



Surplus Property

As of March 31, 2016

City of Tulsa Internal Auditing
December 2016



Surplus Property

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A handwritten signature in black ink that reads 'Ron Maxwell'.

Ron Maxwell, CIA, CFE
Chief Internal Auditor

A handwritten signature in black ink that reads 'Cathy Criswell'.

Cathy Criswell, CIA, CPA
City Auditor

AUDIT TEAM:

Steve Jackson, Audit Manager
Jan Fields, Staff Auditor

Introduction / Background

The Purchasing Division of the Finance Department administers the surplus supplies and equipment program for the City of Tulsa. The Surplus Coordinator is the only person who works at the surplus yard located at 108 North Trenton. The Surplus Coordinator reports to the Purchasing Services Coordinator who divides her time between the surplus property program, Purchasing Card program administration and responsibilities as a buyer for the Purchasing Division.

Departments are responsible for delivering their surplus property to the surplus yard. If a department does not have access to a truck to deliver the items, the Surplus Coordinator will assist in providing a truck from another department to make the delivery.

Surplus property is sold by auction. There are two live auctions per year which are normally held on the first Saturday in May and November. Sales of surplus property have averaged approximately \$450,000 per auction (or \$900,000 annually) since 1998. For the past six auctions, sales of surplus property have averaged approximately \$533,000 (See Exhibit 1).

The City uses an auction company to conduct the live auctions. Occasionally, the City solicits sealed bids for the sale of unique items. The auction company currently receives a commission of 7% of auction sale collections for their services.

Several cashiers from Revenue Processing-Treasury Division are present at the auctions to collect payments of surplus property sold. Other Revenue Processing employees ensure the collections are deposited into the City's bank account and summarize the sales for recording in the City's financial system.

Exhibit 1

City Surplus Property Auctions- Sales Collected since 2014

Dates of Surplus Property Auctions	Collections
January 2014	\$440,872
May 2014	\$450,518
November 2014	\$409,080
May 2015	\$998,277
November 2015	\$388,401
May 2016	\$510,841
Average of last six auctions	\$532,998

Source: City of Tulsa Intranet

Description of Audit Project

Scope:

The audit scope was limited to a review and evaluation of internal controls relating to the identification, control, and disposition of surplus property.

Objectives:

- Document and evaluate the adequacy of the procedures and controls used to identify, process, and dispose of surplus property
- Determine compliance with policies, procedures, and controls relating to surplus property
- Determine if surplus property is being properly safeguarded from the elements or misappropriation

Audit Methodology:

Procedures performed by Internal Auditing included the following:

- Interviewed Purchasing Division and Surplus Section personnel to review and evaluate the adequacy of the procedures and controls used to identify, process, and dispose of surplus property
- Observed the property storage area at the surplus yard to determine it properly safeguards assets from the elements and misappropriation
- Observed security features present at the surplus yard
- Selected a sample of Request to Surplus Property forms from various departments and performed several tests to evaluate compliance with established policies and procedures
- Observed the November 2015 surplus auction and performed several tests to evaluate compliance with established policies and procedures
- Traced the total sales collected at the November 2015 auction to deposits into the bank account of the City.

Conclusion:

In our opinion, internal controls for identifying, processing, safeguarding, and disposing of surplus property are adequate. Opportunities for improvements are outlined in this report.

Audit Findings and Management Responses

FINDING I

Safety Conditions Need Improvement at the Surplus Yard.

SUMMARY

The Surplus Coordinator works alone at the surplus yard for a significant portion of the year. Currently, there are no “lone-worker” safety policies and procedures. The Surplus Coordinator often unloads, lifts, and moves property items both manually and by fork lift.

Security guards are not maintained on the premises of the surplus yard except during the pre-auction and auction dates. Until a few years ago, security guards were employed at the surplus yard on a 24 hour, 7 days a week basis. Due to budget cuts, the surplus yard security guards were terminated and replaced with an alarm system equipped with motion sensors in the warehouse and the shed outside the warehouse. However, the alarm system does not cover the vehicles, heavy equipment, and other assets stored in the surplus yard.

It has been several years since the Safety Division has performed a facility inspection of the surplus yard. From January 1, 2014 to April 4, 2016, the Finance Department experienced eight OSHA Recordable injuries, two of which occurred within the surplus yard. There has not been any lost time due to an injury at the surplus yard since 2004.

If the Surplus Coordinator had an accident or a medical incident requiring immediate response, prompt medical attention would be delayed. A panic button feature is available in the current alarm system. Although the panic button could be used in some emergency situations, this option would not provide prompt attention in all situations involving accidents or medical incidents.

RECOMMENDATIONS

With the recent emphasis on improving the safety culture at the City of Tulsa, management should consider improving the “lone-worker” safety conditions at the surplus yard facility. Two example improvement opportunity actions are provided for management’s consideration.

- I-1) A monitoring device could be worn by the Surplus Coordinator that would notify dispatch (or a supervisor on call) if he accidentally fell and lay idle in a horizontal position for a certain period of time.

I-2) Alternatively, a process could be implemented for the Surplus Coordinator to check in with dispatch or his supervisor on a fairly frequent periodic basis. If failure to check in occurs, procedures should include following up on the safety of the Surplus Coordinator. This alternative would still preclude immediate medical attention, if needed.

RESPONSE

Agree with Finding; Disagree with Corrective Action as recommended by IA.

The “lone worker” environment which is evident much of the time at the Surplus Facility is clearly a concern. A “panic button” has been provided which the Surplus Coordinator may wear around his neck. In an emergency event the employee is required to push the correct key on the device which sets off an alarm which in turn alerts the Security Division that an alarm has been triggered. Security then dispatches someone to the Surplus Facility. Depending on an electronic device for the safety of the lone worker assumes the employee is able to push the button. The call-in procedure is distracting and creates inefficiency in the work process. The only solution which provides a true improvement is to eliminate the “lone worker” environment. This can be accomplished by posting a Security Guard at the Surplus location during business hours. Asset Management will be strongly encouraged to place a Security Guard during the daytime shift at the Surplus Facility by December 31, 2016.

AUDITORS' COMMENT

Internal Auditing concurs with the alternative corrective/improvement actions proposed in the management response.

FINDING II

Risks were noted with Control of Keys

SUMMARY

Although the locked fence around the surplus yard reduces the risk of theft, controls to properly safeguard assets of the City would be strengthened with improved control of keys. Risks regarding control of keys were discussed with Purchasing staff who are researching improvement solutions.

RECOMMENDATION

Management is encouraged to develop improved control of keys based on results of the research completed.

Note: This was also recommended by Internal Auditing in a prior audit of Surplus Property but the recommendation was declined by the Purchasing Division.

RESPONSE

Agree with finding; Disagree with Corrective Action as recommended by IA.

Two local vehicle auction companies were surveyed. One company keeps the keys in a lockbox until just before sold. The other company was not willing to share specific information regarding the handling of keys. Both companies have several on-site security guards, electronic security systems and the Tulsa Police Department on-call. Neither company has reported a theft in several years. There is no record of a vehicle being stolen from the City's Surplus Facility.

In an effort to better secure the vehicles and equipment we will work to improve control of keys. However, it should be noted that the placement of an on-site Security Guard at the Surplus Facility would serve to address the risk on this finding as well. Asset Management will be asked again during the 16-17 Budget Preparation to consider placement of a Security Guard at the Surplus Facility.

AUDITORS' COMMENT

Internal Auditing concurs with the alternative corrective/improvement actions proposed in the management response.

FINDING III

Pre-numbered and Controlled Receiving Documents are not used for Surplus Property Received at the Surplus Yard

SUMMARY

Receiving documents or logs are not used for surplus property received at the surplus yard. Request to Surplus Property forms are downloaded from the City of Tulsa Intranet by department users. These forms itemize property delivered to the surplus yard. Downloading the forms from the City's Intranet precludes the ability to pre-number the forms. Since the forms are not pre-numbered, the forms cannot be used for numerical control of property received at the surplus yard.

Lot numbers are assigned to the surplus property by surplus yard personnel, but the lot numbers are not assigned at the time items are received. Rather, the surplus yard personnel wait until a few weeks prior to the auction date before assigning the lot numbers so that items can be grouped together by type of property. The surplus property is later sold at auction in chronological order of the lot numbers.

Since there is no numerical control of property received at the surplus yard, the likelihood of surplus property received but not reported is increased. Also, surplus property may be misappropriated, lost, or stolen and never detected.

RECOMMENDATION

In developing the new ERP financial system, the Finance Department should consider pre-numbering the forms used to surplus property and accounting for the numerical sequence of the forms issued by the departments delivering property to the surplus yard.

RESPONSE

Agree with finding

We will pursue the idea of pre-numbered Surplus Forms during the development of the ERP financial system. *Estimated date of implementation of ERP system is 2018.*

FINDING IV

Handling Fees are not Charged to Outside Agencies that Participate in the City of Tulsa Surplus Auction

SUMMARY

There were 14 outside agencies that participated in the May 2016 City of Tulsa Surplus Auction by having their surplus property sold along with the City's surplus property. This is a good practice because it provides a larger and more diverse number of items at the surplus auction, which in turn increases the attendance and overall sales at the auction.

However, the services provided by the City of Tulsa for these agencies are provided free of charge. Much time and labor is devoted by City surplus personnel in handling the property items for these outside agencies without receiving any reimbursement of the costs incurred by the City.

Labor and other costs associated with handling and disposing of surplus property for outside agencies are increasing as the number of agencies participating in the City of Tulsa surplus auction has increased significantly in recent years.

RECOMMENDATION

The Finance Department should consider charging a handling fee to the outside agencies that participate in the City of Tulsa surplus auction. The fee amount charged should be sufficient to recover the City's costs of handling and disposing of the surplus property for the agencies.

RESPONSE

Agree with Finding and Recommendation from IA.

Recently a cost analysis was conducted to determine the costs associated with the sale of surplus items from outside agencies. The Purchasing Services Coordinator provided a summary of the costs and sales for the Tulsa County Sheriff's Department to the Purchasing Agent along with a recommendation to implement a 10% Administrative/Handling Fee for all outside agencies. *We plan to take action to make necessary changes to any required Ordinances, Policies and rules to implement the fee.*

Distribution List

Mayor
Councilor, District 1
Councilor, District 2
Councilor, District 3
Councilor, District 4
Councilor, District 5
Councilor, District 6
Councilor, District 7
Councilor, District 8
Councilor, District 9
City Auditor
Deputy Mayor
Mayor's Chief of Staff
Mayor's Deputy Chief of Staff
Office of Performance Strategy and Innovation
Director of Finance
Senior Administrative Services Officer
Purchasing Agent
Purchasing Services Coordinator
Surplus Property Coordinator
Controller
Council Administrator
Council Secretary
External Auditor
City of Tulsa Audit Committee