# Surplus Property Process Audit

January 2022




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January 18, 2022

**MEMORANDUM**

**TO:** Darryl Gissel, Audit Committee Chairman
LaMont Cole, Audit Committee Member
Linda Hunt, Audit Committee Member
Ashley Beck, Audit Committee Member

**FROM:** Barbara Baughman
Auditing Manager

**SUBJECT: SURPLUS PROPERTY PROCESS AUDIT**

Enclosed is our report on the Surplus Property Process Audit. The audit was conducted in accordance with our annual work program. This report presents all audit issues and corresponding recommendations.

The Internal Auditing Division will conduct a follow-up review regarding implementation of corrective action. The results of the follow-up review will be reported to the Audit Committee.

We would like to thank the Purchasing Department management and staff for their assistance during the audit.

Barbara Baughman

Barbara Baughman
Auditing Manager

# TABLE OF CONTENTS

**CHAPTER ONE - BACKGROUND, OBJECTIVES, SCOPE, & METHODOLOGY ..... 1**

*BACKGROUND ..... 1*
*OBJECTIVES ..... 2*
*SCOPE AND METHODOLOGY ..... 2*

**CHAPTER TWO - AUDIT ISSUES ..... 4**

*INEFFECTIVE SURPLUS PROCESS ..... 4*
*CONSISTENT ERRORS IN ASSET RECORDS ..... 6*
*NO SYSTEM USED FOR TRACKING SURPLUS ASSETS ..... 7*
*NO ACCOUNTING AND SAFEGUARDING OF NON-CAPITALIZED ASSETS ..... 8*
*NO CURRENT MUNICIBID CONTRACT ..... 9*
*NO ASSET UPDATES BY PURCHASING ..... 9*

**CHAPTER THREE – EXIT CONFERENCE ..... 11**

*EXIT CONFERENCE ..... 11*

**CHAPTER FOUR – AUDITEE RESPONSE ..... 12**

# *CHAPTER ONE - BACKGROUND, OBJECTIVES, SCOPE, & METHODOLOGY*

## ***BACKGROUND***

Section 4.08 of The Plan of Government gives the Purchasing Director the power to transfer to or between agencies, sell, or trade in materials and equipment determined to be surplus, obsolete, or unused after consultation with the using agency. Additionally, the Purchasing Director is tasked with maintaining an adequate system of accounting for all property received and all property issued by the Purchasing Department (Purchasing), in accordance with generally accepted accounting principles for property and inventory control. Finally, they must maintain an inventory of all movable property under the control of using agencies.

The Inventory Section of Purchasing maintains asset inventory control and to handles auctions for surplus materials and equipment. Departments and agencies contributing surplus property for sale at auction are assessed a 10% fee of gross receipts.

Online Auction Service

The City-Parish has contracted with Municibid.com (Municibid) to auction surplus assets online. Municibid does not charge any fees to the City-Parish. They earn revenue by charging an 8% transaction fee to the winning bidder. In 2019, Municibid earned approximately $75,000 in buyers' fees from City-Parish auctions.

Financial Information

Capital assets are a significant investment of the City-Parish's resources. For the year ending 12/31/2020, the City-Parish's total capital assets were $2,887,526,957. Capital assets include land, buildings, equipment, streets and roads, etc. The City-Parish's capitalization thresholds are as follows:

- Movable capital assets with a cost of $5,000 or more and a useful life of at least two years;
- Land and land improvements purchased with a minimal value of $50,000; and
- Buildings and building improvements with a value of $100,000 that extend the useful life of the building.

**Exhibit 1**
**City-Parish Comprehensive Annual Financial Report (from Statement of Net Position)**
**12/31/2020**

| | Government Activities | Business-Type Activities | Total |
|---|---|---|---|
| **Capital Assets** | | | |
| **Non-depreciable** | $279,166,513 | $179,719,551 | $458,886,064 |
| **Depreciable, net** | $697,281,706 | $1,731,359,187 | $2,428,640,893 |
| **Total** | $976,448,219 | $1,911,078,738 | $2,887,526,957 |

The City-Parish enters capital assets in the Munis financial system which was implemented in October 2017. Currently, assets valued at $5,000 or more are recorded. Prior to Munis, the City-Parish recorded assets valued at $1,000 or above in the FAIS system.

Exhibit 2 shows the 2019 and 2020 net revenues from the sale of city-owned property.

**Exhibit 2**

**Net Revenues from Sales of Assets (By Fund Type)**

| Fund | 2019 | 2020* |
|---|---|---|
| **General Fund** | $73,995 | $50,825 |
| **Special Revenue Funds** | $22,417 | $5,413 |
| **Fleet Rental & Replacement Fund** | $476,572 | $291,869 |
| **Enterprise Funds** | $31,209 | $7,885 |
| **2016 Flood Fund** | $31,500 | $0 |
| **Outside Agencies/Returns** | $4,590 | $7,790 |
| **Total** | $640,283 | $363,782 |

*Fewer auctions were held in 2020 due to the COVID-19 pandemic.

## ***OBJECTIVES***

The objectives of this audit were to:

- Determine if the City's controls and processes provide reasonable assurance that surplus property is properly safeguarded, utilized and/or disposed of in compliance with relevant laws and policies; and
- Determine if the asset inventory records properly reflect surplus dispositions.

## ***SCOPE AND METHODOLOGY***

The audit period includes current fixed asset records, and assets, heavy equipment, and vehicles designated as surplus during 2018 – 2020.

To accomplish the audit objectives, we performed the following:

- Interviewed Purchasing and Fleet Management staff to review controls for the surplus process;
- Selected a judgmental sample of ten surplus items in the warehouse and traced them back to the Munis or FAIS system to check the accuracy and completeness of the database;
- Selected a judgmental sample of ten surplus items listed as sold in Munis or FAIS and

reviewed sales documentation for each item to determine whether record-keeping was adequate:

- Traced documentation for twenty surplus vehicles and/or decommissioned equipment from the October 2018 inventory to identify whether there was adequate evidence of their final disposition; and
- Select a judgmental sample of ten Asset Disposition forms from departments and traced the asset to the surplus location or confirm final disposition. Determine time from department submittal of form to receipt of the asset by the Purchasing Inventory section.

## CHAPTER TWO - AUDIT ISSUES

### ***INEFFECTIVE SURPLUS PROCESS***

The City-Parish has a disjointed, ineffective process to dispose of surplus property which results in excessive delays, undocumented asset transactions, and extra costs.

- It took 49 – 178 business days for the pickup of surplus property and numerous requests for pickup had to be made by the departments. Additionally, one department said Purchasing staff advised them to keep furniture and other items that would normally go to the surplus warehouse because the warehouse was full. This department commented that they had assets stored throughout their facilities awaiting the ability to send them to the surplus warehouse.

- Two vehicles have been pending disposal for 18 and 22.5 months, respectively.

- Two vehicles entered the surplus property process yet Purchasing staff never recorded a change in status when informed by the departments.

    - The Library completed a Fixed and Movable Asset form (FMA) form on 11/5/2018 to dispose of a Ford Taurus. Central Garage staff signed paperwork on 5/17/2019 documenting the vehicle was prepared for sale and transferred to the surplus warehouse. The vehicle is currently at the surplus warehouse yet remains on the Library's 2020 inventory. The asset history shows no entries after 9/29/2017.
    - The BRPD 2018 physical inventory noted that unit P1012 was sent to auction in 2017. At some point, it was reassigned as a spare vehicle to the Burglary Division. The asset history shows no entries after 9/29/2017.

- Purchasing staff do not require departmental signoffs or documentation to show that assets were stripped of identifying decals or that sensitive information on computer equipment was removed. The Fixed Asset Manager says he checks desktop computers to ensure the hard drives are gone but he cannot check laptops.

  In one sample, one computer, two printers, and two laptops were donated to a non-profit organization. They were from a total donation of approximately 250 laptops and 350 desktop computers. Additionally, two sample vehicles were not taken to Central Garage first for decal stripping.

- Different processes exist for different City-Parish departments.
    - Buildings and Grounds staff said they do not pick up for departments having their own maintenance divisions, however, there is no definitive list. The three departments in the sample had to find alternate means of transportation for the

surplus assets. BRPD donated 806 computer assets to a non-profit which picked up the assets using their vehicle and staff. The Airport paid $234 for a towing company to deliver two vehicles to the surplus warehouse. The Library used their own vehicle and staff to deliver computers to the surplus warehouse.

- Vehicle titles are maintained in different departments prior to disposal.
- Central Garage does not receive surplus vehicles for all departments.

- There is no resource for departments to use to find current items at the warehouse for reutilization. The spreadsheet of available items posted on Purchasing's Metronet page has not been updated since 2015.

  In the exit conference, Purchasing staff expressed concern with asset reutilization as a disposal option (with the exception of technological assets). Concerns included storage availability, the asset's useful life, and staffing to manage the process.

The following causes contributed to the issues noted in the process:

- No formal process set up and followed by the Purchasing staff;
- No policies on what to declare as surplus;
- No acknowledgement or communication with departments;
- No timely, systematic disposal of assets;
- No review, monitoring, or establishment of deadlines by Purchasing and
- Very little computerization of the process.

***Recommendations:***

*Purchasing management should create time frames/benchmarks and written policies/procedures for the surplus process. The policies/procedures should address the concerns above and include the following:*

- *Departmental disposal of no value or broken items in order to speed up the surplus process;*
- *Departmental signoffs to ensure sensitive information is removed from surplus computers, laptops, and printers;*
- *Tracking system for the status of pickup requests;*
- *Availability of FMA forms and "help" information such as manuals or video tutorials for departments; and*
- *Reutilization guidelines.*

*Purchasing management should identify options to expedite disposals and maximize surplus processing, such as virtual dispositions (asset remains at custodial department while it is processed and disposed) and use of asset photographs.*

*Purchasing management should work with Fleet Management to reduce the length of time to prepare a vehicle for disposal or auction. They should consider using alternative locations such*

*as the surplus warehouse for stripping vehicles. This could potentially eliminate an unnecessary stop at Central Garage for vehicles.*

*Purchasing management should obtain written clarification of departments currently serviced by the Building and Grounds Department. Purchasing should develop specific procedures for departments not serviced by Building and Grounds in order to minimize staff disruptions and unnecessary costs such as contract towing.*

*Purchasing management should determine the cost/benefit of increasing the use of software and electronics to assist in inventory tracking, such as electronic prenumbered forms and bar code scanners.*

## ***CONSISTENT ERRORS IN ASSET RECORDS***

The Munis system for asset records is not accurate or complete. All four audit tests showed consistent issues with incorrect records. The problems have occurred because Purchasing has not established a process for the timely recording of asset transactions and review of input for accuracy and completeness. The following explains the problems noted:

### Warehouse to System Records Audit Test

The location and custodian codes were incorrect for eight of ten assets with Munis records (80% error rate). The assets were physically located at the surplus warehouse, but all eight assets had Central Garage location codes and a variety of custodian codes.

According to the Fixed Assets Manager, he only changes the codes when preparing the assets for auction. He wants to handle the paperwork once.

### Sales Documentation Audit Test

A Motorola radio, originally purchased for $5,014, could not be located in Municibid sales documentation. The Munis record for the asset stated that it was auctioned on 7/15/2019 for $6,050.

Purchasing staff determined that a Ford Expedition with the asset number 001194600000 was auctioned on 7/15/2019 rather than the radio whose asset number is 001119460000. Consequently, the wrong fixed asset account was updated. Purchasing said they still have the radio.

An employee of Finance-Accounting made the entry to the wrong asset. The employee inputs asset disposals due to the Fixed Asset Manager being busy with warehouse activity and not knowing how to input the transaction. The Ford Expedition still shows as active in Munis.

**Vehicle/Equipment Final Disposition Audit Test**

Six of fifteen vehicles (40%) are still assigned an Active status in Munis though they were sold or traded in. Additionally, disposal dates had not been recorded for the six vehicles.

The Munis location and custodian codes are incorrect for one vehicle at the surplus warehouse and one reassigned as a spare vehicle.

Upon receipt of one surplus vehicle, Purchasing staff did not correct Munis asset records that listed an incorrect vehicle identification number (VIN) for the asset. Purchasing staff had possession of the surplus vehicle and the FMA form, which included the correct VIN. In 2009, Purchasing staff incorrectly input the VIN by switching the VINs between two tag numbers and unit numbers in FAIS.

**Department Disposition Forms Audit Test**

Two of ten assets had the wrong location and custodian codes (20% error rate).

**Incompatible Duties**

The Fixed Asset Manager has full access to both surplus assets and assets records resulting in incompatible duties. Additionally, he has authority to decide which assets are sent to auction and enters the asset into the Municibid system. Finally, he holds vehicle titles for surplus vehicles. Inadequate segregation of duties increases the risk that theft could occur and be undetected.

***Recommendations:***

*Purchasing management should formalize a process to record asset transfers and dispositions. The process should include the following:*

- *Proper segregation of duties of Purchasing staff*;
- *Timely, complete, and accurate input of transactions; and*
- *Review of input.*

*Purchasing management should determine the cost/benefit of automating the process with a bar code scanner and specialized software (if Munis does not have the capability).*

## *NO SYSTEM USED FOR TRACKING SURPLUS ASSETS*

Purchasing does not use a perpetual inventory system for assets under its control at the surplus warehouse. Purchasing staff said there is no log of assets in the Warehouse. Under a perpetual system, Purchasing would continually update the inventory records for additions and removals.

The Munis system is not used for tracking all assets. In a sample of assets at the warehouse, three of thirteen (23%) tagged assets did not have records in the Munis system because their original purchase cost was less than the City-Parish's current asset capitalization and tagging policies ($5,000 or more).

***Recommendations:***

*Purchasing management should develop and maintain a perpetual inventory system for all surplus assets under its control.*

*Annually, Purchasing staff should inventory assets at the surplus warehouse and reconcile the results to the perpetual inventory system.*

## *NO ACCOUNTING AND SAFEGUARDING OF NON-CAPITALIZED ASSETS*

The City-Parish has no formal policy controlling and safeguarding non-capitalized assets. These are assets valued at less than $5,000 that may be more susceptible to theft or misuse such as laptop computers, printers, tools, televisions, IPads, etc.

The City-Parish's expenses for non-capitalized assets are significant. For the years 2018 and 2019, the City-Parish spent $2,857,199 for computer hardware and $553,683 for public safety equipment.

The Control of Asset Items section of the August 2017 Purchasing Manual stated, "In addition, each department should maintain their own listing of items costing less than $5,000 as appropriate for their internal controls." Historically there has been little compliance with the tracking of non-capitalized assets. In a 2014 audit, only two out of eight Department of Public Works divisions were keeping a listing of assets costing less than $1,000.

We were told that there are no initiatives within the Purchasing Department to address non-capitalized assets. Inventory and Purchasing Manuals are no longer available on the Metronet for departments.

***Recommendations:***

*The City-Parish Administration should establish policies, procedures, and controls to track non-capitalized assets. They should consider the following:*

- *Threshold(s) establishment;*
- *Mandatory inclusion of some asset types regardless of cost such as police body armor and cameras;*
- *Specific exclusions by asset type such as keyboards, office chairs, etc.; and*
- *Process for reporting stolen items.*

*The policies and procedures must address 1) how the assets will be tagged, safeguarded, and tracked, 2) assigned custodians, and 3) segregated duties. Additionally, the policy should include expectations about the frequency of inventories, who conducts them, how they will be documented, and who they will be reported to.*

*Purchasing management should review the policy established by the Administration and determine their role in the non-capitalized asset tracking process. Based on their role, they should develop policies and procedures for Purchasing staff. Additionally, they should assist departments with forms and tracking tools. They should maximize their use of technology and the Metronet.*

## ***NO CURRENT MUNICIBID CONTRACT***

The City-Parish does not have a current contract with Municibid, LLC. The original contract was implemented in 2012 and the contract was amended three times to extend the term through January 31, 2017.

### ***Recommendation:***

*Due to the significant length of time since the last renewal, Purchasing management should evaluate other auction services (Request for Proposal) to ensure quality services that maximize revenues to the City-Parish.*

## ***NO ASSET UPDATES BY PURCHASING***

Purchasing is responsible for disposing of surplus property, however, their staff does not input asset status updates into the Munis system after auctions. The Finance-Accounting Debt Management Officer has input asset status changes and disposals codes from 2019 – 2021. Consequently, some transactions by the Debt Management Officer bypass Purchasing's workflow approvals.

Status changes include active, disposed, and retired. Disposal codes include auction, demolished, sold, etc.

The Debt Management Officer said she has input transactions because the Fixed Asset Manager is busy with warehouse activity. The Fixed Asset Manager did not know if he had access to Munis.

### Vehicles Not Updated

The majority of vehicles sold at auction in 2020 still show as active assets in the Munis system. One hundred and thirty-four vehicles were sold through Municibid in 2020. Only sixteen of those vehicles were "retired or disposed" in the Munis system. The sixteen vehicles were updated by the Debt Management Officer.

### Errors in Asset Records

The asset records for two vehicles sold at the November 2020 auction showed that both had been sold previously. The Debt Management Officer made the original sales entries.

| *Asset* | *Disposal Date per Munis* | *Disposal Code per Munis* | *Disposal Price per Munis* | *Auction Date per Journal Entry* | *Sales Price per Journal Entry* |
|---|---|---|---|---|---|
| 2013 Dodge Charger, tag # 123406 | 01/01/2018 | AU | $1,500 | 11/2/2020 | $510 |
| 2008 Chevy Impala, tag # 115442 | 08/18/2017 | AU | $250 | 11/2/2020 | $550 |

**Assets Not Updated Timely**

Finance-Accounting does not record auction sales or update asset status timely. Journal entry 1762, effective date 9/30/2019, recorded Municibid sales from 2/18/2018 through 7/15/2019. Generally, Finance-Accounting only records auction revenues twice a year even though wire transfers are received more frequently.

Additionally, there is a significant lag in updating asset records. Finance-Accounting did not update assets sold in June and July 2019 until 3/15/2021.

***Recommendations:***

*Purchasing should immediately correct asset records to reflect asset and vehicles sales from the past several years.*

*Purchasing management should implement a process for staff to input status changes to asset records immediately after the occurrence. Management should review the work of staff to ensure accuracy of transactions.*

*Finance-Accounting staff should input auction proceeds more frequently.*

# *CHAPTER THREE – EXIT CONFERENCE*

***EXIT CONFERENCE***

We held an exit conference with Purchasing Department staff on September 28, 2021 with the following persons in attendance:

Kris Goranson, Purchasing Director
Lynn Maloy, Assistant Purchasing Director
Trent Bryan, Fixed Asset Manager
Barbara Baughman, Auditing Manager
Carol Marcantel, Chief Auditor

The contents of the report were fully discussed. The Purchasing staff stated that it would be difficult to implement corrective action due to lack of resources and being under-staffed.

## *CHAPTER FOUR – AUDITEE RESPONSE*

**Office of the Mayor-President**
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**Kris R. Goranson**
Director of Purchasing

January 18, 2022

City of Baton Rouge
Parish of East Baton Rouge
Internal Auditing Committee
Darryl Gissel, Audit Committee Chairman
LaMont Cole, Audit Committee Member
Linda Hunt, Audit Committee Member
Ashley Beck, Audit Committee Member

Dear Audit Committee Members:

The Director of Purchasing would like to thank the Internal Auditing Division for their thorough review of the Surplus Property Process and Asset Disposition. The intent of an internal audit is to identify potential risks and propose recommendations that will drive appropriate actions to reduce or eliminate the risk identified.

The preceding report has been presented to the Purchasing Director and upon thorough review with the Internal Audit Division the Director of Purchasing believes that the results are a fair and unbiased reflection of the Surplus Property Process.

To improve upon the general processes and specific financial controls that were noted as deficient within the scope of the audit, the Purchasing Director will take the following actions and implement the improved processes below no later than May 1st, 2022.

Per the plan of government, the Purchasing Division is solely responsible for the disposal of surplus property. In order to effectively manage the disposition of assets the Purchasing Division will take the following actions:

- Develop, document and publish processes and procedures for consistent asset disposal irrespective of department or agency.
- Develop standards and document roles, responsibilities and expectations of both requesting agency, Information Systems, Central Garage and/or DPW if applicable and the Purchasing Department.
- Work with accounting to develop appropriate processes to charge back direct or methodologies to capture indirect costs where appropriate and material to other departments.
- Develop and implement a comprehensive asset transfer process that appropriately tracks asset transfer requests, standardizes forms and provides for detail of available surplus property.

- At a minimum the Process will track agency, individual that requested the disposition, asset type, asset condition (functional or scrap), date of requested transfer, actual date transfer occurred and actual date of auction.
- Process will provide transparency to assets under the control of procurement and eligible for repurposing
- Processes and documentation will result in the creation and recordation of the perpetual inventory within the liquidation process.

- Develop and implement a comprehensive asset liquidation process that prioritizes liquidation based upon expected recovery value.
  - Achieve 90% of eligible asset liquidations within 60 days for assets valued > $10,000, 90 days for assets valued < $10,000 and > $2,500 and 120 days for assets valued <$2,500.
- Evaluate 3rd party auction platforms annually to ensure that the City-Parish is maximizing the recovery of its assets at disposition.
- Seek to reduce inefficient asset transfers and associated costs between requesting agency and Surplus Property Liquidation.
- Work with accounting to develop appropriate processes to charge back nonstandard direct costs where appropriate and material in value.
- Implement KPI's (Key Performance Indicators) to monitor and provide transparency to the Purchasing Departments effectiveness of managing the process.
- Implement segregation of duties, supervisor review and independent verification of asset transfer and recordation to ensure accuracy of asset disposals and the Munis system.
- Complete an audit of all vehicle assets, location and system accuracy to ensure accuracy of financial systems and status of assets.

The following actions will be completed no later than October 1, 2022 to address the deficiencies noted within the report:

- Take significant action and develop timelines, processes and resources required to reduce active surplus inventory within the control of the Purchasing Department.
  - >90% Reduction of current low value surplus/scrap inventory by October 1, 2022.
- Form a cross functional team comprised of members from Audit, Purchasing, Accounting and several agencies to identify best practices for inventory tracking.
  - Recommendations should include proposed asset tracking by asset type, value and risk of loss.
- Evaluate 3rd party auction platforms annually to ensure that the City-Parish is maximizing the recovery of its assets at disposition.

Sincerely,

Kris R. Goranson
Director of Purchasing