is imperative because cash is highly susceptible to abuse and loss. IA discovered that cash receipts generated from the CPD auctions are not recorded into a computer system and historical financial data was not readily available. It is estimated that in 2012 the auctions generated \$775,150. The documentation that supports the amount of cash received from the auctions held in prior years was not available.

Recommendation 1: The Impound Unit should work with CAGIS to develop a database system or consider available options to handle auction sale activity.

Recommendation 2: In addition to cash, management should consider accepting other forms of payments for auctions that involve less risk, such as; credit cards, money orders, certified checks, or bank cashier's checks. Currently, the Impound Unit accepts, cash, certified cashier's check, and credit cards as payment for impoundment charges.

The auction documentation is inadequate and insufficient.

A sufficient record keeping system provides a paper trail of daily transactions, and assists with ensuring the legitimacy of those transactions. Prior to the auction a vehicle title is obtained by the Impound Unit and issued to the buyer. The title contains the name of the owner and buyer, sales price, vehicle make and model, vehicle identification number, and mileage. IA found that staff either did not retain copies of the titles or only copied the front side of the titles. The backside of the title, which contained relevant data such as the vehicle sales price, was not kept by the Impound Unit during the first 5 months in 2012 and prior. IA inquired further and was informed that the original title was given to the buyer as their receipt and copies of the title were not retained.

While reviewing the June 2 and June 16, 2012 auction worksheet, IA noticed a vehicle that appeared to have been sold in both auctions. After further inquiry, IA was informed that on the auction worksheet a line is drawn through vehicles sold. The vehicle in question did not have a line drawn through it and the item number was circled, which indicates the vehicle had not been sold during the June 2nd auction. According to staff, the vehicle was actually sold at the June 16th auction. Using a manual system to handle auction sale activity is not efficient. A point of sale system would efficiently track voided sales and other auction activity. IA also became aware that some vehicles advertised for sale were not recorded as being received by the Impound Unit and no data record exist. In addition, vehicle towing documents were not readily available, some bidders' information was missing, certified notifications were not retained, some affidavits were missing, or copies did not have a notarized seal or proper signature, and the public auction listing which advertises how many vehicles were up for sale was not maintained by the Impound Unit.

Recommendation 3: In addition to the title, a receipt should be issued to buyers for vehicles purchased at the auction.

Recommendation 4: The Impound Unit should establish an efficient record keeping system for the public auctions. Scanning key documents to a file would ensure that documentation is readily available for review.

Recommendation 5: The Impound Unit should retain the public auction listing that list the vehicles advertised for sale.

The auction cash deposit is not supported with documentation.

Sufficient documentation serves as a tool to verify, substantiate, and reconcile cash transactions. While reviewing the auction cash receipts for March and June 2012, IA found that the accountant is only given a bank deposit ticket to record the auction cash receipt. In addition, IA became aware that the backup support to validate the auction cash deposits was not attached to the cash receipt schedule. A reconciliation of cash collected was not performed, and the bank deposit ticket was not verified. In efforts to validate that the amount of cash collected from the auction was deposited at the bank, IA prepared a reconciliation based upon the amounts provided by the Impound Unit and was able to trace auction cash receipts to the bank statement. Although, the auction cash deposits were confirmed, reconciling auction transactions, and piecing together historical data was not an efficient process.

Recommendation 6: A reconciliation of the total dollar amount of the cars sold to the total amount collected should be performed at the end of every CPD auction.

Recommendation 7: All supporting auction documentation should be kept with the cash receipt schedule as backup support for the deposit and the amount posted on the bank deposit ticket should be verified.

An individual was permitted to purchase auctioned vehicles with a check and some individuals were given a grace period to pay for their vehicles.

According to the CPD website and the auction rules stated on the City Bulletin, cash payment is due immediately after the sale. During the cash receipt test, IA found that some buyers were permitted to pay for their vehicles at a later time and a certain individual is allowed to pay with a check. However, documentation to support the reason for permitting a grace period or allowing checks was not provided. In addition, a copy of the check received as payment was not retained by the Impound Unit in 2012. To promote fairness and uniformity, auction rules should be consistently applied.

Recommendation 8: CPD auction rules should be enforced equally any exceptions to policy should be documented and approved by management.

Recommendation 9: CPD should revise the website and the auction rules and clarify the terms of the sale.

Auction cash receipts for 2012 differ from Cincinnati Financial System (CFS) Net Revenue Detail Report.

In 2012 the CPD Impound Unit created an Annual Intake spreadsheet to track revenues and funds paid to tow companies. According to the Annual Intake spreadsheet, the auction generated \$775,150 in 2012. In efforts to substantiate this amount IA obtain a copy of the 2012 CFS Net Revenue Detail Report and found that CFS reported revenue collected from the police auction as \$763,200 which is \$11,950 less than the amount reported on the CPD Annual Intake spreadsheet.

Recommendation 10: The Impound Unit should consult with Accounts & Audits and determine what action is needed to rectify the discrepancy.

Recommendation 11: On a monthly basis the Impound Unit should reconcile the auction monthly cash amount to the CFS Net Revenue Detail Report to ensure that auction revenue is accurately reported.

The cash register does not work.

Best practice indicates utilizing an automated point of sale system (POS), such as a cash register, increases the efficiency in processing sale transactions and provides more detailed reports for reconciling cash. Automated cash handling systems also serve as a mechanism to reduce theft and abuse. By design, such a system will record daily sales transactions and voids, maintain permanent sales activity, and generate a receipt for the customer. IA found that the Impound Unit cash register does not function as intended. Employees are using the cash register as a lock box system for receiving cash. The sale transaction is entered into Permits Plus, cash is collected and placed on the counter, next the customer payment amount is entered into Permits Plus, the no sale button on the cash register is used to open the drawer, and the cash is removed from the counter and placed inside the drawer. This is a substandard cash handling process. Typically, the sale is entered into an automated POS system, the drawer automatically opens to receive cash and a receipt is generated. Additionally, the data in a POS system can be downloaded into financial reports for management review.

Recommendation 12: The Impound Unit should install a new point of sale system to increase efficiency.

Intake entries contain several accounting errors.

The accurate recording of financial transactions is essential to having a reliable database; and reviewing financial transactions is an important management control. While reviewing the cash receipts, IA found that cash receipt reports are not generated and reviewed for accuracy. IA also found several data entry errors that caused cash receipt data to be inaccurate. Some of the errors found are as follows:

- Cash transactions were recorded as credit card transactions and vice versa.
- Voided transactions were not correctly voided in the system causing duplicate entries.
- Invalid accounting codes were charged to assess storage fees.
- Employees manually assessed sales tax charges as a result sales tax was not correctly stated on the receipt.

- The wrong credit card vendor was entered into the system for some credit card transactions.
- Several receipts omitted the customer name.
- Corrections to cash transactions were written on receipts but not corrected in the system.

Recommendation 13: Impound Unit intake staff should be trained to properly enter transactions into Permits Plus and make necessary corrections.

Recommendation 14: The Impound Unit supervisor should oversee and approve all voided transactions. In addition, a review of the daily transaction register should be performed to ensure financial transactions are being entered into the system correctly.

Recommendation 15: The Impound Unit should consult with Accounts & Audits and CAGIS to determine the appropriate action needed to correct charges that were incorrectly entered into the system. Additionally, management should work with CAGIS on how to fully utilize the receipt reporting feature within Permits Plus, which will provide a tool for management to review daily transactions in a concise and readable format. This will ensure information is accurate and reliable.

The daily cash receipt schedule is not supported with the receipts.

The accountant fills in a daily cash receipt schedule that records total receipts to its proper accounting code, and forwards it to Accounts & Audits and Treasury. The receipt substantiates the entries recorded on the cash receipt schedule which gets recorded into (CFS). IA requested the daily cash receipt schedules for March and June of 2012 and found that staff does not attach the receipts to the cash receipt schedule as support for the journal entry. As a result of this, researching prior month transactions was labor intensive. The receipts for 2012 were stored in an unlabeled box.

Recommendation 16: The daily receipts should be attached to the cash receipt schedule as supporting documentation for the journal entry.

Documentation for voided transactions is not maintained.

Properly maintained files and adequate record keeping enable management to easily research past transactions and resolve issues. While reviewing the daily receipts for March 8, 2012, IA noticed gaps in the number sequence. The voided receipt or voided slip was missing for receipt items 743, 744 and 745. In addition, these voids were unable to be viewed or printed in Permits Plus. Gaps in the receipt number sequence should be explained, and the reason for voiding a transaction should be documented on a voided slip and approved by a supervisor. This control procedure reduces the risk of an employee destroying a receipt, and taking cash.

Recommendation 17: Documentation supporting voided transactions should be filed with the daily cash receipts.

The daily cash receipt schedules and a bank deposit contained discrepancies.

To ensure daily receipts are correctly recorded in the system and on the bank statement, a daily review of the receipts, cash receipt schedule, and the bank deposit should be performed. IA was informed that a supervisor does not review the daily bank deposit, and they are not informed of overages or shortages. According to SOP 2.115 section G, staff is accountable for proper completion of cash and credit card transactions. IA reviewed the daily cash receipts and traced the total amount received on the cash receipt schedule to the bank statement for March and June 2012. Several clerical errors and discrepancies were found that could have easily been detected during a supervisor daily review. Some of the discrepancies are as follows:

- March 31st cash receipt schedule was not completed.
- March 22nd credit card deposit was \$.52 cents less than the total amount reported on the receipts.
- March 8th bank deposit omitted a \$150.00 cash payment.
- March 5th bank deposit was \$1.30 more than what was recorded on the cash receipt schedule. The cash receipt schedule did not indicate an overage.
- June 28th cash receipt was noted as being short \$8.00, management was not informed.
- June 18th cash receipts omitted the customer name.
- June 13th cash receipt schedule reports \$254.89 less than total cash receipts, and the credit card deposit is \$254.89 more than the total credit card receipts.

Recommendation 18: A supervisor should review the cash receipt schedule, receipts, and the daily bank deposit and initial the form.

Recommendation 19: A supervisor should monitor and track all cash shortages and overages.

Civil bond cash payments received by the Impound Unit in 2012 are undetermined.

The Impound Unit accepts cash bond payments for criminal offenses committed in a motor vehicle. IA inquired with several staff members regarding the total amount of cash bonds collected during 2012 and was not provided with an amount. Internal controls over cash should be in place for all cash collected by the Impound Unit. Historical financial data and payee data should be properly maintained and readily available.

Recommendation 20: The Impound Unit should review the current process in place for handling cash bond payments and implement stronger controls over cash bond payments received by the Impound Unit.

Recommendation 21: Civil bond cash payments received by the Impound Unit should be recorded and assigned an accounting code on a cash receipt schedule. All supporting documentation should be attached.

Cash receipts were not deposited within one business day, contrary to policy.

According to SOP 2.115 staff will prepare the previous day cash receipts for deposit at Fifth Third bank the next business day. Ideally, cash receipts should be deposited within 24 hours. The sooner cash is deposited at the bank the lesser the risk of theft or loss of funds. IA reviewed the bank deposit frequency for March and June 2012 and found the following: In

March 2012 there was one occurrence where the bank deposit was made on the 2nd business day instead of on the first business day and in June there were three occurrences where the bank deposit was made on the 2nd business day.

Recommendation 22: The bank deposit should be made within one business day in accordance with policy. Any delays in depositing money received should be documented and the supervisor should be informed of the reason for the delay.

The Impound Unit lacks segregation of duties over bank deposits.

Segregation of duties is a basic internal control used to ensure irregularities and errors are prevented or detected in a timely manner. In order to maintain proper segregation of duties; collecting, recording, reconciling, and depositing processes must be performed by separate employees. IA found that a staff person responsible for collecting cash at the payment window is also making the daily bank deposit. An ideal setup would have an employee, who is not involved in the collection process, make the daily bank deposit.

Recommendation 23: The daily bank deposit should be made by an officer who is not involved in collecting, recording, or the reconciling process.

Too many people have the combination to the safe.

Cash is highly susceptible to theft, and controls should be in place to lessen the risk of theft or loss. Limiting access to cash and controlling who handles cash reduces this risk. IA found that several employees have the combination to the safe and the combination is not changed when personnel leave the department. Also, employees are not required to sign a log when adding or removing cash from the safe, and a record of who is taking the daily deposit to the bank is not maintained.

Recommendation 24: The combination to the safe needs to be changed. Only two individuals should have the combination to the safe, one individual serves as a back up. Going forward the combination to the safe should be changed periodically or when personnel leave the department.

Recommendation 25: A log book should be signed by individuals who open the safe. The log should contain the individual's name, the date and time of entry and the reason for opening the safe. The person who makes the bank deposit should also sign the log book.

A quarterly audit of cash transactions is not performed.

According to SOP 2.115, the Impound Unit cash transactions will be audited quarterly on an unannounced basis, by the following agencies: Police Department Fiscal and Budget Section, City's Department of Accounts and Audits, State Auditor's Office and the Inspections Section. IA was informed that audits are not performed by these agencies.

Recommendation 26: The Impound Unit should inquire with management as to why quarterly audits are not performed as stated in SOP 2.115.

Permits Plus is unable to generate a vehicle inventory listing.

A vehicle inventory report provides useful information that assist management with keeping track of inventory. Vehicle data is entered into Permits Plus for every car received by the Impound Unit. Vehicles that are sold in the auction, scrapped or reclaimed are also entered into Permits Plus for tracking. If the necessary data is being entered into the system, the database should have the capability to easily generate a vehicle inventory report that shows how many vehicles are on the impound lot and other relevant data. IA requested an inventory listing to determine how many vehicles were on the impound lot and was informed that a vehicle inventory report could not be generated.

Recommendation 27: The Impound Unit should consult with CAGIS to determine the appropriate action needed to setup an inventory reporting feature in Permits Plus. Going forward the report should be used to assist with reconciling inventory.

The vehicle information contained in the blotter book and in Permits Plus is not accurate.

As a result of Permits Plus not being able to generate an inventory listing, IA performed an alternative inventory test by selecting vehicles from the blotter book. The blotter book contains information on all vehicles received by the Impound Unit. Vehicles that have been released or closed via auction or scrapped are also recorded in the blotter book. IA Inventory Test I randomly selected 25 items from the blotter book that were not released and inquired about the vehicles status in Permits Plus. Of the 25 vehicles selected, the status in Permits Plus indicated 4 vehicles were still on the lot. However, only 3 of those vehicles were actually found on the lot. This test indicates the data in the blotter book and Permits Plus is not accurate. Ideally, the blotter book records should match Permits Plus data records and Permits Plus should accurately account for all the vehicles on the lot.

IA was informed that physical vehicle counts are not performed by the Impound Unit. In efforts to determine if the vehicles on the impound lot were correctly stated in Permits Plus, IA conducted a second Inventory Test by randomly selecting 25 vehicles from the impound lot and tracing them to the data record in Permits Plus. IA Inventory Test II revealed the following: of the 25 vehicles selected from the lot, Permits Plus indicated 2 were sold in the auction, 2 did not provide the vehicles make and model information, 1 data record was unable to be provided, and 1 vehicle was recorded as being stored in a different row.

Recommendation 28: The Impound Unit should perform a physical vehicle inventory count to determine how many vehicles are actually on the lot and to ensure that vehicle inventory data is accurately stated in Permits Plus. As an ongoing internal control measure, physical inventory counts should be done annually. Any errors or irregularities should be researched and corrected.

Wrecker rotation activity is not maintained in a database.

The CPD Impound Unit utilizes 13 local wrecker companies to meet the towing needs of the city. Each wrecker company is assigned a number and a police district, and then staff rotates the wreckers in the district numerically. When a vehicle needs to be towed, the police communication personnel select a tow company from the wrecker rotation list based upon the

location of the vehicle. The wrecker is dispatched by police personnel to various locations in the police district. If wrecker companies are not available or do not respond in 30 minutes the next wrecker on the list will be contacted. All activity associated with the wrecker selection process is handwritten on a "cincom" card and mailed to the Impound Unit. IA tested the efficiency and equality of the wrecker rotation process during the first week in March and June, 2012, and found that the rotation process appears to be conducted fairly. However, the wrecker selection activity is not recorded into a database and data is not retained by the Communication Division. A review of historical data would require searching through files or boxes, pulling "cincom" cards and piecing together the activity by district, date and dispatch time. By design, a database would automatically record the contact date and time, the wrecker's response when called, dispatched time and all other relevant data associated with the wrecker rotation process. This system would eliminate the need to store boxes of "cincom" cards.

Recommendation 29: The Impound Unit should consult with the Communication Division and CAGIS to develop a database system to automate the rotation process. A database system would provide a more efficient method to handle the wrecker rotation process and maintain historical data.

Several wrecker contracts or agreements were unable to be found.

The 2012 CPD Impound Unit Annual Intake report indicates that \$382,752 was paid to wrecker companies. According to the IACP National Law Enforcement Model Policy, impoundment of motor vehicles shall use contract commercial towing services. IA requested the contracts for all 13 wreckers companies utilized by the city and was provided with only 2 contracts. IA was informed that the other wrecker companies are not under contract. They are considered type 4 purchases and a contract or agreement is not required, according to the Finance Manual. The wrecker rules and regulations and the municipal code address specific insurance requirements and others standards wreckers must meet while doing business for the city. A contract would hold wrecker companies accountable for those requirements.

Recommendation 30: A contract or agreement should be created for all wrecker companies who do business with the City.

Wrecker's insurance certificates were missing.

According to municipal code section 869-5:

Wrecker operators must have and keep in force general liability insurance, protecting against bodily injury and property damage, in an amount of not less than \$1,000,000 with a deductible no greater than \$1,000 and wrecker operators must also have garage keepers legal liability insurance, covering property which comes into the care, custody, or control of the wrecker operator by virtue of towing, covering theft, fire and collision in an amount of not less than \$100,000 with a deductible no greater than \$500. Such insurance must contain an endorsement providing a minimum of ten days prior notice by the insurer to the City prior to any material change or cancellations.

IA reviewed the wrecker insurance records for 2012 and 2013 to observe the insurance certificates on file and found the following: For 2012, 7 out of 13 wreckers did not have

insurance certificates on file; the other 6 wreckers either had gaps in insurance coverage or were underinsured. For 2013, 9 wreckers did not have a current certificate on file, 1 did not have any general liability insurance, 1 was underinsured, and 2 appeared to be properly insured. In addition, IA noticed that several of the insurance certificates did not state the deductible; however, 1 insurance certificate reported garage keeper deductible at \$1,000 and not \$500 as stated in the municipal code. Inspectors review wrecker insurance cards annually; however they are not aware of the insurance requirements.

Recommendation 31: To protect the City against loss and minimize risk the Impound Unit should ensure that all wrecker companies who do business with the City are continuously and adequately insured at all times.

Wrecker inspectors were not forwarding relevant information to the Impound Unit.

According to SOP 2.145 each CPD wrecker shall be inspected annually. Traffic Unit personnel inspect the wreckers and complete a towing inspection checklist. All required equipment and specifications are checked and indicated on the checklist. The checklist should be sent to the Impound Unit for placement in the applicant's file. IA found that inspectors are not forwarding inspection results to the Impound Unit for filing and other relevant data concerning wreckers is not communicated between both parties.

Recommendation 32: The Impound Unit Commander should request that inspector's forward information gathered during the annual inspection to the Impound Unit as stated in SOP 2.145.

Impound Unit staff does not perform opening security duties

According to SOP 2.20, upon opening the impound lot an immediate check of the building for possible break-ins should be performed, and the fence perimeter should be checked for damages. IA found that a building check and perimeter check is not performed.

Recommendation 33: The Impound Unit should ensure that the individuals responsible for opening the impound lot are performing building and perimeter checks as stated in SOP 2.20.

III. Conclusion

The CPD Impound Unit serves as an important function within the City. Impaired or disabled vehicles are removed from traffic areas and towed to the impound lot for safekeeping. Abandoned vehicles that are determined to be suitable for sale are sold at the public auction. In 2012 the Impound Unit operations and the public auctions generated approximately \$1.8 million and sold approximately 931 vehicles at the auction. IA's review of the cash receipt, inventory and recordkeeping processes revealed several internal control weaknesses that impair the Impound Unit ability to operate efficiently. These include: auction cash transactions are not recorded into a database, and vehicle titles that contain pertinent data such as the vehicle sales price were either missing or not retained by staff.

Cash is highly susceptible to loss and abuse, strong internal controls are necessary to properly account for and secure cash assets. Additionally, vehicle inventory discrepancies were found, physical inventory counts are not performed, and inventory reports are not generated from the system and reviewed. A modified database system, working cash register, and scanner would help staff to operate efficiently. Management review of the daily transaction reports and additional training of staff would ensure that errors or irregularities are detected in a timely manner. Overall, implementing tighter controls over cash handling, record keeping, and inventory tracking would ensure that documentation is accurate, reliable, and readily available.

IV. Cincinnati Police Department Response

Recommendation 1:

The Impound Unit should work with CAGIS to develop a database system or consider available options to handle auction sale activity.

Department Response:

Agree. Plans to engage CAGIS and CPD Information Systems are in the research stages to determine if current record management (CPD RMS) and CAGIS systems (PermitsPlus) can be adapted to meet the needs of the unit.

Recommendation 2:

In addition to cash, management should consider accepting other forms of payments for auctions that involve less risk, such as; credit cards, money orders, certified checks, or bank cashier's checks. Currently, the Impound Unit accepts, cash, certified cashier's check, and credit cards as payment for impoundment charges.

Department Response:

Agree. Plans are in motion to implement acceptance of credit cards in addition to cash for auction sales, pending verification of any required legalities. Due to the unpredictability of the actual amount of the final selling price of a vehicle offered at auction, the lack of available financial institutions with standard business hours on Saturday, and the risk of the loss of a sale if monies are not collected immediately after the auction, acceptance of a cashier check may not be feasible, or in the best interests of the Impound Unit.

Recommendation 3:

In addition to the title, a receipt should be issued to buyers for vehicles purchased at the auction.

Department Response:

Agree. Initiating process to purchase a point of sale system that can be used for auction functions.

Recommendation 4:

The Impound Unit should establish an efficient record keeping system for the public auctions. Scanning key documents to a file would ensure that documentation is readily available for review.

Department Response:

Agree. This was implemented beginning with the auction held 3/16/2013. Several auction documents are maintained electronically as well as original paper copies. A hard copy of all documents and records are also maintained in a separate file for ease of access in the event of loss or corruption of electronic data.

Recommendation 5:

The Impound Unit should retain the public auction listing that list the vehicles advertised for sale.

Department Response:

Agree. This was implemented beginning with the auction held 3/16/2013.

Recommendation 6:

A reconciliation of the total dollar amount of the cars sold to the total amount collected should be performed at the end of every CPD auction.

Department Response:

Agree. An electronic spreadsheet indicating the dollar amount of vehicles sold was implemented 5/18/2013. A tally of the dollar amount from the auctioned vehicle titles is also maintained with the auction folder. This process was implemented 7/06/2013.

Recommendation 7:

All supporting auction documentation should be kept with the cash receipt schedule as backup support for the deposit and the amount posted on the bank deposit ticket should be verified.

Department Response:

Partially Agree. Cash receipt documentation is maintained separate from the complete auction file. This enforces the segregation of cash duties vs. auction paperwork. Agree to maintain a copy of the deposit slip and daily cash receipt with the auction file. Implemented 8/03/2013.

Recommendation 8:

CPD auction rules should be enforced equally any exceptions to policy should be documented and approved by management.

Department Response:

Agree. Current Standard Operating Procedures for the unit are under revision to include exceptions to written policy, at the discretion of the Police Chief or designee (Impound Unit Commander). Photocopies of accepted checks are stored in the auction file.

Recommendation 9:

CPD should revise the website and the auction rules and clarify the terms of the sale.

Department Response:

Agree. Review and revisions to the website to include adjustments, and recommendations (such as the acceptance of credit cards at future auctions) are in process.

Recommendation 10:

The Impound Unit should consult with Accounts & Audits and determine what action is needed to rectify the discrepancy.

Department Response:

Agree. Police Fiscal Affairs will work with Accounts & Audits to attempt to identify the discrepancy.

Recommendation 11:

On a monthly basis the Impound Unit should reconcile the auction monthly cash amount to the CFS Net Revenue Detail Report to ensure that auction revenue is accurately reported.

Department Response:

Agree. This recommendation is in process with the Fiscal Affairs Section. Currently the Impound Unit Commander does not have access to this report. Monthly meetings to review all cash revenue reports, transactions, and deposits will be implemented within 30 days.

Recommendation 12:

The Impound Unit should install a new point of sale system to increase efficiency.

Department Response:

Agree. Impound Unit is in initial phases of investigating point of sale options that would best meet the needs of the unit.

Recommendation 13:

Impound Unit intake staff should be trained to properly enter transactions into Permits Plus and make necessary corrections.

Department Response:

Agree. Training was held and completed 5/28/2013. Training was held for all Impound Unit staff members to properly enter transactions, and corrections in database. Training will be on-going, and conducted on an as-needed basis for unit members.

Recommendation 14:

The Impound Unit supervisor should oversee and approve all voided transactions. In addition, a review of the daily transaction register should be performed to ensure financial transactions are being entered into the system correctly.

Department Response:

Agree. Implemented 7/29/2013.

Recommendation 15:

The Impound Unit should consult with Accounts & Audits and CAGIS to determine the appropriate action needed to correct charges that were incorrectly entered into the system. Additionally, management should work with CAGIS on how to fully utilize the receipt reporting feature within Permits Plus, which will provide a tool for management to review daily transactions in a concise and readable format. This will ensure information is accurate and reliable.

Department Response:

Agree. Impound, along with the Fiscal Affairs Unit will ensure the proper accounting codes are in the PermitsPlus database. Some errors that were noted during the audit were a result of erroneous or missing codes in the PermitsPlus database.

Recommendation 16:

The daily receipts should be attached to the cash receipt schedule as supporting documentation for the journal entry.

Department Response:

Agree. Implemented 06/01/2013.

Recommendation 17:

Documentation supporting voided transactions should be filed with the daily cash receipts.

Department Response:

Agree. Implemented 06/01/2013.

Recommendation 18:

A supervisor should review the cash receipt schedule, receipts, and the daily bank deposit and initial the form.

Department Response:

Agree. Implemented 7/30/13.

Recommendation 19:

A supervisor should monitor and track all cash shortages and overages.

Department Response:

Agree. Implemented 7/09/2013. The accounting technician assigned to reconcile daily cash receipts provides notice to the unit commander, along with supporting documentation of any overage or shortage. The unit commander conducts an audit of the documentation, and takes necessary steps to rectify error. A formal memo is forwarded through chain of command to inform them any discrepancy.

Recommendation 20:

The Impound Unit should review the current process in place for handling cash bond payments and implement stronger controls over cash bond payments received by the Impound Unit.

Department Response:

Agree. The Impound Unit and Police Fiscal Affairs will meet with Accounts and Audits and Treasury to establish controls and procedures for the cash bond payments.

Recommendation 21:

Civil bond cash payments received by the Impound Unit should be recorded and assigned an accounting code on a cash receipt schedule. All supporting documentation should be attached.

Department Response:

See response to recommendation 20.

Recommendation 22:

The bank deposit should be made within one business day in accordance with policy. Any delays in depositing money received should be documented and the supervisor should be informed of the reason for the delay.

Department Response:

Agree. With the exception of the weekend (Friday, Saturday, and Sunday) receipts, deposits **are** made on the following business day. Fiscal Affairs has trained a back-up for the assigned accounting tech, in case of absence. Advance notice is provided to the unit commander if there will be any delay in deposit schedule.

Recommendation 23:

The daily bank deposit should be made by an officer who is not involved in collecting, recording, or the reconciling process.

Department Response:

Disagree. The impound unit officers and staff share responsibilities for collecting monies as part of their daily duties. The recording and reconciliation is done by an employee of the Fiscal Affairs Section on the following business day. Thus, a segregation of duties over bank deposits does exist.

Recommendation 24:

The combination to the safe needs to be changed. Only two individuals should have the combination to the safe, one individual serves as a back up. Going forward the combination to the safe should be changed periodically or when personnel leave the department.

Department Response:

Partially Agree. Fiscal Affairs will have a locksmith examine the safe and if possible make changes to the access code every six months. Acme Lock is scheduled for an appointment (8/8/13) to perform the examination. Having only two people with the combination is not feasible as there may be times the two people with the combination are not working.

Recommendation 25:

A log book should be signed by individuals who open the safe. The log should contain the individual's name, the date and time of entry and the reason for opening the safe. The person who makes the bank deposit should also sign the log book.

Department Response:

Agree. Implemented 8/1/2013.

Recommendation 26:

The Impound Unit should inquire with management as to why quarterly audits are not performed as stated in SOP 2.115.

Department Response:

Agree. The SOP is in process of revision to reflect this. The petty cash fund is audited quarterly by the CPD Inspections Section.

Recommendation 27:

The Impound Unit should consult with CAGIS to determine the appropriate action needed to setup an inventory reporting feature in Permits Plus. Going forward the report should be used to assist with reconciling inventory.

Department Response:

Agree. This recommendation is in process.

Recommendation 28:

The Impound Unit should perform a physical vehicle inventory count to determine how many vehicles are actually on the lot and to ensure that vehicle inventory data is accurately stated in Permits Plus. As an ongoing internal control measure, physical inventory counts should be done annually. Any errors or irregularities should be researched and corrected.

Department Response:

Agree. A physical inventory of all vehicles at the Impound lot is scheduled for 8/18/2013. Rain date is 9/08/2013.

Recommendation 29:

The Impound Unit should consult with the Communication Division and CAGIS to develop a database system to automate the rotation process. A database system would provide a more efficient method to handle the wrecker rotation process and maintain historical data.

Department Response:

Agree. The database should be electronic and shared.

Recommendation 30:

A contract or agreement should be created for all wrecker companies who do business with the City.

Department Response:

Agree. Impound management is in initial phases of consultation with City legal representatives to develop a Memorandum of Agreement (MOA) for the contracted services the wrecker companies provide.

Recommendation 31:

To protect the City against loss and minimize risk the Impound Unit should ensure that all wrecker companies who do business with the City are continuously and adequately insured at all times.

Department Response:

Agree. Impound unit is currently reviewing insurance compliance with all wreckers doing business with the City. An audit of wrecker files to ensure current copies of insurance are maintained continuously. A database is under development to ensure continuity of coverage, including notification processes and penalties for any lapses.

Recommendation 32:

The Impound Unit Commander should request that inspector's forward information gathered during the annual inspection to the Impound Unit as stated in SOP 2.145.

Department Response:

Agree. The inspection of wreckers has been completed for the calendar year, 8/01/13 through 7/31/2014. The report was received from the CPD Traffic Section and is currently under review and reconciliation with the wrecker files at impound.

Recommendation 33:

The Impound Unit should ensure that the individuals responsible for opening the impound lot are performing building and perimeter checks as stated in SOP 2.20.

Department Response:

Agree. The addition of a checklist to the daily line up for opening duties will be established. The opening member will have to "sign off" on the entries as being completed, and if there were any abnormalities. These will be noted and addressed by the unit commander.