



Office of Audit & Performance

Indianapolis

Mayor Gregory A. Ballard

Abandoned Vehicle Program

Audited Entity: Department of Code Enforcement

Final Report
April 2012

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Final Report

ABANDONED VEHICLE PROGRAM

DEPARTMENT OF CODE ENFORCEMENT

INTRODUCTION

In accordance with City Ordinance Sec. 202-303, the Office of Audit & Performance (OAP) has conducted an examination over the present controls in place for the Abandoned Vehicle Program. We conducted our examination in accordance with generally accepted government auditing standards (GAGAS), except the Office of Audit and Performance's most recent external peer review opinion as required by GAGAS 3.55 has expired. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. All control and procedural weaknesses would not necessarily be disclosed in our review; however, those deficiencies and weakness we considered significant as a result of our review are disclosed herein. Department responses within this report were provided by the Department of Code Enforcement.

AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The Office of Audit & Performance has completed an examination of the City's Abandoned Vehicle Program related to the operating agreement between the City and Last Chance Wrecker. The purpose of our review was to provide reasonable assurance to management regarding the effectiveness of Last Chance Wrecker's internal controls over the Abandoned Vehicle Program. Review testing included various aspects of the agreement and amendments to make sure Last Chance Wrecker was in compliance. The review testing included looking at invoices, deposits, and calculations of the revenue weekly. We tested inspection reports, re-inspection reports, tagged vehicles for towing, and whether vehicles were redeemed or sold. In addition, we tested the lot inventory to make sure items were on the lot and attended a sales auction to make sure items were correctly sold as marked. Finally, we tested the liability insurance and employee bonding.

GENERAL CONCLUSION

Our examination of the Abandoned Vehicle Program indicated Last Chance Wrecker was not in compliance with a couple areas of the agreement with the City. First, we observed that Last Chance Wrecker is not maintaining the necessary amount of liability insurance as is stated in the operating agreement. Secondly, the operating agreement has always stated Last Chance Wrecker should maintain employee bonding at all time and Last Chance Wrecker just recently obtained employee bonding at our request for proof of employee bonding.

Although waived fees on vehicles are not out of compliance, we believe the Department of Code Enforcement should monitor fees being waived to make sure an approved person is waiving the fee and the reason for waiving the fee is documented and acceptable.

We discovered at sales auctions, bidders have to put down a deposit of \$100 to be part of the sales auction. If the bidder loses their receipt and Last Chance Wrecker does not have the deposit on file, the money is forfeited. Also, if a bidder bids on a vehicle and does not pay for the vehicle, the money is forfeited and the bidder has to deposit \$250 if they want to attend an auction again. The same rules apply with the \$250 deposit. Last Chance Wrecker maintains all the forfeited money.

All other testwork completed as noted in the "Audit Objective, Scope, and Methodology" section above were performed without exception.

DISCUSSION ITEMS AND DEPARTMENTAL RESPONSES

DISCUSSION ITEM A- Certificate of Liability Insurance

We reviewed Last Chance Wrecker's Certificate of Liability Insurance effective 10/13/12 and compared the coverage to Amendment 5 of the contractual agreement between Last Chance Wrecker and Sales, Inc. and the City of Indianapolis under Section 8.02 of Article 8 which states the CONTRACTOR shall maintain the following coverage as a minimum during the term of this Agreement. We noticed three areas that did not meet sufficient coverage per the operating agreement. The General Aggregate Limit per the operating agreement is \$5,000,000 and Last Chance Wrecker's coverage was \$3,000,000. The Comprehensive Auto Liability per the operating agreement was \$5,000,000 each accident and Last Chance Wrecker's coverage was \$1,000,000 each accident. Lastly, The Garage Keeper Legal Liability Comprehensive per the operating agreement is \$5,000,000 and Last Chance Wrecker's coverage is \$1,000,000.

RECOMMENDATION A

We recommend that Last Chance Wrecker increase their liability insurance to the amount necessary to be in compliance with the operating agreement with the City of Indianapolis.

DEPARTMENT RESPONSE A

This contract was transitioned from the Department of Public Works to the Department of Code Enforcement (DCE) in an effort to consolidate towing operations as an enterprise efficiency. DCE maintained the levels of coverage that were previously in place. Additionally, the Purchasing Office had not raised any discrepancies nor did they prevent subsequent renewals. However, based upon the audit findings, DCE did engage Risk Management to re-assess the risk and requirements. Based upon this research, the requirements have been amended. Last Chance is currently in compliance.

DISCUSSION ITEM B- Employee Bonding

Article 3.19 of the original operating agreement between the City of Indianapolis and Last Chance Wrecker, states "CONTRACTOR shall operate the Abandoned Vehicle program with bonded employees". We noted Last Chance Wrecker did not have proof of employee bonding prior to October 26, 2011.

RECOMMENDATION B

Last Chance Wrecker signed up for employee bonding the first time on October 26, 2011 after we requested a copy. We recommend Last Chance Wrecker continue to always have employee bonding so they are in compliance with the operating agreement.

DEPARTMENT RESPONSE B

This contract was transitioned from the DPW to DCE in an effort to consolidate towing operations as an enterprise efficiency. DCE maintained the levels of coverage that were previously in place. However, based upon the audit findings, DCE will ensure Last Chance Wrecker remains in compliance for employee bonding.

DISCUSSION ITEM C- Waived Fees

During our review of Last Chance Wrecker invoices, we recognized some invoices were waived. Last Chance Wrecker keeps track of the reason for waived fees and supporting documentation for the waived fees. However, this information is not sent to DCE for approval.

RECOMMENDATION C

We recommend the Department of Code Enforcement require Last Chance Wrecker to forward the supporting documentation and reasons for waived fees along with the invoice to make sure it is acceptable so revenues are not being lost. DCE should also signoff on the invoice for approval. Article 1.08 of the operating agreement states the City can only waive fees, but the article should be amended to clarify the responsibilities of both parties regarding waived fees.

DEPARTMENT RESPONSE C

DCE will implement an internal policy that requires Last Chance Wrecker to proactively submit information regarding waived fees, although DCE does currently have direct access to their software, where documentation is stored.

DCE currently reviews each invoice and cross-checks it with various other documents to ensure accuracy. Upon verification that the invoice is correct DCE signs the invoice, which is then processed for payment. If additional signoff is recommended, DCE would appreciate the opportunity to further discuss with Office of Audit & Performance.

DISCUSSION ITEM D- Forfeited Deposits at Sales Auction

During our observation of a sales auction, we discovered bidders have to put down a \$100 deposit to bid at the auction. If a bidder does not bid on a car, they get the \$100 back as long as they have their receipt or Last Chance Wrecker has a record of their deposit on file. Otherwise, the \$100 is forfeited. Also, if a bidder bids on a vehicle and does not pay for it, the bidder forfeits the \$100 and the next time they attend an auction they must deposit \$250. The same rule applies with the \$250 as with the \$100. Last Chance Wrecker keeps any money forfeited and uses the money to pay the security officer at the auctions. Therefore, the City does not get a portion of the forfeited money. There is nothing in the operating agreement about the deposits being made to attend an auction and how the forfeited money should be used.

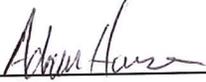
RECOMMENDATION D

We recommend there should be an amendment to the operating agreement which discusses the forfeited money from the sales auction. Therefore, it will be clear on how the forfeited money is to be used or distributed.

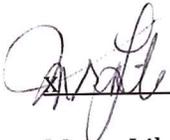
DEPARTMENT RESPONSE D

DCE will draft a memo clarifying how forfeited money may be used in support of the program. The memo will address specific procedures requiring reporting of forfeited money to DCE, as well as receipts for services funded by forfeited money.

Signing below certifies that you have received, read, and acknowledge the audit report prepared above.

x  _____

Adam House, Auditor II - Office of Audit & Performance

x  _____

Mona Lile, Senior Auditor - Office of Audit & Performance

x  _____

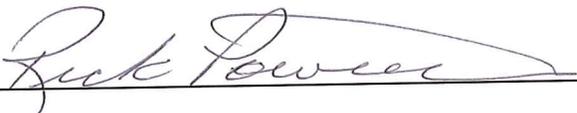
Valerie Washington, Deputy Director - Office of Audit & Performance

x  _____

Manny Mendez, Director - Office of Audit & Performance

x  _____

Nicole Randol, Deputy Director - Department of Code Enforcement

x  _____

Rick Powers, Director - Department of Code Enforcement