

Towing Contract Audit

February 29, 2024

Project Team:

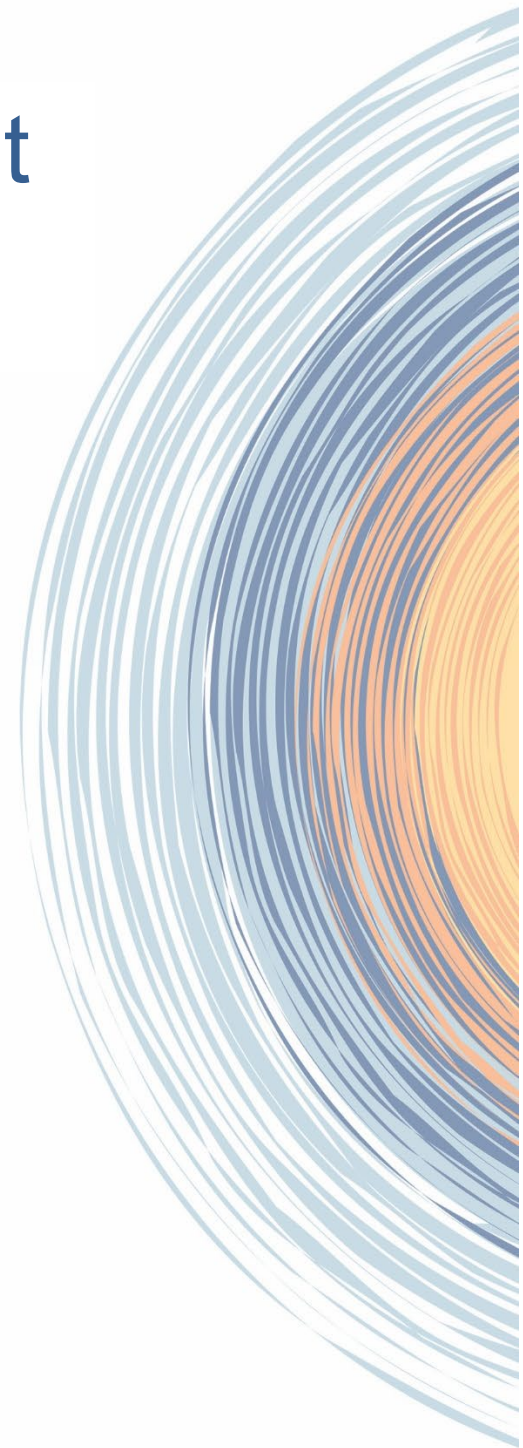
Bill Greene, City Auditor
Angela Hill, Senior Auditor

Mission Statement

To enhance and protect organizational value by providing high-quality, objective, risk-based audit and consulting services to assist the City in accomplishing strategic priorities, goals, and objectives.



20 E. 6th Street, 2nd Floor | Tempe, AZ 85281 | 480-350-8982



Executive Summary

Purpose

We evaluated management controls over the City's towing program to determine if processes are in place to ensure program activities are administered in alignment with contract terms and conditions.

Background

In March 2020, the City of Tempe launched a competitive procurement process to secure contracted vendors for towing services on behalf of the City. By July 2020, the City had executed contracts with three vendors - All City Towing, Apache Sands, and Professional Towing - each with the option of five one-year renewal periods. Oversight of the procurement process and management of specific contract provisions were handled by the Financial Services Department, Procurement Division (Procurement).

The initiation and administration of tow services are shared responsibilities between the Municipal Utilities Field Operations Division (Fleet) and the Tempe Police Department (TPD). Fleet primarily oversees two types of tows: those related to the repair of City equipment and the relocation of City equipment. Meanwhile, TPD primarily initiates tows for various services, including evidentiary tows, accidents, and disabled vehicles.

For the fiscal year 2022/2023, expenditures under the towing services contracts amounted to approximately \$103,000, distributed among the three vendors.

Results in Brief

Overall, appropriate management controls were in place to ensure compliance with key citywide towing contract provisions. We noted a few minor areas that could benefit from further discussion between TPD, Fleet and Procurement staff.

Both TPD and Fleet have a process to rotate calls between contractors as required by the towing agreements. Procurement also implemented a practical "audit" process to assess the equitable distribution of work among City contractors. Additional follow-up may be warranted to determine the cause behind lower utilization of one of the contractors identified during Procurement's analysis.

Controls to ensure the accuracy of tow invoices are in place at TPD and Fleet. We noted the existence of an additional service and corresponding fee in TPD invoices that is not included in current agreements.

Tow company response times for TPD calls for service were monitored in accordance with contract requirements. Although Fleet does not currently monitor tow response times, additional evaluation may be warranted to determine the cost versus benefit of initiating this process.

Audit testing demonstrated compliance with key contract provisions.

IAO selected a sample of 50 invoices from TPD and Fleet to evaluate mathematical accuracy, compliance with contract provisions, and accuracy of recording in the City's financial system. Only minor discrepancies were noted from the invoices selected for review.

Our review of "year three" contracted price rates and the annual adjustment demonstrated that calculations performed by Procurement were materially accurate. In addition, Procurement appropriately and accurately assessed late response penalties in accordance with contract requirements.

TPD conducted tow vehicle inspections in accordance with contract requirements. Additional criteria are being developed to ensure uniformity and consistency as it relates to performance and maintenance standards.

Recommendations

Our detailed report contains a few recommendations to further strengthen management controls and evaluate business processes.

Department Responses to Recommendations

Rec. 1.1 Retain documentation supporting annual price adjustment calculations.	
Response: Procurement staff will ensure that appropriate documentation is retained in the contract file that is used to determine the annual price calculations. These documents include the OPUS weekly rack rate along with the CPI percentage increase year over year stats.	Target Date: Completed
Explanation, Target Date > 90 Days:	
Rec. 2.1: TPD discuss department needs with Procurement to ensure work performed and associated fees are included in contract specifications.	
Response: TPD met with Procurement and an addendum to the contract will be developed to ensure alignment with contract specifications.	Target Date: March 15, 2024
Explanation, Target Date > 90 Days:	
Rec. 2.2: TPD ensure TPD Tow Truck Inspection Reports are completed evidencing proper signatures and remediation action performed for violations prior to leaving inspection site.	
Response: Officers responsible for Tow Truck Inspection Reports have been fully briefed regarding the necessity of completing all signatures on the forms and notating actions performed on the inspection sheets prior to leaving the inspection site.	Target Date: Completed
Explanation, Target Date > 90 Days:	
Rec. 3.1: Evaluate the cost versus benefit of the implementation of assessing fees for late arrivals for service.	
Response: Fleet has very few tow requests where response time is an important factor. For the instances where time is critical, the automated date and time stamp on the work order job code when the service is dispatched will serve as the start time of the tow request. The arrival time on scene as notated on the tow invoice will serve as arrival time. Towing requests of a critical nature will be noted in the work order job notes. The Fleet Coordinator who receives the invoices for payment will review the invoice and work order and calculate the start and end times to ensure compliance. For tracking of critical	Target Date: March 25, 2024

tow service requests, Staff will develop a simple spread sheet to track discrepancies and payment adjustments.	
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Explanation, Target Date > 90 Days:

1 – Procurement Towing Program Administration

Background

The City of Tempe initiated a competitive procurement process in March of 2020 to obtain contracted vendors to provide towing services on behalf of the City. In July 2020, the City contracted with three separate vendors (All City Towing, Apache Sands, and Professional Towing) with an option of five one-year renewal periods. Financial Services Department, Procurement Division (Procurement) administered the procurement process and is responsible for managing certain contract provisions.

Approach

The IAO conducted the following steps to evaluate if Procurement’s management controls are adequate to ensure towing program activities are administered in alignment with contract terms and conditions.

- Identified contract price adjustments and reviewed associated documentation to verify that adjustments were accurate and properly supported;
- Reviewed Procurement’s calculation and processes that help ensure equitable distribution of work between towing contractors;
- Tested a sample of TPD “late tow” billings to determine if they were processed timely, accurate, assessed in compliance with contract terms, and properly supported.

Results

Procurement implemented a practical “audit” process to assess the equitable distribution of work among City contractors.

Annually, Procurement requests each towing company to submit an electronic download of all tows performed. A randomizer is used to select approximately 100 invoices from each vendor. Once selected, Procurement requests copies of the selected invoices. After the invoices are received, data fields from the invoices are input into a spreadsheet to recalculate storage days, fees, and total invoice amount. Invoice discrepancies with contracted prices are identified and vendors are instructed to return any overages identified to customers.

We traced a sample of invoice data to source invoices and noted no exceptions. We also reviewed formulas and calculations used in Procurement’s audit spreadsheets and noted no exceptions.

The contract for towing services states that the City will, “rotate through this list on a per incident basis... [and] make every effort to uphold the rotation schedule.” To assess the distribution of tows between vendors, we reviewed Procurement’s analysis of total tows. Procurement’s comparison of total tows between the three vendors showed a variance between Professional Towing, Apache Sands, and All City Towing:

- Apache Sands: 1698
- All City: 1696
- Professional: 1503 (approximately 13% fewer than others)

We contacted Procurement to determine if any follow-up was conducted to determine the cause of the towing distribution variance identified in the audit. Procurement provided a copy of an email distributed to City staff noting the variance and asking for feedback. Procurement received a response indicating that there may be potential differences in contractor reporting tows by call or total vehicles towed, a vendor receiving less multiple vehicle tow requests, or vendors declining tows due to unavailability. However, no data was provided to validate the exact cause.

During our review, we noted Fleet Division tows/invoices are not included as part of Procurement’s audit and equitable distribution of work between companies was not evaluated.

Our review of “year three” contracted price rates and the annual adjustment demonstrated that calculations performed by Procurement were materially accurate. Retention of supporting documentation for calculations would strengthen level of evidence in the event of request.

Annually, Procurement reviews contracted prices for a market adjustment based on the Oil Price Information Service (OPIS) and US Bureau of Labor and Statistics Consumer Price Index (CPI) data. The contract for towing services states,

“Prices will be annually adjusted on the anniversary date of resultant contract(s). Price adjustments will be based on the index change in the CUURS48ASA0 (All Urban Consumers, Phoenix-Mesa-Scottsdale) index based on the April to April change and the OPIS Phoenix Rack Average change for the same period. Since pricing is index based, pricing may move upward or downward during any contract renewal period.”

Procurement staff maintain a price change analysis spreadsheet with several years of rate data with calculations to support annual rate adjustment. Prior to contract renewal in July each year, Procurement staff perform a rate analysis based on changes to CPI and OPIS data. The primary OPIS and CPI documentation used to support the basis for the rate calculation is not retained, however, the price change analysis spreadsheet has these rates noted which are input for calculations.

IAO reviewed the calculations performed by Procurement for reasonableness and that methodology was consistently applied. Based on our review of the contract year three price adjustment calculation documentation provided by Procurement staff, and our

recalculation of the rates, the annual rate adjustment performed by Procurement was materially accurate.

Procurement appropriately and accurately assessed late response penalties in accordance with contract requirements. Further evaluation may be warranted to determine if there is a more efficient method or requirement to ensure timely service.

The contract for towing services allows vendors 30 minutes to arrive on scene to calls for service. Documented arrival times that exceed 36 minutes result in a fee applicable to the vehicle weight class. To assess these fees, Procurement staff create an invoice based on Tempe Police Department (TPD) data compiled from the City's Computer Aided Dispatch (CAD) system. Tow vendors are billed for each instance of a late arrival. Vendors are then provided an opportunity to dispute the assessed fee. Specifically, the contract states,

"Firms will be given a 10-day window to review the monthly report, issued by the City, and provide any documented evidence of an error on the report which will be reviewed by the City. If the City determines that adjustments are required, based on the contractor supplied information, a revised report will be issued by the City."

After the evidence is provided for a dispute, Procurement staff forwards this information to TPD Traffic Division staff who review incident reports and body camera footage to ensure accuracy. If the documentation supports a timely arrival, the vendor is not assessed a fee for the given instance.

We reviewed a three-month sample of late arrival invoices and verified that late fees assessed were consistent with the contract. For the invoices selected, we noted late arrivals sent to the vendors, fees disputed, and actual instances billed to the vendors.

Sent to Vendors	Disputed	Billed	Total
41	27	13	\$390.00

Assessing fees to vendors for late arrivals is a multidepartment process involving staff time for data review to identify late arrivals, invoice creation, review of disputes, review of on scene TPD data, and billing modification. Given the amount of resources expended to assess a small amount of fees (\$2,070 in fees for FY 22/23), additional evaluation may be warranted to determine the cost versus benefit of this process or if there is a more efficient method to ensure timely service.

Recommendations

1.1 Retain documentation supporting annual price adjustment calculations.

2 – Tempe Police Department Towing Program

Background

The City of Tempe Police Department (TPD) primarily initiates tows for the following services: evidentiary tows, accidents, and disabled vehicles. Officers on a scene contact TPD Dispatch to originate the tow service. Dispatch contacts one of the City's tow contractors based on an automatic rotation programmed into the Computer Aided Dispatch (CAD) system. TPD initiates about 5,000 tows annually.

Approach

The IAO conducted the following steps to evaluate if TPD management controls over the City's towing program are adequate to ensure program activities are administered in alignment with contract terms and conditions:

- Reviewed TPD's process for rotating calls for service between towing contractors;
- Evaluated TPD processes for monitoring contractual response times and assessing penalties for late tows;
- Reviewed TPD processes for reviewing tow invoices for payment;
- Tested a sample of invoices to verify if the City was billed in accordance with contract provisions;
- Examined documentation of tow vehicle inspections conducted by TPD.

Results

TPD has an appropriate process to rotate calls between contractors as required by the towing agreements.

The City has a current contract with three tow vendors to provide towing services. The contract specifies that "The City will maintain a rotation list of approved contractors [and] will rotate through this list on a per incident basis (multiple firms will not respond to the same call)". *Section 1- Procurement Towing Program Administration* of our report contains results and conclusions regarding Procurement's evaluation of equitable distribution of tows.

Tempe Police Department (TPD) has a formal process for rotating calls for service between towing contractors in compliance with contract provisions. Rules are programmed into the Computer Aided Dispatch (CAD) system to automatically rotate between the three contracted towing companies when a tow service is requested. Calls for service are requested by the officer on scene primarily due to accidents, disabled vehicles, and evidentiary tows. TPD Dispatch is contacted by the officer to request a tow and the CAD system is utilized to determine the appropriate tow vendor in the

queue to contact. Tow vendors have a contracted response time of 30 minutes for the first vehicle to arrive on scene after the initial call is placed. Arrivals in excess of the contracted timeframe are subject to penalties assessed by the City. When vehicles are towed for TPD processes such as disabled City vehicles or evidentiary need, TPD is responsible for payment to the tow vendor. If tows are citizen requested, the driver or registered owner pays the vendor for the tow. After the tow is completed, invoices are sent to TPD Office of Management Budget Research (OMBR) for payment.

Controls to ensure the accuracy of TPD tow invoices appear adequate. We noted the existence of an additional service and corresponding fee not included in current agreements. Additional services should be discussed with Procurement so that contracts can be amended as needed.

We interviewed TPD staff to identify current processes for reviewing tow invoices. All PD towing invoices are paid out of the TPD Office of Management/Budget Research (OMBR). Staff indicated that invoices are emailed from the tow vendors daily or monthly depending on the contractor. Once received, invoices are reviewed for price accuracy, report number, vendor information, and drop off location to verify the tow is for TPD. To confirm the price is accurate, OMBR staff review the rates from the current contracted price sheet. If rate for the specified tow is not in alignment with the price sheet, the appropriate vendor is contacted to correct the invoice. Drop off locations are reviewed to confirm the vehicle was transported to a TPD or City facility. In the event a vehicle was not transported to a City facility, incident reports are reviewed in the TPD records management system to confirm billing responsibility. If the tow is determined to be the responsibility of the registered owner the vendor is contacted and informed to bill the registered owner.

We selected a sample of 25 invoices to evaluate mathematical accuracy, compliance with contract provisions, and accuracy of recording in the City's financial system. Only minor discrepancies were noted from the 25 invoices selected for review. Discrepancies were primarily due to vendors billing lower than contracted tow rate, mileage billed lower than actual mileage or tow billed at higher mileage than expected distance.

We also noted one invoice included a "relocating fee." This fee type is not included in the towing contract. Through interviews with staff, we were informed this service is used to relocate vehicles and equipment onsite. This service has been provided by the vendor at \$25 per incident for several years.

Tow company response times were monitored in accordance with contract requirements.

The contract for towing services allows towing contractors 30 minutes to arrive on scene to calls for service. The contract specifies that a documented arrival time for an individual call that exceeds 36 minutes will result in a fee. The contract states fees would be assessed as follows:

Single Vehicles	damages in the amount of \$30 per incident for light and medium duty
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Multiple vehicles damages in the amount of \$30 per incident for light and medium duty
 Heavy vehicles damages in the amount of \$100 per incident

TPD Dispatch contacts tow companies to dispatch tow vendors and tracks dispatch time and arrival time on scene in CAD. This data is provided to PD Traffic Bureau staff monthly for evaluation. Traffic staff calculate the minutes from dispatch to tow contractor arrival on scene. Calls arrivals exceeding 36 are provided to Procurement with supporting CAD data to produce an invoice. Procurement produces an invoice with date, applicable fee, and incident number. This invoice is sent to tow vendors with the corresponding CAD data for each incident. Contractors have 10 days to review and dispute fees. If evidence is provided that substantiates an arrival in less than 36 minutes the fee is marked sustained on the invoice. If the contractor is unable to provide evidence of an on-time arrival the fee is billed.

We reviewed the data from PD Dispatch, PD traffic, and Procurement invoices to confirm invoices were accurate and penalties were assessed in accordance with contract provisions. Based on our review of late arrival invoices from January to March of 2023 there were minor occurrences of missed billing.

	Vendor not billed for documented late arrival	Total Cost
Number of Occurrences	3	\$90

TPD conducted tow vehicle inspections in accordance with contract requirements. Additional criteria is being developed to ensure uniformity and consistency as it relates to performance and maintenance standards.

The contract for towing services states, “All tow trucks will be inspected periodically by the Tempe Police Department and must meet the City of Tempe’s certification requirements. City will provide contracted firm with a list of vehicles they wish to inspect on a scheduled day and time. All requested vehicles are to be at the inspection facility at the established date and time.”

Annually TPD completes inspections of tow vendor fleet to ensure vehicles are in compliance with contract provisions and operation requirements. TPD contacts the vendors and obtains a copy of the total fleet and selects approximately a third of the vehicles. An inspection is performed onsite at the vendor facility for the selected vehicles. TPD staff use the Tow Truck Inspection Report which has identified criteria from A.R.S. § 28-983 R-13-3-701 through R-13-3-1201 which require equipment and maintenance components for vehicles such as: recovery straps, fluid absorbing material, hazard lights, and stop lamps. There are two types of violations identified from inspections: standard and out of service.

We selected a sample of 12 vehicle inspection reports from the 34 inspections completed by TPD in 2022. We reviewed the TPD Tow Truck Inspection Report

(Inspection Report) to ensure they contained key contract provisions, forms were completed and signed by both parties, and documented violations evidenced remediation or proper follow up. Of the Inspection Reports reviewed, four forms did not evidence a signature from an authorized vendor representative or did not note remediation efforts for the identified violation. Through discussions with TPD staff, we were informed most violations are able to be repaired onsite while remaining vehicles are inspected and can be reinspected prior to TPD staff leaving the facility. This process was evidenced on other forms.

Additionally, a process is currently underway with Procurement to create specific criteria and consequences for inspection violations. Currently, violations are identified and repaired but there is no incentive to keep vehicles in best working order. TPD staff have also received complaints for tow companies with no/fewer infractions asking why distribution is the same if vehicles are not held to the same standards.

Recommendations

2.1 TPD discuss department needs with Procurement to ensure work performed and associated fees are included in contract specifications.

2.2 TPD ensure TPD Tow Truck Inspection Reports are completed evidencing proper signatures and remediation action performed for violations prior to leaving inspection site.

3 – Fleet Towing Program

Background

The Municipal Utilities Field Operations Division (Fleet) primarily facilitates two types of tows, repair of City equipment and relocation of City equipment. Fleet services tows vehicles and equipment from multiple departments for repair and relocation. Vehicles and equipment towed include light, medium, and heavy tows and occur within and outside of City limits. Maintenance staff maintain an informal process to initiate the tow service with contracted vendors. Approximately 200 tows are initiated annually by Fleet.

Approach

We conducted the following audit tests to determine if Municipal Utilities Department, Field Operations Division (Fleet) has adequate management controls over the City's towing program to ensure program activities are administered in alignment with contract terms and conditions:

- Reviewed Fleet's process for rotating calls for service between towing contractors;
- Evaluate Fleet's processes for reviewing tow invoices;
- Tested a sample of invoices to verify if the City was billed in accordance with contract provisions;
- Determined if Fleet had a process for monitoring contractual response times and assessing penalties for late tows

Results

Fleet has an appropriate process to rotate calls between contractors as required by the towing agreements.

The City has a current contract with three tow vendors to provide towing services. The contract specifies that the City will maintain a rotation list of approved contractors and will rotate through this list on a per incident basis ensuring multiple firms will not respond to the same call. Fleet has an informal process for rotating calls for service between towing contractors to maintain compliance with contract provisions. Calls for service are requested by Fleet staff primarily due to repair and relocation of City equipment. Fleet staff responsible for arranging for the tow service indicated they have the contractors on phone speed dial and rotate through the three companies on the list. If a contacted vendor cannot to respond within an acceptable time frame or is unable to handle a large vehicle tow, the next company on the list is contacted.

In *Section 1- Procurement Towing Program Administration* the distribution of work was not reviewed for Fleet tows. In absence of the Procurement evaluation IAO reviewed

total spend reports in the City's financial system by vendor for FY 2022-2023 for Fleet expenditures and verified it was evenly distributed.

Controls to ensure the accuracy of Fleet tow invoices appear adequate.

We interviewed Fleet staff to identify current processes for reviewing tow invoices. After the completion of the service, invoices are emailed to Fleet staff where the invoice is reviewed to ensure it was requested by Fleet and confirm price accuracy. Tow information can be reviewed in the M5 system to ensure service was requested by Fleet and review specific vehicle information that may change the tow rate. If the rate for the specified tow is not accurate, the vendor is notified to correct the price. Fleet invoices are paid by the Municipal Utilities Department.

We selected a sample of 25 invoices to evaluate mathematical accuracy, compliance with contract provisions, and accuracy of recording in the City's financial system. Only minor discrepancies were noted from the 25 invoices selected for review. Discrepancies were primarily due to mileage billed lower or higher than expected distance for tow. Overall mileage discrepancies averaged less than two miles per tow.

Although Fleet does not currently monitor tow response times, additional evaluation may be warranted to determine the cost versus benefit of initiating this process.

Tow vendors have a contracted response time of 60 minutes for or the first vehicle to arrive on scene after the initial call is placed for heavy duty vehicles or tractor-trailer units and 30 minutes for light and medium duty vehicles. Arrivals in excess of the contracted timeframe are subject to penalties assessed by the City. The contract specifies that a documented arrival time for an individual call that exceeds 36 minutes for light and medium duty and 66 for heavy duty will result in a fee as follows:

Single Vehicles	damages in the amount of \$30 per incident for light and medium duty
Multiple vehicles	damages in the amount of \$30 per incident for light and medium duty
Heavy vehicles	damages in the amount of \$100 per incident

Through interviews with Fleet staff, we were informed current tow vendors arrival times vary. The primary reason provided included not being able to perform a heavy-duty tow at the time of request. When this occurs, Fleet staff continue contacting other contracted vendors and request a dispatch from the vendor with the earliest expected arrival time. These instances of inability to provide service, or arrival times that exceed contract limits are not being tracked. Without data that tracks these instances, we are unable to determine frequency and financial impact. Monitoring this information would provide Fleet an opportunity to assess fees to the vendor for late arrivals and deliver metrics on overall vendor performance.

Recommendations

3.1 Evaluate the cost versus benefit of the implementation of assessing fees for late arrivals for service.

Scope and Methods

Scope

The invoice and inspection testing data for this audit covered fiscal year 2023. We additionally reviewed contract price adjustment documentation and distribution of tow data from 2022.

Methods

We used the following methods to complete this audit:

- Identified contract price adjustments and reviewed associated documentation to verify that adjustments were accurate and properly supported.
- Reviewed Procurement's calculation and processes that help ensure equitable distribution of work between towing contractors.
- Tested a sample of TPD "late tow" billings to determine if they were processed timely, accurate, assessed in compliance with contract terms, and properly supported.
- Evaluated TPD processes for monitoring contractual response times and assessing penalties for late tows.
- Reviewed TPD and Fleet processes for rotating calls for service between towing contractors.
- Reviewed TPD and Fleet processes for reviewing tow invoices for payment;
- Tested a sample of tow invoices to verify if the City was billed in accordance with contract provisions.
- Examined documentation of tow vehicle inspections conducted by TPD.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.