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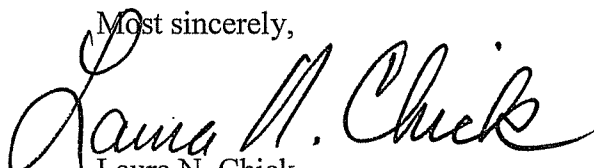
September 3, 2008

City Council  
c/o City Clerk  
Room 395, City Hall

Dear Honorable Members of the City Council,

In reference to the City Controller's Review of Auto Impound Contracts at the Los Angeles Police Commission, released on 5/19/2008, please find the Commission's response and my evaluation of that response.

Most sincerely,

  
Laura N. Chick  
City Controller

SEP 05 2008  
AUDITS & GOVERNMENTAL  
EFFICIENCY

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# LOS ANGELES POLICE COMMISSION

## BOARD OF POLICE COMMISSIONERS

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JUL 21 2008

CONTROLLER  
CITY OF LOS ANGELES

RICHARD M. TEFANK  
EXECUTIVE DIRECTOR

ANDRE BIROTTÉ, JR.  
INSPECTOR GENERAL

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July 21, 2008

BPC #08-0007

The Honorable City Council  
City of Los Angeles  
c/o City Clerk's Office  
City Hall, Room 395  
STOP 160

The Honorable Laura Chick  
City Controller, City of Los Angeles  
City Hall East, Room 300  
STOP 183

Dear Honorable Members:

RE: CITY CONTROLLER'S REVIEW OF AUTO IMPOUND CONTRACTS AT THE  
LOS ANGELES POLICE COMMISSION

At the regular meeting of the Board of Police Commissioners held Tuesday, July 8, 2008, the Board APPROVED the Police Commission's report relative to the above matter.

This matter is being forwarded to you for approval.

Respectfully,

BOARD OF POLICE COMMISSIONERS

A handwritten signature in cursive script, appearing to read "Isabel Rosas", written over the printed name.

ISABEL ROSAS  
Commission Executive Assistant II

Attachment

BPC #08-027C  
88

**INTRADEPARTMENTAL CORRESPONDENCE**

July 3, 2008  
1.0

**TO:** The Honorable Board of Police Commissioners

**FROM:** Executive Director, Board of Police Commissioners

**SUBJECT:** CITY CONTROLLER'S REVIEW OF AUTO IMPOUND CONTRACTS AT  
THE LOS ANGELES POLICE COMMISSION

**RECOMMENDED ACTIONS**

1. That the Board of Police Commissioners (Board) REVIEW and APPROVE this report.
2. That the Board TRANSMIT this report to the City Council and the Office of the Controller.

**DISCUSSION**

On May 19, 2008, the City Controller released an audit report entitled, "*Review of Auto Impound Contracts at the Los Angeles Police Commission*" (Attached). The report stated in summary that the Official Police Garages (OPG) operate well for the City and the public, that City's policies were followed in the solicitation, selection and award of the current OPG contracts, and that the OPGs provide services required by the contract. The Controller also found that Commission Investigation Division (CID) reasonably monitored the OPGs Program operations. However, the report stated that there is room for improvement in areas where monies were owed, and where the City could improve its fiscal oversight.

The OPG are required to submit to the City several fees and taxes which include Business Taxes, Parking Occupancy Taxes, Vehicle Release Fees, 7% Gross Receipts Fees, Vehicle Forfeiture Fees, and various permit renewal fees which amount to approximately \$14 million dollars annually. The above fees and taxes are reported and remitted directly to the Office of Finance. Historically, the Police Commission has never provided fiscal oversight of the OPGs nor has the Office of Finance allowed the Police Commission access to the fiscal records necessary to provide fiscal oversight of the OPG. Prior to May 1, 2008, the Office of Finance held the fiscal information submitted by the OPGs as confidential and would not share the information with the Police Commission, thus making it impossible for the Police Commission to provide fiscal oversight of the OPGs. Once the Office of the City Controller raised the issue as to who was responsible for fiscal monitoring of the OPGs, and in light of Police Commission's lack of access to the financial information submitted by the OPGs, the Office of Finance reversed its policy and agreed to provide the Police Commission with the information necessary to provide

fiscal oversight of the OPGs as it relates to fees. CID is currently working with the Office of Finance staff to develop guidelines and protocols for accessing this information.

The Key findings of the Controllers Audit were discussed in detail with each OPG Designee and copies were provided to each OPG on June 5, 2008.

### **Key Findings**

The Controller's report identified six key finding that staff is currently in the process of addressing.

- 1. Fifteen OPG contractors did not include lien processing fees in their gross revenues, resulting in underpayment of about \$1 million in franchise fees due to the City.**

The Official Police Garage Association of Los Angeles (OPGLA), which represents all 18 OPGs, has submitted a comprehensive legal memorandum to the Office of the City Attorney outlining its legal arguments and belief that the City may not impose a gross receipts fee on the lien sale processing fees authorized by State law. Police General Counsel, has indicated that the issues raised by the OPGLA require additional research before a legal opinion can be rendered. Police General Counsel, General Counsel for the Office of Finance, and the Office of the Controller are in active discussions and have undertaken a legal review of the issues raised. An additional meeting was held with the legal representatives of the OPGLA and General Counsels for the Department and the Controller's Office to further clarify the issues. The Office of the City Attorney has indicated that it will render an opinion on the legal issues raised by the OPGLA by July 17, 2008. CID will be guided by advice from the Office of the City Attorney.

- 2. City Vehicle Release Fees are not remitted for vehicles sold at auction.**

**Recommendation:** The City does not currently require the Vehicle Release Fee (VRF) to be remitted when unredeemed cars are sold at auction. Staff recommends that the Board of Police Commissioners request that the City Council direct the City Attorney to prepare amendments to section 80.77.1 of the Los Angeles Municipal Code (LAMC), to allow for the recovery of the City's VRF from lien sales of impounded autos when there is an excess amount to cover the OPGs charges and administrative costs from lien sales. If the amendments are approved by the City Council, Commission Investigation Division will include a provision in future contracts requiring that OPGs remit the City's VRF from lien sales of impounded autos when there is an excess amount to cover the OPGs charges and administrative costs from lien sales.

**3. One OPG underpaid franchise fees by deducting bank charges from gross revenue.**

**Action taken:** Commission Staff conducted a survey of the OPGLA and found that only one OPG was deducting credit card processing fees from its gross receipts. Commission Staff has directed that OPG to report and remit the corresponding 7% on all credit card and bank fees that have been deducted from their gross receipts since the contract inception date to the Office of Finance.

**4. Inadequate OPG dispatch and accounting systems and controls provided inaccurate data, resulting in underpayments to the City.**

**Action Taken:** CID is in the process of forming a working group that will include staff from the Office of Finance, and OPGLA. The group will develop comprehensive fiscal reporting guidelines for the OPGs. The group will also recommend minimum standards for accounting and dispatch systems that are capable of tracking and recording all transactions and charges affecting impounded vehicles. Staff will provide a status update to the Board within 90 days.

**5. Lack of fiscal monitoring of OPGs led to inconsistencies in reporting and underpayment of City fees.**

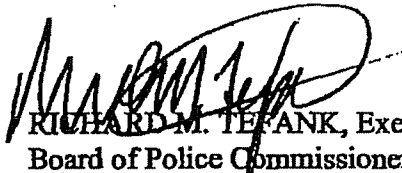
**Recommendation:** It is recommended that the Police Commission direct CID to create a financial audit plan for the OPGs. Under the plan, CID staff will create specific auditing criteria to be used by an independent auditor for the purpose of ensuring the financial performance of the OPGs. Subject to the approval of the Commission or its designee, a qualified auditor from a list of current city vendors would be retained by the OPGs for the purpose of conducting quarterly random audits of the 18 OPGs. The OPGLA has indicated in preliminary discussion it supports the idea of independent review, and would be willing to assess its members to cover the cost of the program. This recommendation will necessitate the Police Commission releasing a Request for Qualifications for Audit, Review and Consulting Services. (Staff will provide the Board with a status update within 90 days).

It is also recommend that the Board require all OPGs to make their financial reports and related financial information available to the Commission electronically through the OPG Vehicle Impound Information Center, in order for Police Commission Staff to conduct periodic inspections and spot checks of records of vehicles impounded. OPGLA, has indicated that the Vehicle Impound Information Center can be modified to capture financial information and trends for each OPG and produce summary management reports electronically that will reveal financial trends and anomalies across the 18 OPGs.

**6. Non-adherence to Department impound procedures resulted in avoidable City payments to OPGs.**

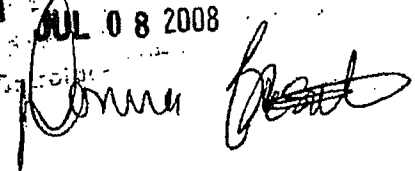
**Action Taken:** The City impounds approximately 175,000 vehicles annually. When the owner of the vehicle contest the validity of the tow, a Post Impound Hearing is conducted in the area of occurrence by an auto supervisor. If the supervisor determines that no probable cause existed, the City unreasonably held the vehicle, or that the City failed to notify the registered owner in the timely manner of the impound, the supervisor may cause the City to pay the cost of the towing and storage of the vehicle. The system was audited by the Commanding Officer of CID, who recommends that CID conduct a Department wide training day for auto supervisors on reducing errors and omissions in auto impound reports by providing timely feedback to field officers when errors are detected. This training is tentatively scheduled for September 2008.

Should you have any questions, please contact Detective III Benjamin Jones, Commission Investigation Division, at (213) 473-7078.

  
RICHARD M. TERFANK, Executive Director  
Board of Police Commissioners

Attachment

BOARD OF  
POLICE COMMISSIONERS  
Approved JUL 08 2008  
Secretary





OFFICE OF  
CONTROLLER

LAURA N. CHICK  
CONTROLLER

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August 13, 2008

Mr. Richard Tefank, Executive Director  
Los Angeles Police Commission  
150 N. Los Angeles St., Room # 150  
Los Angeles, CA 90012

Dear Mr. Tefank:

**SUBJECT: EVALUATION OF RESPONSE TO THE REVIEW OF AUTO IMPOUND  
CONTRACTS AT THE LOS ANGELES POLICE COMMISSION**

I have received the Board of Police Commissioners (Board) letter dated July 21, 2008 with an attached Board-approved report relating to actions planned or taken by the LA Police Commission (Commission) relative to findings noted in my May 19, 2008 report entitled "Review of Auto Impound Contracts at the Los Angeles Police Commission."

My Audit Division has evaluated your response, and I accept the proposed actions to address the report's recommendations; however, I have the following comments:

**Recommendations # 1 and #2**

You indicated that the Official Police Garage Association of Los Angeles has submitted a comprehensive memorandum outlining its legal arguments against the City imposing a franchise fee on the revenue received related to lien sale processing fees. As of today's date, the Office of the City Attorney is still reviewing this matter. When you receive the City Attorney's opinion on the issue, please inform this Office of your action plan based on the legal opinion within fifteen days.

**Recommendation #4**

Once the City Council has approved the pertinent Ordinance amendment allowing for collection of the Vehicle Release Fee to the City for auctioned vehicles when lien sale

Mr. Richard Tefank  
August 13, 2008  
Page 2 of 2

proceeds exceed total charges, please work with the Office of Finance to revise the quarterly report form.

**Recommendations #6 through #12**

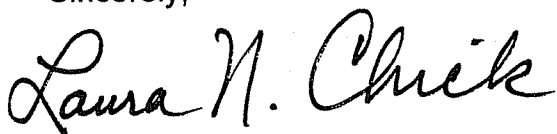
To ensure that the OPGs have adequate controls in place to accurately report and remit the required fees to the City, please ensure that the working group that will develop standards and fiscal reporting guidelines addresses each of these specific audit recommendations.

**Recommendations #13 and #14**

The intent of our recommendations was for the Commission to conduct fiscal monitoring and reviews to ensure that the OPGs comply with the fee requirement of the contract. Full financial audits can be costly, and though OPGLA has indicated a willingness to cover the cost of the program, the auditors should not be retained or paid directly by the OPGs. To preserve independence and lend assurance to LAPD CID of the OPGs' fiscal compliance to their contracts, CID should conduct or engage qualified firm(s) to conduct regular, limited scope financial reviews.

As part of my office's follow-up program, we will be requesting a status report approximately six months after the report issuance date. The objective of the follow-up program is to ensure that the audit recommendations have been properly addressed.

Sincerely,



LAURA N. CHICK  
City Controller

cc: Anthony Pacheco, President, Board of Police Commissioners  
Robin Kramer, Chief of Staff, Office of the Mayor  
Arif Alikhan, Deputy Chief of Staff, Office of the Mayor  
Raymond P. Ciranna, City Administrative Officer  
Karen E. Kalfayan, Interim City Clerk  
Gerry F. Miller, Chief Legislative Analyst  
Antoinette D. Christovale, Director, Office of Finance  
Independent City Auditors