

**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

OFFICE OF INTERNAL AUDIT

Professional Audit and Advisory Service

**Audit of Metro Police Department
Vehicle Impound Lot**

Date Issued: December 18, 2008

Office Location and Phone Number

222 3rd Avenue North, Suite 401
Nashville, Tennessee 37201

615-862-6110

*The Metropolitan Nashville Office of Internal Audit is an independent audit agency
reporting directly to the Metropolitan Nashville Audit Committee*

EXECUTIVE SUMMARY
December 18, 2008

Results in Brief	Recommendations
<p>We performed an audit of the processes and controls in place pertaining to the operations of the Police Department Vehicle Impound Lot. Key audit objectives and conclusions are as follows:</p> <ul style="list-style-type: none"> • Does the Vehicle Impound Lot have controls in place that ensure all revenues are received, deposited, and recorded in the accounting system in a timely manner? <p style="margin-left: 20px;">Yes. No material weakness, significant issues or control observations were noted.</p> <ul style="list-style-type: none"> • Does the Vehicle Impound Lot have controls and procedures in place to ensure that expenditures incurred are reasonable, necessary, and properly approved? <p style="margin-left: 20px;">Yes. No material weakness, significant issues or control observations were noted.</p> <ul style="list-style-type: none"> • Does the Vehicle Impound Lot have controls and procedures in place to ensure that all vehicles received at the lot are properly identified, monitored, secured, and discharged? <p style="margin-left: 20px;">Yes. No material weakness, significant issues or control observations were noted.</p> 	<p>We recommend the Police Department Vehicle Impound Lot Management Team implement controls to ensure items such as radios, speakers, and DVD systems contained in impounded vehicles are included in auctioned vehicles when they are discharged or a written record is maintained when accessory items are separated for individual auction events.</p>

Table of Contents

INTRODUCTION.....	1
BACKGROUND	1
KEY PROCESSES OVER VEHICLE IMPOUND LOT	4
OBJECTIVES AND CONCLUSIONS.....	4
OBSERVATIONS AND RECOMMENDATIONS.....	7
A – Ensure Items in Vehicles Sold at Auction are Properly Transferred to the New Owner	7
GENERAL AUDIT INFORMATION.....	9
STATEMENT OF COMPLIANCE WITH GAGAS.....	9
SCOPE AND METHODOLOGY	9
CRITERIA	9
STAFF ACKNOWLEDGEMENT	9
APPENDIX A. MANAGEMENT RESPONSE.....	10

INTRODUCTION

BACKGROUND

The Vehicle Impound Lot (VIL) is a division within the Metropolitan Police Department that operates a single 17 acre vehicle impound site at 1201 Freightliner Drive. The purpose of the VIL is “to provide secure storage of vehicles and vehicle disposal products to law enforcement so that they can maintain the integrity of evidence, have proper disposal procedures, and return property to the rightful owners.”

For a vehicle to be impounded at the VIL, a police officer must request that a vehicle be towed to the lot. The most common reasons for a vehicle to be impounded at the VIL were as follows: DUI's, invalid drivers licenses, improper registration, auto theft, hit and run, drug seizure and vehicles involved in a criminal investigation. For fiscal years 2007 and 2008, the VIL averaged over 10,500 vehicles towed per year to their lot.

The VIL is an enterprise fund. Enterprise funds are used to account for those governmental operations that are financed and operated in a manner similar to that of a business enterprise. Enterprise funds, in theory, are exclusively self-funded through user fees and charges. The OIA noted that the primary sources of revenue for the VIL stem from storage and flat fees (50%), towing fees (20%), and proceeds from the sale of abandoned vehicles at auction (27%). A summary of the VIL's revenue sources for fiscal years 2007 and 2008 are listed below in Exhibit A.

Exhibit A – Vehicle Impound Lot Sources of Revenue

Revenue Sources	2007	2008	Total
Vehicle Towing Fees	\$ 652,080	\$ 524,231	\$1,176,311
Storage and Flat Fees	1,497,855	1,259,425	2,757,280
Abandoned Vehicle Auction	722,662	827,216	1,549,878
Sale of Miscellaneous Items.	593	520	1,113
Total	\$2,873,190	\$2,611,392	\$5,484,582

The VIL had budgeted revenues of \$3,927,000 for fiscal year 2007 and \$2,940,300 for fiscal year 2008. According to the general ledger, actual revenues for the fiscal year 2007 totaled \$2,873,191 (27% under budgeted revenues) while actual revenues for fiscal year 2008 totaled \$2,611,392 (11.19% under budgeted revenues). According to VIL staff, the fluctuation in FY 2007 occurred due to an enhancement to the fee structure at the VIL which dramatically increased revenues. The fluctuation for fiscal year 2008 is a function of the MPD refocusing its energies toward DUI's as opposed to routine traffic stops. Many of the factors that would initiate a vehicle being impounded (registration problems, licenses problems etc.) were thereby reduced. Exhibit B on page 2 provides a summary of budget to actual revenues.

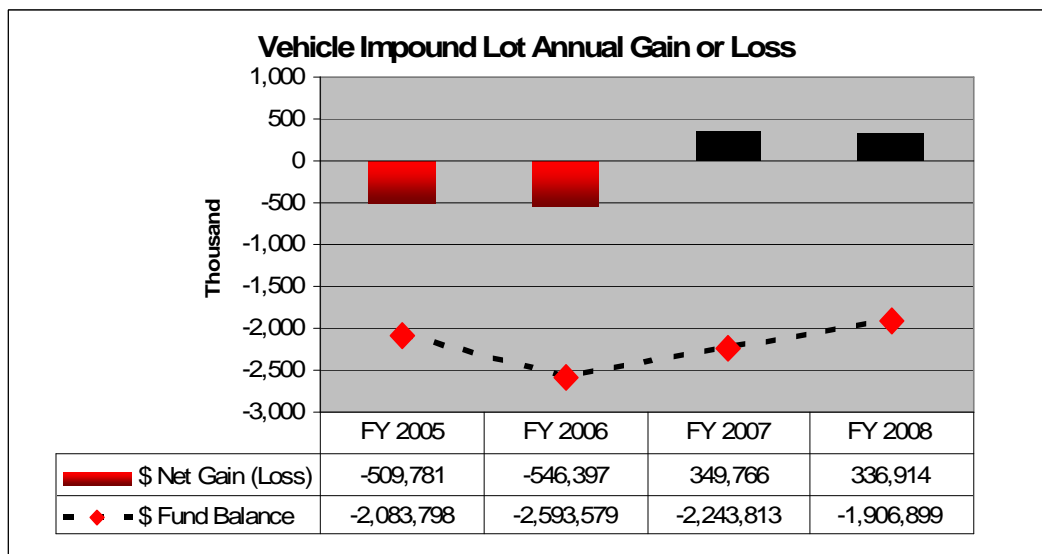
Exhibit B – Vehicle Impound Lot Budget vs. Actual Revenue

Fiscal Year	Budget	Actual	Budget Exceeded / (Shortfall)	Percentage Exceeded / (Shortfall)
2007	\$3,927,000	\$ 2,873,191	\$ (1,053,809)	(27)
2008	2,940,300	2,611,392	(328,908)	(11)

Prior to January 2006, the VIL and eBid in General Services were combined in a single enterprise fund (61190). Both sections were incurring significant losses. Consequently, it was determined that segregating both groups into separate funds would facilitate managing these losses while developing an action plan to become profitable. In January 2006, the VIL was placed into it's own distinct enterprise fund (61200). At that time an operational transfer of \$2,047,182 was booked representing the cumulative negative fund balance incurred since the VIL became an enterprise fund. In enterprise funds, operating gains and losses are applied to or against the fund balance.

Exhibit C below summarizes the VIL net operating gain or loss over the past four fiscal years. In fiscal year 2006, it was determined that the losses being incurred at the VIL were primarily being caused by the fee structure at the VIL. Consequently, Metropolitan Council passed ordinances 6.80.510 thru 6.80.585 which dramatically improved the fee structure for the VIL. Specifically, owners and/or lien holders of vehicles held at the VIL would be required to pay a flat fee of \$200 if the vehicle were held at the lot for over two hours. This ordinance took effect in fiscal year 2007. Consequently, the OIA noted that VIL went from an operating loss of \$546,397 in fiscal year 2006 to an operating gain of \$349,766 in fiscal year 2007 and \$336,914 in fiscal year 2008.

Exhibit C – Vehicle Impound Lot Annual Gain or Loss



Nature of Expenditures

In terms of expenditures, the OIA noted that the majority of VIL expenditures pertain to payroll (45%). The next largest expenses relates to fees charged by the wrecker companies to tow vehicles to the lot (30%) followed by indirect cost and internal service (12%). The remaining miscellaneous expenditures pertain to items such as supplies, printing, postage, uniforms, indirect cost, merchant fees and rent on equipment. The OIA noted that expenditures remained fairly constant in fiscal years 2006, 2007 and 2008 (\$2,275,762 (net operational transfer), \$2,523,406, and \$2,214,629 respectively).

Full-Time Equivalent Positions

As of June 20, 2008 the VIL had filled 21 out of 29 budgeted full-time equivalent positions.

Performance Measures

The OIA noted that the VIL had one performance measure per the OMB Budget Book. Specifically, the performance measure was the "percentage of vehicles returned to their rightful owners within 30 days of case resolution." The OIA noted that the results for this measure in fiscal years 2006, 2007, and 2008 were 81%, 79%, and 81%, respectively.

Operating Environment

The OIA noted that the VIL has a strong control environment. The VIL maintains a very detailed standard operating procedures which is routinely reviewed and updated. VIL staff appeared knowledgeable of the contents within the standard operating procedures. Additionally, the VIL is well organized which dramatically enhanced access to files and supporting documentation.

Another policy implemented by the MPD which enhances the control environment is the MPD self-assessment audit function. Such a function provides additional assurance that MPD's objectives and goals are being carried out and that the department's policies and procedures are being adhered to. The VIL was last subject to a MPD self-assessment audit in January 2007.

Purpose of the VIL Audit

The MPD is a highly visible entity within the community with a large number of groups interested in its activities, programs, and outcomes. Facilitating the public's trust is critical for the MPD to be able to carry out its mission. The VIL is a division within the MPD that deals directly with the public. The activities of the VIL reflect directly on the community's perception, trust and confidence in the MPD. As stated earlier, the VIL received over 20,000 vehicles during fiscal years 2007 and 2008. If the VIL is not operating in an efficient, open, and honest manner, the public trust in the MPD could be significantly diminished resulting in an impediment in its ability to carry out its mission.

KEY PROCESSES OVER VEHICLE IMPOUND LOT

The OIA's audit of the VIL focused on processes related to the revenue cycle, procurement cycle, and inventory management. Specifically, the OIA noted the following key controls at the VIL.

Revenue Cycle

- Segregation of duties between the collection, custody, depositing, and recording of all revenue
- Safeguarding bank deposits in transit
- Reconciliation between amounts actually received to amounts expected to be received, and deposited
- Management review and approval of amounts received, deposited, and recorded in the accounting system

Procurement Cycle

- Segregation of duties between the requisitioning, purchasing, reviewing, approving, recording, and payment of all expenditures
- Multi-layered management review of all expenditures
- Management approval and proper documentation of all overtime and/or time off pay for employees

Inventory Management Cycle

- Documenting and inspecting all vehicles
- Strong policies and procedures over releasing a vehicle to the proper owner
- Safeguarding of vehicles using perimeter fencing, surveillance cameras, and security patrols
- Written policies and procedures that help ensure all ordinances and laws are adhered to regarding the sale of vehicles legally abandoned

OBJECTIVES AND CONCLUSIONS

Does the VIL have controls and procedures in place to ensure that the collection, custody, and recording of revenues received are adequately designed and effectively implemented?

Yes. No material weakness, significant issues or control observations were noted. The OIA obtained a listing of all cash receipts pertaining to the VIL for fiscal years 2007 and 2008. From this listing, our office selected a sample of 50 cash receipts to be tested. Specifically, our office agreed the amounts on the report to the amounts on the deposit slip, as well to the amounts recorded into the accounting system. Our office also calculated the amount received per day based on the receipts to the amount actually deposited. Finally, the OIA reviewed the deposit slips and the receipt of cash (RC batch) recorded in Metro's financial system to ascertain if both items had been reviewed by VIL Management.

To determine if the VIL was receiving all the revenue that should have been collected from parties retrieving the vehicles, the OIA selected a sample of 50

Vehicle Towing Reports (VTR) for test work. Specifically, our office calculated the amount that the VIL should have received from the owner of the vehicle. Our office then compared the amount that should have been received to the amount actually collected. For all 50 items, the amount actually received agreed to the amount calculated as what should have been received.

To gain assurance that the VIL received the appropriate amount of proceeds from the sale of legally abandoned vehicles sold at auction; the OIA obtained a listing of all vehicles sold at auction for fiscal years 2007 and 2008. Both the VIL and Metro's eBid section maintain a separate listing of these vehicles. eBid submits their listing to the VIL on a monthly basis. The VIL staff reconciles the vehicles and amounts on eBids listing to theirs. The OIA selected 16 months for test work. The OIA reviewed the reports from both eBid and VIL to ascertain if the VIL was reconciling the amounts on each report. Additionally, the OIA reviewed the general ledger to determine if each month's sales had been accurately reported in Metro's financial system (EBS) and if entries had been made in a timely manner.

Does the VIL have controls and procedures in place to ensure that expenditures being made are reasonable, necessary, and properly approved?

Yes. No material weakness, significant issues or control observations were noted. The OIA noted that the majority of VIL expenses (75%) pertain to payroll and towing fees. The OIA conducted test work designed to ensure that employees listed on VIL's payroll report actually existed. The OIA noted every employee who had been paid from this register for FY 2008 and agreed the employees on this register to the employee roster in EBS. The OIA also verified each person on the register to a physical employee.

In terms of payments made to the various 16 wrecker companies, the OIA generated an expense report detailing all payments made to wrecker companies for fiscal years 2007 and 2008. From this report, our office selected 30 payments made to wrecker companies for test work. Specifically, the OIA reviewed each statement and ascertained if the statement were mathematically accurate and agreed to the amount recorded on the general ledger expense report. Additionally, the OIA reconciled each individual VTR listed on the wrecker statement to the individual wrecker VTR retained by the VIL to ensure that the amounts paid were for services actually rendered.

The OIA noted that the remaining expenses for the VIL pertained to items such as supplies, postage, uniforms, internal service fees, merchant fees, and rent on equipment. Internal Service fees represent approximately 12% of VIL expenses. MPD has strong controls in place regarding these expenditures. All expenditures, regardless of amount, must be supported by an invoice, and a Request for Procurement of Goods and Services (MPD Form 184). The MPD Form 184 is a document that must be reviewed and approved by four separate parties; the VIL Operations Manager, two members of MPD Management, and a representative in the MPD Fiscal Office.

Does the VIL have controls and procedures in place to ensure that all vehicles received at the lot are properly identified, monitored, secured, and discharged?

Yes. No material weakness, significant issues or control observations were noted. The OIA obtained a listing of all vehicles held on their lot as of August 28, 2008. The listing was generated from the VIL's inventory management system (TRAQ). From this listing, the OIA selected a sample of 50 vehicles for test work. Specifically, the OIA agreed the information contained in TRAQ to the individual VTR and the actual physical vehicle.

The OIA also selected a sample of 50 vehicles that had been held and then subsequently released by the VIL during fiscal years 2007 and 2008. The OIA reviewed supporting documentation to ascertain that the vehicle had been signed out and released to the proper party. The OIA then traced the information in the corresponding VTR to the Log Book. In cases where the vehicle had been held by the MPD, the OIA reviewed documentation verifying that the hold had been lifted.

In terms of the security of the impounded vehicle, the OIA toured the 17 acre lot with client staff. Our office also observed the electronic fence and the security cameras on the lot as well as Perimeter Check Sign Off Sheets for 15 days in fiscal year 2007. The OIA noted that the VIL conducted an average of 27 perimeter checks a day.

For legally abandoned vehicles sold at auction, the OIA reviewed a listing of all vehicles that had been sold at auction from July 1, 2006 through July 30, 2008. The OIA randomly selected a sample of 50 vehicles sold at auction for test work. Specifically, the VIL complied with the laws established in Tennessee Code Annotated (T.C.A.) § 55-16-105 regarding public notice related to the sale of abandoned vehicles.

Does the VIL have controls and procedures in place to ensure that all personal items contained in vehicles received at the lot are adequately identified, monitored, tracked, and secured?

Generally yes. Our office noted that, in general, controls over personal items in vehicles appeared to be operating effectively. The OIA randomly selected 50 vehicles currently on the impound lot for test work. For each sample item, the OIA reviewed the corresponding VTR and Inventory Form. The OIA then traced the items on the Inventory Form to the actual personal items located in the vehicle. However, controls ensuring that items retained in vehicles to be sold at auction are properly transferred to the new owners needed enhancement. (See Observation A, page 7 for more detail).

OBSERVATIONS AND RECOMMENDATIONS

A – Ensure Items in Vehicles Sold at Auction are Properly Transferred to the New Owner

Controls ensuring that items retained in vehicles sold at auction are properly transferred to the new owners need to be improved. Specifically, a risk exist that personal items and/or items of value such as radio's, tires, DVD systems, and speakers could be removed prior to the vehicle being prepared to be sold at auction, or discharged to the successful bidder.

The VIL staff take an inventory of personal items contained in a vehicle at the time the vehicle is brought to the impound lot by the wrecker company. The VIL also indicates if a radio is present in the vehicle by writing a "+" sign on the windshield and the VTR. If a vehicle does not have a radio, the VIL will write a "-" sign on the windshield and VTR. The owner of a vehicle may remove personal items from a vehicle. To retrieve personal items, the owner must be accompanied by a VIL staff person to the vehicle. Items taken from the vehicle are documented on the VTR and signed by both the owner and the VIL staff person. The owner of a vehicle is not allowed to take any item attached to the vehicle such as speakers and/or radios. For vehicles that are retrieved by the owner, an inherent control exist in that the owner has an interest in receiving the vehicle back in the same condition in which it was brought into the VIL. Conversely, vehicles to be sold at auction have been legally abandoned by the original owner. The new owner does not have knowledge of the items that were in the vehicle when it was brought to the impound lot.

We observed that there were no controls in place to ensure that all personal items listed on the Inventory Form were actually taken possession of by the new owner. Additionally, neither the Inventory Form nor VTR listed items such as speakers and/or DVD systems. Furthermore, since a reconciliation is not completed comparing the items contained in the vehicle at the time it is impounded to the time it is sold, there is no way to determine if these items were properly transferred to the new owner.

Criteria

The COSO Internal Control - Integrated Framework establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Having detection controls in place to ensure that items retained in vehicles are properly transferred to the new legal owner is critical to ensuring that an organization has established and designed a strong internal control framework. These controls enhance the control activities, and monitoring components of a strong internal control framework.

Risk

By not utilizing detection controls to ensure that vehicles sold at auction are properly transferred to the new owners in the same condition as when they

arrived at the impound lot, the risk of theft is greatly enhanced. If instances of fraud and/or theft were to occur without detection at the VIL, the public's trust in the MPD could be significantly diminished resulting in an impediment in its ability to carry out its mission.

Recommendation

We recommend the Police Department VIL Management Team implement controls to ensure items such as radios, speakers, and DVD systems contained in impounded vehicles are included in auctioned vehicles when they are discharged or a written record is maintained when accessory items are separated for individual auction events.

One possible solution would be to capture digital photographs of both the outside and inside of a vehicle when it is first accepted at the lot. The photographs could be compared to the state of vehicle accessories at the time of vehicle discharge to the successful eBid bidder. This review should be documented by VIL employees. An additional benefit of this control would be that claims of damage to a vehicle while under VIL custody could be verified by reviewing these photographs.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit from July to September 2008 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

SCOPE AND METHODOLOGY

The audit period focused primarily on the period July 1, 2006 through June 30, 2008 financial balances, transactions, and performance on the processes in place during the time of the audit.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the VIL Administrative Office. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of the VIL were directly observed.

CRITERIA

In conducting this audit, the existing VIL operations and processes were evaluated for compliance with:

- Department of Finance Treasury Policy #9
- The Committee of Sponsoring Organizations Internal Control-Integrated Framework
- T.C.A. § 55-16-105: Unclaimed or Abandoned Vehicles
- Metro Ordinances 6.80.510 to 6.80.585: Tow In Lots
- VIL Standard Operating Procedures

STAFF ACKNOWLEDGEMENT

Mark Swann, CPA, CIA, CISA – Metropolitan Auditor
Bill Walker, CPA - In Charge Auditor
Sharhonda Terrell - Staff Auditor

APPENDIX A. MANAGEMENT RESPONSE

- Management's Responses Starts on Next Page -



METROPOLITAN POLICE DEPARTMENT
of Nashville and Davidson County

Karl F. Dean, Mayor

Ronal W. Serpas, Ph.D.
Chief of Police

December 15, 2008

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Suite 401
Nashville, TN 37201

Re: Audit of Vehicle Impound Lot

Dear Mr. Swann:

This letter is to acknowledge receipt of the report entitled, "Audit of Metro Police Department Vehicle Impound Lot." This department has reviewed and evaluated all of the observations and recommendations contained in the report. As a result, the Vehicle Impound Section has made certain additions/revisions to the component's standard operating procedures so as to strengthen controls in the auction process. In addition, Vehicle Impound staff has implemented additional changes beyond those suggested by the audit team.

The Metropolitan Police Department expresses its appreciation for your assistance and support during the audit process. Recommendations for improving the operation of MNPD functions are always welcome.

Happy holidays to you and your staff.

Sincerely,

Ronal W. Serpas
Chief of Police



200 James Robertson Parkway • P.O. Box 196399 • Nashville, Tennessee 37219-6399 • Phone (615) 862-7400



**Metropolitan Police Department Vehicle Impound Lot
Management Response to Audit Recommendations
December 2008**

Report Item and Description	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A.1 We recommend the Police Department VIL Management Team implement controls to ensure items such as radios, speakers, and DVD systems contained in impounded vehicles are included in auctioned vehicles when they are discharged or a written record is maintained when accessory items are separated for individual auction events.</p>	<p>Accept. The Vehicle Impound Section has made some additions and revisions to the component's standard operating procedures so as to be more accountable in the auction process. The additions and revisions start with the initial receipt of vehicles and conclude with the actual release to the winning bidders.</p> <p>In the observations and recommendations section of the report, there were suggestions made to improve the controls on the transfer of items inside a vehicle to the winning bidder at auction. These recommendations form the basis for a reworking of the standard operating procedures at Vehicle Impound. While implementing the recommendations, the Vehicle Impound Section made additional changes beyond those suggested by the audit team which, we believe, will enhance the effectiveness of correctly transitioning items inside a vehicle to the auction process and eventually to the new owner.</p>	<p>Captain Ben Dicke</p>	<p>Completed.</p>