

**REVIEW OF CITY OF MINNEAPOLIS
IMPOUND LOT – PHASE TWO REPORT
AUCTIONS, PROPERTY INVENTORY, RECEIPTS
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**CITY OF MINNEAPOLIS
IMPOUND LOT – PHASE II**

PURPOSE: Review and evaluate the procedures and related internal controls for the City of Minneapolis Impound Lot facility as they pertain to the areas of Auctions, Cash Receipting and Inventories.

OBJECTIVE: To determine if current procedures and internal controls are in place, working as intended and effective for the City’s Impound Lot.

SCOPE: Current procedures and processes using selected 2007 auction and inventory records.

METHODOLOGY: In order to present information in a more timely manner, the Impound Lot Phase I Audit Report was issued in September 2007. That review covered three of the six main functional areas - Administration, Security and Towing. This Phase II Review now covers the other three – Auctions, Cash Receipting and Inventories.

CONCLUSION(S) & RECOMMENDATION(S):

- **Public Works Administration and Impound Lot personnel consider changing the current practice of selling “no-pay” public vehicles on dealer auctions.**

Public Works (PW) Response: PW will investigate options to address the “no-pay” issue during Public Auctions. One possibility is to continue to document the winning bidder and price, and start to list the runner-up bidders’ number along with the price they had the vehicle at. The form that all bidders sign prior to the auction asks for a contact number, and Impound Lot staff may contact the runner-up the following day to see if they are interested in purchasing the vehicle for that price. This may be difficult to accomplish since it will slow down the auction process and potentially involve more work to complete that to resell at dealer auctions or hold them for the next public auction.

Another potential solution would be to post all (if any) “no-pays” the following morning on the auctioneer’s website, and also post the list in the lobby of the “no pay” vehicles and the winning bid amount. If an interested party wishes to purchase the vehicle for that bid (or possibly a slightly discounted value) – allow them to purchase, if not, hold the vehicle over for the next applicable auction (dealer or public).

PW would want to continue the practice of not allowing the “no-pay” bidder back into Public Auctions for a 12 – month period as we don’t want the bidders to feel like there is no recourse for not paying.

BACKGROUND:

To again briefly review, this is the Phase II portion of this review covering Auctions, Cash Receipting and Inventories. The thrust and initial request for this review came from the Risk Management area where numerous claims were being filed by individuals whose vehicles were towed to the Impound Lot. The Phase I review included Towing, Administration and Security.

Internal Audit met or talked with the following Public Works/Impound Lot personnel: Mike Sachi – Parking and Skyway Systems Engineer; Don Pedlar – Impound Lot Supervisor; Steve Hengel – Business Application Manager; and Julie Hillenbrand – Customer Service Rep II.

AUCTIONS:

Vehicles are towed to the Minneapolis Impound Lot (MIL) for a variety of reasons including illegal parking, impeding traffic, police orders (accidents, stolen, etc), in violation of snow emergency or street sweeping regulations, abandoned, etc.

When a vehicle is towed to the MIL the lot personnel run the registration to determine ownership and enter the information into CATS (computer automated towing system). On the third day a certified/registered letter is sent to the registered owner. According to Minnesota Statute (MS 168B.051) after 15 days the MIL has authority to sell that vehicle if it has not been claimed. At that point the MIL yard foreman and staff determine if the vehicle will go on the public sale or the dealer sale. Pictures are taken of vehicles 2001 and newer, these vehicles may be sold at the dealer auction if involved in accidents or really poor condition; or they may be going to the public auction. In any event there is a picture in either case attached to the paperwork. The public sale is held on the first Thursday of each month with the dealer sales every Thursday. Bidders for the public auction present their drivers license from which information is taken, pay a \$5 fee and receive their pre-numbered bid ticket. In 2007 the MIL sold 945 vehicles on the public auctions for totaling \$750,210 or an average of \$793.87 per vehicle; while the dealer auctions sold 4,989 vehicles for \$1,233,872 or an average of \$247.32 per vehicle.

Prior to the auction MIL personnel re-run the registration and if that information is different from the original run, they resend the registered mail to the latest address and wait another 15-17 days before sending it to the auction.

Internal Audit selected the October 2007 public/dealer auction as a sample auction to review. For these auctions cars/items are separated into two groupings: Public (those cars judged to be better quality than dealer vehicles); and Dealer (as the name implies, dealers only bid on these). Also sold at the Public auctions are City vehicles and miscellaneous equipment/property.

For purposes of this test IA conducted a haphazard random sample of seven items from each of the areas from the October 4, 2007 auction. Items reviewed for included a completed vehicle impound report from when the vehicle was originally towed in, MPD impound lot report if applicable, green certified mail receipt, plus related auction day information such as the buyers pre-numbered ticket, price paid matched to the auction list, etc.

No exceptions regarding documentation were noted for any of the tested items, however, two of the seven vehicles sampled in the public auction were listed as “no-pays.” A no-pay occurs when the individual who bid the high price on a vehicle at the public auction does not show up at the window to pay for the vehicle.

That bidder is tracked via his/her driver’s license and their name is placed on an alphabetical listing given with the MIL cashiers who sell the bid-tickets. These individuals are then prohibited from participating in these auctions for a period of twelve months. In most situations the vehicle then goes to the next weeks dealer auction rather than holding it another month for the next public auction. This depends on quality/shape of the vehicle and the Impound Lot’s current space needs. In situations where the vehicle is in good shape and appears operable it would most likely be held for the following public auction.

For this test month of October, there were a total of five no-pays for the 61 vehicles on that auction. IA then tracked what these five no-pays sold for at the next dealer auction, and compared it to what the high bid was at this public auction. For these five vehicles in October that were no-pays, the original bid for all five was \$4,900 – the five were then resold one week later at the dealer auction for a grand total of \$2,210 – or an average loss of \$538 per vehicle.

IA then looked at the annual no-pay totals. For 2007 there were 130 no-pays out of 1,150 vehicles auctioned – over 11%. Due to time constraints IA did not verify before and after sales prices for each no-pay vehicle for the entire year, however using that same loss per vehicle figure of \$538 from October, equates to an annual potential loss of nearly \$70,000 by selling the no-pays on the next dealer auction. This also **potentially** allows for collusion in the bidding up of a vehicle on the public auction, being a no-pay, and allowing a dealer to purchase the same vehicle at a deep discounted price at the dealer auction.

Conclusion/Recommendation:

Internal Audit recommends Public Works administration and Impound Lot personnel discuss and consider changing the current practice of selling no-pay public vehicles on dealer auctions. Additionally, it may be of some benefit to track the second high bid on the public auction vehicles in the event of a no-pay and offer the vehicle to that individual, albeit this process would probably have to be somewhat after the fact.

INVENTORIES:

This area dealt with a review of the practice of the MIL selling, at auction, the contents/items found in vehicles which were destined for auction. Prior to May of 2006, any contents found in a vehicle were left in that vehicle and the vehicle was auctioned off, in either the public or dealer auction “as is”, meaning including any and all contents.

In late 2006 Steve Hengel, with Parking Services, had requested assistance from the Minneapolis City Attorneys Office (CAO) regarding the sale/auction/disposition of vehicle contents. Mr. Hengel had provided City of St. Paul Impound Lot policies and procedures to the CAO for review. The MIL and the City of St. Paul Police Impound Lot have been working together for consistency regarding it’s policies and procedures and have adopted “best practices” from each other. This is why MIL asked for an opinion from the CAO as St. Paul has stated that it had increased its revenue for both contents and preparation of public auction vehicles.

In January of 2007, Greg Sauter of the CAO replied that it was his conclusion that Minnesota Statute 168B.08 authorizes the MIL to sell impounded vehicles, as well as their contents after proper notice and the waiting period.

Subdivision 1. Auction or sale. (a) If an abandoned or unauthorized vehicle and contents taken into custody by a unit of government or any impound lot is not reclaimed under section 168B.07, it may be disposed of or sold at auction or sale when eligible pursuant to sections 168B.06 and a68B.07.

Thus, the same language that permits the sale of vehicles after proper notice and the waiting period, authorizes the sale of the contents. Additionally, the MIL must take all reasonable means to determine whether any property recovered from a car is stolen or not. Any contents with serial numbers should be verified against an appropriate database of reported stolen items. Furthermore, it was noted by the CAO under Minn Stat. 168B.08, Subd. 3 it states that lien holders and owners are entitled to recover the value, less costs to impound, within 90 days of any vehicle or contents sold (the MIL gets requests for sale proceeds from insurance companies or car owners about three to five times a year).

In May of 2006 the MIL had begun maintaining an inventory listing of contents found in vehicles which were to be auctioned. All items were stored in locked storage trailers at the MIL facility. This initial inventory listed the date of the auction at which the item was sold, quantity and a brief description of the item. No identifiers as to which vehicle the items were removed from were included for approximately the initial 90% of the items on that inventory listing.

An added benefit of preparing the vehicles for auction is that in several instances weapons, including guns and knives as well as drugs have been uncovered that in the past would have been sold as part of the vehicle. Consequently, without preparing the vehicles, these weapons and drugs would have been sold to the new owner which poses potential safety and liability issues. In the cases where weapons and drugs were uncovered, the MIL contacts the MPD and turns them over to them after providing them the information regarding the vehicles paperwork.

This gap in tracking potentially leaves entitled lienholders and owners under-compensated when they demand compensation under Subd. 3. In response to the potential liability, the MIL consistently began tracking call numbers (a CATS generated number assigned to a specific car when it is towed in) in March of 2007. If the registered owner or lien holder requested payment under MS 168B.08 Subd. 3, content amounts would be tracked back to the contents inventory payment spreadsheet provided by Hiller Auction Services after each auction.

The last items inventoried on that original listing had a date of August 16, 2007. It should be noted however that Internal Audit verified that the practice of assigning call numbers is maintained today for all contents removed from vehicles to be auctioned, additionally these procedures are documented with the written procedures at the MIL.

As previously mentioned, the MIL contacted the City of St. Paul Impound Lot to ascertain their procedures and policies regarding these matters. In concurrence with that, the MIL used the City of St. Paul's Master Contract, #C-25085-6; (i.e. the City of Minneapolis has a cooperative arrangement with other cities, counties etc. to "go off of" or use their master contracts) with Hiller Auction Services in Zimmerman, Minnesota to auction the three trailers of vehicle contents which they had.

Internal Audit selected a haphazard sample of 15 items taken from the inventory listing as maintained by the MIL and traced those item to the “items sold” listing of Hiller Auction Services as well as reviewing documentation and payments from and to Hiller Auction Services and noted no exceptions. Payment to the City from Hiller Auction totaled \$10,618.50 of which 20% (\$2,123.70) was paid back to Hiller for their services per contract – leaving a net to the City of \$8,494.80.

PW Response: PW will continue to review and refine the contents inventory process and will investigate the possibility of utilizing new software applications for enhanced tracking purposes.

AUCTION REVENUE/CASH RECEIPTING:

The final piece of this review was to trace revenue and related documentation from the October 4, 2007 MIL auction through the system to a corresponding bank deposit with Northeast State Bank

In the overall auction receipting process at the Impound lot, the auction envelopes are picked up by American Security armored car services on the Friday morning following the auction. The auction envelopes are labeled “auction”, bundles and totaled separately from the towing and impound fees. American Security then picks up and transports to the Minneapolis Counting Facility (a process that will be changing later this year with the elimination of the counting facility). The pickup process involves the American Security guard using a hand-held device that prints out two pickup receipts, Julie signs one (after verifying the deposit amount) and the guard signs the other; she keeps the one he signed. The guard then scans the sticker on the outside of the bag and then inputs the deposit amount, if there are multiple bags each bag is listed individually on the printout.

The Counting Facility (CF) then counts and communicates with the MIL regarding deposits, and differences, etc. which may occur etc. American Security then picks up the deposit from the CF and transports to Northeast State Bank for deposit. Northeast then sends a copy of the deposit back to the CF. The deposits were then traced into the bank statement from Northeast, no exceptions were noted.

As for the credit card revenue, a copy of the credit card receipt is kept by the MIL with the other given to the customer. A CR document (cash receipt) is prepared and includes copies of register tapes (i.e. batches) of all credit card charges made. All credit card charges made for the October 4, 2007 auction were traced back to both the batch tapes and the “auction charge summary” as prepared by the MIL, no exceptions were noted.

PW RESPONSE: PW will continue to review and refine the auction cash receipting process and investigate Best Practices options for improvements to the procedures.