



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

November 24, 2008

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Surplus Property, Audit 08-12

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit report on Surplus Property.

We thank the Purchasing Department and the Fleet Division for their cooperation and assistance during this audit.

Very truly yours,

**Stanley L. Sewell, CPA, CGFM
Director of Internal Audit**

**cc: Dan Johnson, Chief of Staff
Gene Settles, Purchasing Director
Daisy Madison, City Finance Officer
Brian Kiesche, Fleet Manger
Paul Page, General Services Administrator**

**PURCHASING
DEPARTMENT
SURPLUS PROPERTY
AUDIT 08-12
November 3, 2008**

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Auditor



Director

**PURCHASING
DEPARTMENT
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INTRODUCTION

Section 2-542 of the City Code authorizes the Purchasing Department to manage the surplus property disposition process. When an item is declared surplus by one department, it is usually either sold or transferred to another department (with the assistance of the Purchasing Department). For surplus property items that cannot be sold or transferred to another department, the Purchasing Department maintains an inventory of these surplus items in a City warehouse. Vehicles and heavy equipment that are declared surplus are either held by the City's Fleet Management division or held on consignment at the Chattanooga Auto Auction until sold.

STATEMENT OF OBJECTIVES

The objectives of this audit are to determine if:

1. There are adequate written policies/procedures in place for the surplus property disposition process.
2. Proper internal controls are in place surrounding the surplus property disposition process.

STATEMENT OF SCOPE

The audit period was FY08 (July 01, 2007 through June 30, 2008). Surplus real property was excluded from the scope of this audit.

STATEMENT OF METHODOLOGY

We met with management and staff from the General Services Department to obtain an understanding about the surplus property disposition process. We also reviewed the City Code, Council Minutes, Collection Reports and the related supporting documentation, to obtain information about the surplus property disposition process.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, we abide by the standards of professional practice established by the Institute of Internal Auditors. An internal audit charter has not been approved by the City Council.

AUDIT CONCLUSIONS

Based upon the testwork performed and the audit findings noted below, we conclude that:

1. The written policy/procedure that is currently in place for surplus property disposition is limited and does not provide adequate detail.
2. Proper controls are not in place surrounding the surplus property disposition process.

DETAILED POLICIES/PROCEDURES NOT IN PLACE

The written policy/procedure that is currently in place for surplus property disposition is limited and does not provide adequate detail. A more detailed written policy/procedure is currently being developed, but it has not been implemented yet.

RECOMMENDATION 1

We recommend that the Purchasing Department develop written internal policies and procedures, business practices, and goals and objectives related to the surplus property disposition process. Employees should have ready access to departmental policies and procedures (hard copy, computer-based or web-based). These procedures should ensure proper internal controls, which include but are not limited to:

- Segregation of Duties
- Proper Authorization and Approval
- Proper Review and Reconciliation
- Proper Physical Security of Assets
- Proper Training and Supervision

We also recommend that the Purchasing Department obtain a signature confirmation from each Department Administrator and Department Purchasing Contact to retain on file as evidence that the written policy/procedure related to surplus property was received by each department.

AUDITEE RESPONSE

Surplus Personal Property Policies and Procedures

The Purchasing Department/ Director are responsible for control and disposition of all Surplus Property.

The Department shall prepare declaration of Surplus Form and with proper signature, send to purchasing. If value cost is greater than \$5,000 a copy must be sent to the Fixed Assets Division of Accounting Department

It is the Purchasing Department/ Purchasing Director or his/her designee to determine and initiate the appropriate course of action for disposition of surplus property as follows:

1. Arrange the transfer of the surplus property to another department, location or agency
2. Public Auctions:
 - a. The purchasing Department/Director shall advertise in daily paper at ten (10) days before the auction.
 - b. Depending on the items Purchasing Department/Director shall determine the location of the auction
3. Sale under sealed bids/proposals where it is not economical feasible to conduct an auction.
4. Scrap surplus property that no longer has an economic value.
5. Auction off by Government on line Auction Approved by (Purchasing/City Attorney)
6. Computers and like items are disposed of under city wide contract

Responsibility of the Department Administrator Receiving Transferred Property

- a. Prepare to receive the property
- b. Complete and submit a fixed asset acquisition form to the Fixed Assets Section listing the specific information about the incoming transferred property.
- c. Complete Surplus form and enter on Inventory Spread Sheet located in Purchasing.

Unclaimed Personal Property-Forfeiture

Unclaimed personal property in the possession of any department that remains unclaimed for a period of sixty (60) days or longer shall become property of the Purchasing Department / Director to be forfeited and disposed of by Purchasing Department/Director. The Purchasing Department /Director shall have a public auction to dispose of the property and shall furnish the city finance officer a list of all article sold and the price for which each article was sold.

SURPLUS FORMS/SURPLUS POLICIES NOT POSTED ON CITY INTRANET

We learned that the surplus form and surplus disposition policy/procedure are not posted to the City's intranet. With the surplus declaration form not available on the intranet, and the written policy/procedure not available on the intranet, City departments might be unsure about how to dispose of property that they need to surplus.

RECOMMENDATION 2

We recommend that the Purchasing Department post an electronic version of the surplus form to the City's intranet. We also recommend that the Purchasing Department post the written policy/procedure for the surplus disposition process to the City's intranet.

AUDITEE RESPONSE

Purchasing has posted an electronic form on the City's Intranet. Purchasing has started an inventory list of all surplus property and we are working with Fleet Division to maintain the vehicles list. (See Fleet Management's response to Recommendation 3)

PERPETUAL INVENTORY SYSTEM NOT IN PLACE

Section 2-5 of the City Code states, "Each department and agency of the city shall, under the supervision of the city finance officer, keep a perpetual inventory of the city property under its control, and shall furnish such reports in relation thereto as the city finance officer may require." The Purchasing Department does not maintain a perpetual inventory system for the surplus property under their control. The Fleet Division does not maintain a perpetual inventory system for the surplus vehicles under their control. Without proper inventory controls in place, there is a risk that surplus property inventory will be misappropriated.

RECOMMENDATION 3

We recommend that the Purchasing Department implement a perpetual inventory system (surplus property) and the related proper controls so that they will be in compliance with Section 2-5 of the City Code. We recommend that the Fleet Division implement a perpetual inventory system (surplus vehicles) and the related proper controls so that they will be in compliance with Section 2-5 of the City Code.

AUDITEE RESPONSE (PURCHASING)

The Purchasing Department is creating an inventory list for all surplus property that is now in the department's possession.

AUDITEE RESPONSE (FLEET)

Fleet Management recognizes and would agree that policies and procedures regarding surplus vehicles in the transitional phases require updating to current conditions. We are currently meeting with purchasing officials so that our procedure(s) are in concert with the overall policy.

Briefly, Fleet Management will receive the vehicle back from the user department with signature form, we will either declare it surplus with form to purchasing, or re-assign it back to another department and it will remain in the active files within the new departments active file. If the decision is to surplus, we will transport it to auction or metal recycler requiring a signature upon delivery. In addition to signatures for the phases, all three of these steps will be documented and reside on a spreadsheet on the server Or for anyone to view transitional stages of any vehicle creating a “perpetual inventory” till the point of sale. Purchasing oversees the sale process and provides us a copy to reconcile to our records.

CHAIN OF CUSTODY NOT ADEQUATELY DOCUMENTED

During conversations with Purchasing Department staff, as well as observations of supporting documentation, we learned that documentation is not maintained to adequately support the chain of custody of surplus property items that are transferred under the control of the Purchasing Department.

RECOMMENDATION 4

We recommend that the Purchasing Department implement procedures to document the chain of custody of surplus property that comes under their control. We recommend that the surplus declaration form be modified to include a signature line and date line for Purchasing representatives to denote when Purchasing took custody of an item and when Purchasing relinquished control of an item due to a sale or transfer of the property. We also recommend that the final destination for each surplus property item be documented on the surplus declaration form. If implemented, these adjustments would allow the chain of custody to be clearly documented in the surplus property files.

AUDITEE RESPONSE

Purchasing has changed the form to add Date, picked up by, and Purchasing Signature when received.

RECEIPTS NOT ISSUED

TCA 9-2-103 requires municipal officials to issue receipts and to maintain a duplicate copy of each receipt each time that funds are received. We learned that the Purchasing Department did not issue receipts/maintain duplicate receipts for surplus property sales revenue that was collected during Fiscal Year 08.

RECOMMENDATION 5

We recommend that the Purchasing Department issue a receipt and maintain a duplicate copy of that receipt each time that surplus property sales revenue is collected.

AUDITEE RESPONSE

Purchasing is issuing receipt of surplus property sold and maintaining a duplicate a copy of the receipt.

SURPLUS PROPERTY INVENTORY NOT ADEQUATELY SECURED

We observed that the space reserved for the Purchasing Department's surplus property inventory is currently shared with Public Works and the Purchasing Department does not have a key to this building. Although this building is secured when no City personnel are there, the surplus property inventory should be secured so that it is only accessible to authorized representatives of the Purchasing Department.

RECOMMENDATION 6

We recommend that the Purchasing Department acquire warehouse space so that they may keep their surplus property inventory secured so that it may only be accessed by authorized representatives of the Purchasing Department.

AUDITEE RESPONSE

The General Service Department has agreed to designate a portion of a warehouse to the Purchasing Division for the use of storing surplus property until it is disposed. It will be available in the next six (6) months with locks. The Purchasing Division will be the only ones to have access to it.

COLLECTIONS NOT SUBMITTED TIMELY

TCA 6-56-111 requires all collections that are received to be submitted to the Treasurer's Office within three (3) days of the initial receipt. It appears that the Purchasing Department does not always remit surplus property revenue to the Treasurer's Office within three (3) days of the initial receipt.

RECOMMENDATION 7

We recommend that the Purchasing Department submit all collections received to the Treasurer's Office within three (3) days of the initial receipt in order to be in compliance with TCA 6-56-111.

AUDITEE RESPONSE

We have already taken care of that problem. We are working within the three (3) day period.