



GARLAND

INTERNAL AUDIT

**Big Bass Wrecker Contract
Compliance Audit**

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Authorization

Internal Audit (IA) conducted an audit of the Big Bass Wrecker Contract Compliance. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

The objectives of the Professional and Personal Service Contract audit were to:

1. Determine the accuracy of fees assessed by Big Bass Towing, Inc. in compliance with City Ordinance and Contract. (This would include notification, impound, daily storage, or any applicable fees.)
2. Determine the accuracy, completeness and timeliness of Big Bass payment and reporting in accordance with the Contract.
3. Determine compliance with the insurance and performance bond requirements per the Contract.
4. Determine compliance with the Contract regarding background checks and ensure vehicles are not towed or released without City approval.

Scope and Methodology

IA 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 and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope included review of the Police Department's and Big Bass Towing's (Big Bass) receipts and records from October 1, 2012 through January 31, 2015. In certain instances, we expanded the scope to include dates as late as April 7, 2015. To adequately address the audit objectives and to describe the scope of our work on internal controls, IA performed the following:

- Reviewed Texas Transportation Code, TDLR Storage Facility Rules, Texas Occupations Code, Big Bass Contract (The Contract) and City of Garland Ordinance (Sec. 26.02) (Obj. 1-4)
- Met with the Assistant City Attorney in order to determine the correct interpretation of the above documents (Obj. 1-4)
- Met with the Police Department, Code Compliance and Big Bass to determine their process for initiating and processing towed vehicles (Obj. 1, 2, 4)
- Developed process flow charts to document current processes related to towing, accounting, action, vehicle pickup and monthly reporting (Obj. 1, 2)

- Worked with the Police Department to develop IT reports for all released vehicles (Obj. 1, 2)
- Performed a gap analysis for control numbers listed in the Police Department's computer (Obj. 2)
- Reviewed a sample of towing and payout receipts (Obj. 1)
- Reviewed a sample of monthly reconciliations and associated payments (including auction support) (Obj. 2)
- Performed a surprise inventory of all vehicles on the City's impound lot (Obj. 2)
- Met with the Purchasing and Risk Management Departments to obtain and review insurance and performance bond documentation (Obj. 3)
- Reviewed the City's general ledger for payments made by Big Bass (Obj. 2)
- Observed the documentation related to background checks (Obj. 4)
- Met with the City Secretary to discuss document retention standards for insurance certificates (Obj. 3)

To assess the reliability of reports produced by the Police Department's computer system, IA interviewed multiple individuals in the Police Department regarding their processes, including the Captain that oversees the property room and the Property Room Supervisor, reviewed source receipts and reports and conducted a surprise inventory count. As a result of our testing, IA determined that the data was sufficiently reliable for the purposes of this report.

Based on the audit work performed, any deficiencies in internal control that are significant within the context of the audit objectives are stated in the Opportunities for Improvement section on page 5.

Overall Conclusion

During the course of the audit, we discovered:

1. Background checks and drug testing for Big Bass employees was not consistently performed prior to when they began performing services under the Contract and/or documentation was not consistently retained by the City. (Obj. 4)
2. Payments by Big Bass were not made to the Police Department in a timely manner. (Obj. 2)
3. Gaps in control numbers exist without notation as to the reason for deletion or cancellation. Research into these gaps is not occurring. (Obj. 2)
4. The Contract and the City Ordinance do not state all fees that are charged for wrecking, towing, impounding, notification and storage services. (Obj. 1)
5. Expired insurance certificates were not consistently maintained by the City. (Obj. 3)

Background

The City of Garland owns the impound lot and storage facility located at 1630 Commerce Street. The City has entered into an agreement with Big Bass to provide wrecking, towing, impounding and storage on the City's behalf. Big Bass is required to provide towing services 24 hours a day, seven days a week, 365 days per year. The current Contract has been in place since 12/16/2010 and had a 2 year term. Both of the two optional renewals were executed, therefore, the Contract is set to expire on 12/16/2016.

When the need arises for a vehicle to be towed, departments will contact Police Dispatch. They issue a control number that is given to Big Bass to tow the vehicle. Per the Contract, Section 1 – Provision of Towing and Wrecking Services, “No vehicle shall be towed by Operator under this Contract unless a representative of the City is at the scene of the hookup.” Big Bass will pick up the vehicle from the location and drop it off at the City's impound lot. In order to be retrieved from the lot, an officer must authorize release and the customer must pay all associated fees to Big Bass. Although amounts can vary, the typical fees paid by customers include a daily storage fee and certified letter fee (which is remitted to the City on a monthly basis) and a towing and impound fee (both retained by Big Bass).

All Big Bass employees that perform services for the City of Garland must be approved by the Police Department before they begin work. The Police Department will run a background check on all potential employees and an acceptance or denial of the driver will be given to Big Bass' management.

Big Bass should provide daily intake and release reports to the Police Department. All receipts should be included as support. Using these reports, the Police Department updates the related records in their system. Additionally, Big Bass should provide monthly summary and inventory reports to the Police Department.

The Police Department sends the monthly list of vehicles to be auctioned to Big Bass. Once the auction is complete, payment is sent directly to the Purchasing Department by Joe Pippin Auctioneers, LLC. This was outside of the scope of our audit, so we did not review this process in detail.

Payment for storage fees and certified letter fees owed to the City must be remitted by Big Bass to the Police Department by the 25th day of the following month. This payment will be less all towing and impound fees related to auctioned vehicles that are owed to Big Bass and any other adjustments.

Source: Towing Service and Impound Vehicle Storage Facility Contract (Big Bass Towing, Inc.)

Opportunities for Improvement

During the audit, IA identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

Finding # 1 (Obj. 4)

Condition (The way it is)

Background checks and drug testing for Big Bass employees was not consistently performed prior to when they began performing services under the Contract and/or documentation was not consistently retained by the City.

- Through IA's sampling of 30 towing receipts from October 1 – December 31, 2014 (See Exhibit A) and the population of current employees provided by Big Bass as of 2/18/2015, IA found at least nine employees who towed vehicles for the City of Garland prior to having a background check completed. As of 3/17/2015, there were three active Big Bass employees performing under the City's Contract that did not have a background check on file with the Police Department.
- Denial was given by the Police Department for a Big Bass driver to perform towing services on the Contract; however he still towed vehicles for the City.
- IA was unable to obtain evidence that annual background checks were performed by the Police Department. Based on conversations with the Police Department, background checks were run in October 2014 for all current Big Bass employees due to the acquisition of Lindy Lott and Marion Services, but documentation was not retained.
- Approval/denial notifications sent to Big Bass regarding the right of Big Bass drivers to tow for the City of Garland is not consistently maintained.
- IA was unable to obtain evidence that drug testing was performed. Per Big Bass, all employees had a pre-employment drug test and annual drug tests performed.

Criteria (The way it should be)

As stated in the Contract that the City of Garland has with Big Bass Towing, Inc. Section 4 - Personnel, "a background investigation shall be conducted in order to determine whether the applicant has a criminal history involving a felony offense, an offense involving moral turpitude, or an unacceptable driving record. Operator shall not assign any employee to work under this Contract until authorization is obtained for the employee".

“Operator shall refer each of Operator’s current employees on an annual basis, as determined and directed by the Property Room Supervisor, in order to update an employee’s personal history form, photograph, fingerprints, and background records.”

“Operator shall not assign any person to which the [Police Department] has an objection to perform any part of the services to be provided under this Contract.”

“Operator is responsible for updating the City with any personnel changes due to hiring, firing or voluntary leave.”

As stated in the Texas Department of Licensing and Regulation’s Vehicle Storage Facility Administrative Rules Section 85.725, drug tests must be conducted for all employees prior to employment begins and again on an annual basis. Additionally, 25% of all employees must have a random drug test each year.

Effect (So what?)

- As stated in the Contract that the City of Garland has with Big Bass Towing, Inc. Section 4 - Personnel, “the failure of Operator to provide the information required by this Section shall constitute a material breach of this Contract.” Section 7 – Penalties, states, “The City, may, by giving ninety days written notice to the Operator, terminate the Contract and exercise any right or remedy provided by the performance bond.”
- Section 7 – Penalties, “A penalty in the sum of \$250 per incident may be imposed for Operator’s non-compliance, and such penalties shall be deducted from the auction proceeds payable to Operator” for “failure to follow any requirements and/or regulations stated in this Contract relating to employees.”
- Failure of the City to perform a background check for Big Bass employees could result in the litigation and/or reputation damage for the City if a problem arises.
- Inadequate drug testing could fail to detect individuals who abuse illegal drugs or other illegal substances. Such individuals can pose an increased risk of causing an accident, which could result in litigation and/or reputation damage.

Cause (Difference between condition & criteria)

- Big Bass did not always obtain permission from the City before new employees performed towing services under the Contract. Big Bass was not consistently informing the City before a driver began work under the Contract.
- The City did not consistently maintain documentation that pre-employment

or annual background checks were performed for all employees for whom they had given approval to towing under the Contract.

- A policy regarding drug testing requirements is not outlined within the Contract.

Recommendation

The Police Department should:

- Ensure that all drivers who are currently towing have a background check completed and documentation on file. Conduct random checks of towing receipts to confirm which drivers are towing for the City.
- Develop a mechanism to ensure that background checks are performed annually. Retain all related documentation.
- Maintain all approval and denial notifications sent to Big Bass regarding the right of Big Bass drivers to tow for the City of Garland.
- Consider adding a requirement to the Contract when the next bid is awarded that Big Bass maintains drug testing documentation and provides to the City when requested. Ensure that documentation related to all pre-employment and annual drug testing is maintained in each employee file.

Management Response

Concur. A list of employees was given to the police department in October 2014 – all employees on this list had a background check. It was incumbent on Big Bass to provide the PD with an accurate list. Language will be added to the contract to enforce this issue.

Action Plan

- A random check of tow records will be conducted to verify the employee list. The PD will work with Big Bass to maintain an updated employee list. Add a clause in the contract that failure to notify the PD of changes in personnel could be subject to penalty including termination of the contract.
- The PD will conduct background checks on all employees annually on a predetermined date. Random background checks will be conducted at least one other time each year.
- Approval and denial requests are currently maintained in each employee's file with notation regarding a pass or fail status. However, CCH records will be destroyed immediately after they are reviewed for approval.
- The PD will work with Purchasing to add the appropriate language to the contract

in reference to drug testing requirements. The PD will also work with Big Bass to collect this information after the drug tests are performed. A random check on drug testing results will be conducted at least once per year.

Implementation Date

- All actions to verify backgrounds and drug testing requirements will begin immediately.
- Verbiage added to the contract will be done at the expiration of the current contract – December 16, 2016.

Finding # 2 (Obj. 2)

Condition (The way it is)

- Payments by Big Bass were not made to the Police Department in a timely manner. During the scope of the audit, 24 out of 28 monthly payments (85%) were made after the 25th day of the following month. 11 of these 24 (46%) were more than 2 weeks late; resulting in payments delayed as many as 49 days.
- There are no provisions in the Contract to assess late fees.

Criteria (The way it should be)

- As stated in the Contract that the City of Garland has with Big Bass Towing, Inc. Section 5 – Fees for Services, Collection and Payment, storage fees collected for the City shall be remitted by the Operator to the City less any towing fees owed by the City within 25 days of the subsequent month.
- The Contract should include information related to the assessment of late fees.

Effect (So what?)

Delayed payment results in less current cash flow for the City. Additionally, if the City does not receive payments on a monthly basis, it is possible that Big Bass could become insolvent and unable to pay for their past-due balances.

Cause (Difference between condition & criteria)

- Auctions typically occur on the 3rd Friday of the subsequent month. A delay in Big Bass obtaining auction detail from the auctioneer may result in a delayed payment by Big Bass to the City. For more detail relating to the auction and monthly payments to the City by Big Bass, please refer to the “Background” section on page 3 of this report.
- Late fees were not considered when the Contract was approved/executed.

Recommendation

The Police Department should:

- Reevaluate the due date of payments with consideration to the auction date.
- Consider adding in a late fee penalty clause to the Contract the next time it is bid out in order to encourage timely payments.

Management Response

Concur. Payment is affected by the date of the auction. The selected payment date should take into account the time delay associated with payments from the auctioneer to the City and the time that is required to process payments from Big Bass.

Action Plan

Update the language in the contract in reference to payment dates. Also include language that states the vendor is subject to late fees in the event payments are late on a regular basis. The PD will work with Purchasing to coordinate dates that will help address this issue and include that information in the contract.

Implementation Date

This should be implemented at the expiration of the current contract, December 16, 2016.

Finding # 3 (Obj. 2)

Condition (The way it is)

Control numbers are automatically assigned for every tow by the Police Department's computer system. Upon IA's review, it was determined that 126 gaps in control numbers exist during the scope of the audit without notation as to the reason for deletion or cancellation. Research into these gaps is not occurring.

According to the Police Department, cancellations occur automatically in the system when a tow is started, but not saved. This could happen because a tow is no longer necessary or the customer has already called another company to tow their vehicle. A deletion is manually done by the Police Department employees and occurs due to the accidental duplication of records.

Criteria (The way it should be)

Control numbers should be sequential in numbering. For all cancelled and deleted numbers, notes should be entered into the system to describe the reason for the gap in control number in order to maintain a complete and accurate audit trail.

Effect (So what?)

Currently, multiple individuals have both delete and cancel rights within the Police Department's computer system. If no review of these records occurs, it is possible that records could be inappropriately deleted or cancelled.

Cause (Difference between condition & criteria)

- Access rights to delete and cancel records were not restricted.
- The Police Department's computer system was not originally programmed to maintain data on cancelled transactions.
- Users were unaware that a note should be entered for all cancelled and deleted transactions.

Recommendation

The Police Department should:

- Limit the delete function to necessary individuals that are outside of the Property Room.
- When a record is deleted, ensure that notes are added to the system as to the reasoning.
- Conduct a periodic review of all deleted transactions that occur within the system.

- Update the policies and procedures in accordance with all changes listed above.
- During the new system implementation, consider adding audit capabilities in order to better account for cancelled records.

Management Response

Concur

Action Plan

- Deletion rights have already been restricted to records management system (RMS) administrators (2 people). These personnel do not administer the contract.
- Notations will be documented accordingly.
- Cancelled records will be reviewed by RMS administrators.
- Police Property Room SOPs will be updated accordingly.
- RMS administrators will work with the RMS vendor to address the cancelled control numbers upon implementation of the next upgraded RMS version.

Implementation Date

- Effective immediately
- The next RMS version is scheduled to be upgraded in FY 16/17.

Finding # 4 (Obj. 1)

Condition (The way it is)

The Contract and the City Ordinance do not state all fees that are charged for wrecking, towing, impounding, notification and storage services. IA noted:

- The daily storage fees and certified letter fees that charged by Big Bass on behalf of the City are not included in the Contract.
- The City Ordinance does not reference the listing of fees found within the Contract.

Criteria (The way it should be)

- The Contract should state all fees that are charged by Big Bass at the City's impound lot.
- The City Ordinance should reference the fees stated in the Contract for transparency purposes.

Effect (So what?)

- If the fees are not stated in the Contract, it is possible that Big Bass could mischarge for these services.
- There is not one source that contains the all information related to pricing for towed vehicles.

Cause (Difference between condition & criteria)

When the Ordinance and Contract were approved/executed, inclusion of all fees was not considered.

Recommendation

The Police Department should update the following:

- The notification letter and towing fees should be added to the Contract when a new bid is awarded.
- The City Ordinance should reference the complete list of fees found within the Contract. This will prevent duplication of information between the Ordinance and the Contract.

Management Response

Concur

Action Plan

- All fees charged by either the City or the vendor will be included in the next contract.
- New language was added to the current city ordinance to reflect the fact that all fees to be charged are included in the contract with the vendor.

Implementation Date

- December 16, 2016 for contract revisions
- April 21, 2015 for revisions to the city ordinance

Finding # 5 (Obj. 3)

Condition (The way it is)

Expired insurance certificates were not consistently maintained by the City. It should be noted that IA was able to obtain all insurance certificates from Big Bass.

Criteria (The way it should be)

Per the Texas State Library and Archives Commission, Retention Schedule GR1000-25 – Contracts, Leases, and Agreements - all documentation related to “contracts, leases, and agreements, including reports, correspondence, performance bonds, and similar records relating to their negotiation, administration, renewal, or termination,” should be maintained for “4 years after the expiration or termination of the instrument according to its terms”.

Effect (So what?)

- If insurance is not being monitored, it is possible that the City may be unaware of a lapse in coverage.
- If an issue arises, it may be difficult to ensure that proper insurance was maintained during the span of the Contract.

Cause (Difference between condition & criteria)

- There is confusion among difference City departments as to who is responsible for the verification, evaluation, retention and monitoring of insurance certificates.
- There is not an automated contract management system that monitors the status of insurance requirements, expiration dates, etc.

Recommendation

City Management should:

- Determine which department(s) are responsible for various tasks that relate to the verification, evaluation, retention and monitoring of insurance certificates.
- Consider the implementation of a contract management system to monitor the status of insurance requirements, expiration dates, etc.

Management Response

Management concurs.

Action Plan

- Purchasing, Risk Management, and City Secretary have met to determine the areas of responsibility. Purchasing is responsible for verifying that insurance certificates are obtained prior to issuance of a Purchase Order. Risk

Management is responsible for evaluation of insurance certificates for accuracy and compliance. The City Secretary is responsible for insurance certificate retention. The Department contract representatives are responsible for monitoring insurance certificates to ensure that they remain current for the life of the contract.

- The IT Board recently approved the Contract and Insurance Management System project to move forward through the budget process for FY 2015-2016.

Implementation Date

- Purchasing, Risk Management, and City Secretary recently met and defined the areas of responsibility.
- The Contract and Insurance Management System project is scheduled to move forward through the budget process in FY 2015-2016.

Exhibit A – Sampling Methodology

Background Check Sampling

IA used a population of intake vehicles from the Police Department's Vehicle Impound spreadsheet. We wanted to focus more effort on more recent receipts, so a random sample of 30 was selected from October 2014 – December 2014. The results can be projected to the population.