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Management and Accounting Deficiencies in the District's Excess and Surplus Property Program

September 13, 2000

EXECUTIVE SUMMARY

PURPOSE

Pursuant to Public Law 93-198, Section 455, the Office of the District of Columbia Auditor conducted a compliance and performance audit of the Office of Contracting and Procurements' (OCP) Personal Property Division (PPD) for fiscal years 1998, 1999, and 2000, through May 31, 2000.

CONCLUSION

The Office of Contracting and Procurement's Personal Property Division did not operate in compliance with applicable policies, procedures, and standards relative to cash collections and cash handling functions. PPD failed to implement proper safeguards to protect District-owned assets under its control. Further, the desired results or benefits for which this program was established were not sufficiently achieved during the almost three-year period covered by this audit. It is the Auditor's opinion that this was due in significant part to a gross lack of managerial oversight and direction, including but not limited to, the failure to develop, implement, or update operational directives and guidelines for the Personal Property Division. The Office of the Chief Financial Officer failed to provide adequate, effective oversight of or assistance to PPD's cash collection and cash handling functions. As a consequence, monies collected by PPD employees were not properly accounted for, reconciliations were not performed, and cash overages and shortages were never resolved. In essence, proper stewardship of public money entrusted to the custody and care of PPD's staff and manager was never established which resulted in mismanagement of this function and unexplained losses in revenue from this source.

Excess personal property received from District agencies was not properly inventoried, adequately safeguarded, or accounted for by the staff of the Personal Property Division. Excess personal property was routinely declared surplus and sold without giving consideration to a key

provision of the law which clearly states that excess personal property should be utilized as a first source of supply in meeting other District agency requirements. Further, excess property was declared surplus and sold without determining its fair market value, and in most instances, without advertising upcoming auctions to the general public, thus limiting participation and minimizing competition in the bid process. There was a complete lack of security during the auction process and over excess personal property in PPD's warehouse, which compromised District assets and the lives of PPD personnel.

Further, the lack of a strong system of internal accounting controls within the Office of Contracting and Procurement's Personal Property Division resulted in the loss or theft of approximately \$42,642.05 in cash or cash equivalents received from the sale of surplus District property. Extensive delays in PPD's deposit of funds to the District treasury may have contributed to revenue losses by preventing the District government from using these funds for bill payment and investment purposes, and by possibly providing unauthorized interest free loans to unknown individuals for their personal use. A lack of managerial oversight and direction, inexperience, and a general failure to adhere to established policies and procedures regarding internal controls over the collection and deposit of cash placed District excess and surplus property at great risk of loss and misuse.

FINDINGS

1. The Office of Contracting and Procurement's management oversight and direction of the Personal Property Division was virtually non-existent.
2. The Personal Property Division failed to inventory District-owned personal property at its warehouse or to maintain an inventory of excess and surplus property.
3. There were inadequate controls over the collection, safeguarding, and deposit of cash to the District treasury.
4. There were cash shortages of \$42,642 from the sale of District-owned surplus personal property.

5. Cash sales were not timely deposited.
6. PPD personnel who collected, counted, and deposited funds from public auctions were not bonded and had no previous experience as cashiers.
7. Security during public auctions was inadequate.
8. PPD failed to adhere to its own guidelines and allowed purchasers of surplus property to pay for items after the date of sale.
9. Re-utilization of excess property by District agencies is virtually nonexistent.
10. There were inadequate controls over the disposal and receipt of funds for scrap metals and iron.
11. The District's state agency for surplus property was not in compliance with established rules and regulations.

RECOMMENDATIONS

1. The Chief Procurement Officer must immediately establish and publish rules and regulations governing the proper receipt, recordation, classification, storage, transfer, and disposition of District excess and surplus personal property.
2. The Chief Procurement Officer must establish specific long and short range performance goals for the Personal Property Division, to include but not be limited to, PPD's submission of monthly, quarterly, and annual reports.
3. The Chief Procurement Officer should automate the Personal Property Division with a user-friendly, reliable, accurate, readily accessible computer system, which must accommodate, amongst other systems, an inventory system.
4. The Chief Procurement Officer must establish and place into immediate use in the District's Personal Property Division a viable inventory system requiring periodic audits.
5. The Chief of the Personal Property Division must inventory all excess personal property currently in the Division's warehouse, and all property coming into its warehouse in accordance with the OCFO's Financial Policies and Procedures Manual.

6. The Chief Procurement Officer must develop and implement an inventory tracking system to track and report on all excess property from the time it enters the PPD warehouse until its final disposition.
7. The Chief Procurement Officer, in conjunction with the Chief Financial Officer, must recover the \$42,642.05 in shortages to the District Treasury.
8. The \$42,642.05 shortage in auction proceeds must be immediately investigated further by the Office of the Inspector General, the Metropolitan Police Department, or the Federal Bureau of Investigation.
9. The Office of Contracting and Procurement's Personal Property Division staff immediately cease collecting and depositing funds from public auctions until all employees are properly bonded and trained in collecting, counting, depositing, and reconciling cash sales.
10. The Office of Contracting and Procurement should arrange to utilize employees from the Office of the D.C. Treasurer as cashiers during future auctions.
11. The District's Chief Financial Officer take immediate control of collecting, counting, depositing, and reconciling all funds received from PPD's public auctions.
12. The Chief Procurement Officer immediately establish and publish written policies and guidelines for the daily operations of the PPD and immediately implement effective management controls over and direction of all functions of the Personal Property Division.
13. The Chief Financial Officer, in conjunction with the Chief Procurement Officer, should ensure that adequate security is provided at all future public auctions.
14. The Chief Procurement Officer and the Chief of the Personal Property Division immediately establish, publish, and distribute to all District agencies specific policies and procedures concerning timely notification, identification, and availability of excess personal property for agency re-utilization.
15. The Chief of the Personal Property Division make re-utilization of excess personal property a priority by conducting an inventory and setting aside personal property, cleaned and refurbished, if necessary, for use by District agencies.
16. The Department of Corrections' Supply Management Division immediately cease the shipment of scrap metals and iron to Davis Industries.
17. The Office of Contracting and Procurement competitively award a valid written contract and establish the appropriate administrative and accounting controls for the sale of scrap metal and iron by the District government.

18. The Chief Procurement Officer, the Director of the Department of Corrections, and the District's Chief Financial Officer determine the total amount of scrap metal delivered to Davis Industries, the amount of money received for the deliveries, and ensure that the District government is paid for all scrap metal sold. A full written report of the results of this examination must be made to the District of Columbia Auditor by the Chief Procurement Officer, Director of the Department of Corrections, and the District's Chief Financial Officer, within 90 days of the date of this report
19. The Chief Procurement Officer and the Chief of the Personal Property Division must comply with the provisions as prescribed in the District of Columbia Municipal Regulations, Title 27, Chapter 9, pertaining to the District of Columbia State Agency for Surplus Property. Specifically, the D.C. SASP must "acquire and distribute" to all eligible donees in the District federal surplus property, and operate the state agency surplus property program in accordance with District law.

PURPOSE

Pursuant to Public Law 93-198, Section 455, the Office of the District of Columbia Auditor conducted a compliance and performance audit of the Office of Contracting and Procurement's (OCP) Personal Property Division (PPD) for fiscal years 1998, 1999, and 2000, through May 31, 2000.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine:

1. whether the policies, procedures, and practices utilized by the Personal Property Division in performing its duties and responsibilities are adequate to safeguard assets;
2. whether all personal property received by the PPD was accounted for, adequately safeguarded, and disposed of properly;
3. the amount of funds generated from the auction of District surplus personal property during the audit period;
4. whether internal controls over PPD's cash collection and cash handling processes were adequate to prevent theft, misuse, or loss of funds generated from auctions; and
5. whether all funds collected from the auction of personal property or sale of scrap metals were accounted for by PPD.

The scope of the audit covered the period October 1, 1997 through May 31, 2000.

In conducting the audit, the District of Columbia Auditor reviewed the Personal Property Regulations contained in the Department of General Services' 1977 Materiel Management Manual; procedural guidelines for the disposition and disposal of excess and surplus personal property; D. C. Law 11-259, entitled the "Procurement Reform Amendment Act of 1996"; OCP's performance standards for the Personal Property Division; and Chapter 9, Title 27 of the District of Columbia

Municipal Regulations (DCMR) pertaining to surplus property. The Auditor also collected and reviewed personal property disposal rules, regulations, and guidelines from the U.S. General Services Administration (GSA), the U.S. General Accounting Office (GAO), the U.S. Department of Transportation's Federal Highway Administration, and Prince Georges County's Office of Central Services.

BACKGROUND

D.C. Law 11-259, entitled the "Procurement Reform Amendment Act of 1996," established the Office of Contracting and Procurement (OCP) and transferred all Department of Administrative Services' (DAS) procurement functions to OCP. The law centralized procurement functions of subordinate agencies under the authority of the Mayor and created the position of Chief Procurement Officer of the District of Columbia. The law also authorized the Chief Procurement Officer (CPO) to dispose of excess and surplus personal property of District government departments, agencies, and instrumentalities. Further, D.C. Code, Section 1-1182.2 required the Mayor to issue rules consistent with the act governing procurement, management, control, and disposal of supplies, services, and construction.

Presently, the disposition of District of Columbia government-owned excess and surplus personal property is the immediate responsibility of the Chief of the Office of Contracting and Procurement's Personal Property Division. The Personal Property Division has operated under guidelines contained in the Department of General Services' Materiel Management Manual, which was published in 1977.

Key terms applicable to excess and surplus property activities of the District of Columbia, as defined in the Materiel Management Manual, are presented below:

- ◆ **Personal property** (also defined in Title 27, Chapter 41, Section 4199 of the DCMR) is any property or item that is complete in and of itself, that does not lose its

identity or become a component part of another item when put into use, and is not classified as or considered real property or real estate.

- ◆ **Excess personal property** (also defined in Title 27, Chapter 21, Section 2199 of the DCMR) is District-owned personal property deemed or determined to be excess to the needs and/or requirements of the owning or custodial D.C. agency.
- ◆ **Surplus personal property** is excess personal property for which there is neither a known or identified need within the Government of the District of Columbia. Only the Property Disposal Officer or his/her designee can declare personal property to be surplus.
- ◆ **Accountable Property Officer/Manager, APO/M** - An employee vested by the agency head with the responsibility of effecting the fiscal and physical accountability of the accountable personal property assigned.
- ◆ **Re-utilization** - The Personal Property Division maintains a warehouse located at 2000 Adams Place, NE for the storage and distribution of excess and surplus personal property. District government employees may visit the warehouse and select property for re-utilization.

The transition from personal property to excess property to surplus property begins when property is first acquired by an agency. The property becomes excess when that agency no longer has use for it. The property becomes surplus when the agency relinquishes authority over the property to the Personal Property Division and PPD declares the property surplus. Only the Chief of the Personal Property Division can declare excess property to be surplus property.

Pursuant to Section 2632.1(B)(3) of the Department of General Services' Materiel Management Manual, the head of each department of the District is accountable for the proper use, care, maintenance and security of personal property in order to ensure that it is properly utilized in the best interest of the District government. Further, Subsection E, Accountable Property Officers, states that the head of each department will designate in writing to the Personal Property Division a supervisory or administrative employee appointed as accountable property officer/manager (APO/M) for the purpose of supervising all property in the custody of each department.

When a District government agency determines that an item of personal property is unserviceable, damaged, broken beyond reasonable or economical repair, obsolete, or simply excess

to the needs and/or requirements of the agency, the accountable property officer/manager (APO/M) prepares a property disposal action, PDA (DC Form 2630-8), declaring the property as excess and forwards the form to the Personal Property Division.

The PDA, a four-part multi-function form, is the only form used by the Personal Property Division to document an agency's request to dispose of excess property. APO/Ms use the PDA to identify and report excess personal property. When the property has been declared excess, APO/Ms can request authorization from the PPD to transfer the property between District government agencies, request authorization for trade-in, exchange towards the purchase of new or replacement property, or sell at auction as surplus property.

The Personal Property Division also uses the PDA to "survey," or evaluate, personal property identified and reported by APO/Ms as excess. Once personal property is reported, a PPD representative should visit the designated agency to evaluate the excess property and make a determination whether the property: 1) has a residual value and can be sold to the public; 2) should be held in the warehouse for re-utilization by another agency; or 3) has no residual value or is economically unserviceable and should be scrapped.

Each agency is responsible for transporting all excess property to the PPD warehouse at 2000 Adams Place, NE, usually by hiring a moving contractor at the agency's expense. When excess property arrives at PPD's warehouse, a PPD warehouseman routinely checks the excess property delivered against the PDA, files the PDA, and immediately moves the property into the warehouse. Depending on the time of month the property arrives at the PPD warehouse, it will remain there from 1 to 30 days before it is sold at auction after being declared surplus property by the PPD Chief. The Materiel Management Manual, Section 2632.1(O)(4) states, in relevant part, that property determined by the PPD Chief to be surplus to the District, but which retains useable life or possesses residual value sufficient to warrant sale thereof, shall be disposed of by competitive bid sale, by negotiated sale, or trade-in for a reasonable value in the purchase of like property.

The PPD holds a public auction on the third Thursday of each month to sell surplus District property. District government employees, members of their household, or anyone acting on their behalf are not eligible to participate in the public auction. Persons interested in purchasing surplus property are allowed to view the property on the Tuesday and Wednesday before the auction. All sales are final and the property purchased must be paid for in cash, certified check, cashier's check, or money order made payable to the D.C. Treasurer and removed from the PPD warehouse or other District government locations¹ before the close of business on the day of the auction. The PPD Chief acts as the auctioneer and reserves the right to withdraw any or all property offered for sale at any time during the auction. There is no "minimum" bid and all property is sold "as is".

Finally, the PPD is the District's designated state agency for surplus property (SASP) and as such receives, records, verifies, and distributes federal government surplus property. Title 27 of the District of Columbia Municipal Regulation, Section 901.1 states, in relevant part, that:

In accordance with the provisions of the Federal Property and Administrative Services Act of 1949, . . . authorize the District of Columbia State Agency for Surplus Property (SASP) to acquire and distribute to all eligible donees in the District of Columbia any and all surplus property deemed surplus to the Federal Government. The D. C. SASP is vested with all necessary powers and authorities to accomplish the above mentioned functions.

¹Surplus property such as vehicles and other large pieces of equipment such as cranes, backhoes, tractors, and fire apparatus, are held at the District's Department of Public Works, Department of Corrections, and the Fire Department.

FINDINGS

THE OFFICE OF CONTRACTING AND PROCUREMENT'S MANAGEMENT OVERSIGHT AND DIRECTION OF THE PERSONAL PROPERTY DIVISION WAS VIRTUALLY NON-EXISTENT

Section 101(a) of D.C. Law 11-259, D.C. Code, Section 1-1181.5, established "an independent service agency to be called the Office of Contracting and Procurement ("OCP"), which is administered by a Director. Also, D. C. Code, Section 1-1182.3, entitled "Duties of Director," states, in relevant part, that the Director shall have the following authority and responsibility . . . "To sell, trade, or otherwise dispose of surplus supplies and services belonging to the District government;" and "To . . . exercise automated control over all warehouses, storerooms, store supplies, inventories, and equipment belonging to the District government. . . " Further, D.C. Code, Section 1-1182.2(a)(1), states that "the Mayor shall issue rules consistent with this act governing procurement, management, control, and disposal of supplies, services, and construction. . . " The law has been in effect for over three years, however, the Mayor and the Director of the Office of Contracting and Procurement have failed to publish any new rules and regulations governing the disposal of surplus personal property, have not implemented any significant improvements, and have not strengthened the oversight, management, and operations of the PPD.

As successor to the Department of Administrative Services (DAS), the Office of Contracting and Procurement is responsible for issuing rules and regulations governing the disposition of District-owned excess and surplus personal property. As a result of OCP's failure to update and revise rules and regulations governing the proper receipt, recordation, classification, storage, transfer, and disposition of millions of dollars in District-owned excess personal property, the personal property resources of the District have been managed ineffectively and inefficiently, resulting in, but not limited to, the following deficiencies:

1. Until the beginning of fiscal year 2000, the Office of Contracting and Procurement never established or required: (i) an operating budget for the Personal Property Division, (ii) specific performance measures and employee standards or a mission

statement, (iii) an organizational chart, or (iv) an internal or external audit of the Division.

2. PPD had, and continues to have, no system, manual or automated, for maintaining an inventory of surplus and excess property transferred to it, and had not taken an inventory of any items coming into its warehouse at 2000 Adams Place, NE during the three-year period of this audit.
3. PPD did not routinely notify District agencies of available excess property for re-utilization. Instead, District agencies had to contact PPD to determine the availability and kind of excess property that PPD had on hand for re-utilization.
4. PPD personnel conducted monthly auctions, selling all types of surplus District property, including computers, vehicles, tractor trailers, cranes, front-in loaders, water tanks, hospital equipment, incubators, helicopters, and other property. The auctioneer had no prior experience in conducting auctions; employees who handled cash from auctions were not qualified to do so; none of the items auctioned were appraised to determine their fair market value; there were no minimum bids; and the public auctions were not routinely or widely advertised.
5. PPD conducted a public auction each month where surplus District property was sold to the highest bidder and thousands of dollars in cash and checks were collected, counted, and deposited by inexperienced PPD personnel who were not bonded, as required by the Office of the Chief Financial Officer's (OCFO) policy, and therefore placed District assets at risk.
6. There was no security provided at public auctions to protect PPD personnel, safeguard monies openly collected, or safeguard excess and surplus property maintained in the PPD warehouse.
7. PPD personnel did not routinely reconcile cash collections to receipts, thus the receipt totals did not always agree with deposit slip totals.
8. Excess personal property that regularly came into the warehouse from District agencies was routinely declared surplus and sold in large lots of 10 to 25 or more items. None of the items sold were individually inventoried and tagged with an identifying number, therefore, it was impossible to determine the selling price of a specific item, or whether the item was actually sold, sent to the landfill, or pilfered.

The Auditor observed that prior to, and during the three-year period of this audit, the PPD operated under regulations issued by the Department of General Services (DGS) in the Materiel Management Manual dated July 1977. These regulations have not been updated, revised, or

modified in approximately 23 years, and primarily address the management of personal property at District agencies. The regulations governing PPD's acquisition, re-utilization, and disposition of excess and surplus District property are severely limited and outdated.

The acquisition of personal property represents a substantial financial investment for the District of Columbia government. However, there appeared to have been minimal interest in, or little emphasis placed on, the efficient and effective management of these valuable resources once they were declared excess to the needs of the District government.

The Auditor's review of PPD files revealed that a number of proposals were drafted by former managers to improve the management of PPD's excess and surplus property program. However, the proposals were never implemented. One proposal concerned the establishment of a District-wide automated personal property management system, and included a Statement of Work (SOW), and a suggested solicitation for a contractor to perform the services. Another proposal discussed the formation of an Interagency Task Force chaired by the then DAS Director to develop a comprehensive plan for improving the management of personal property owned and held by the District government. The broad goals outlined in the proposal were to: (i) improve accountability for District personal property, (ii) curtail property losses, (iii) establish an automated personal property system, and (iv) improve efficiency in personal property management. The recommended policies and procedures addressed in these proposals were never implemented.

In fiscal year 2000, the PPD manager and staff still did not inventory or track excess District-owned property coming into the warehouse. Therefore, the audit team was unable to determine the final disposition of all excess District-owned property received in the PPD warehouse. For example, the audit team observed three laptop computers coming into the PPD warehouse during our fieldwork but could not determine the final disposition of the laptop computers because PPD did not list the computers on an inventory as excess property coming into the warehouse. Further, PPD sells items in bulk without cataloging each item individually. The audit team observed two public auctions after the three laptop computers came into the warehouse, and obtained listings of all items

sold during the auctions; however, there were no records of the laptops being sold or re-utilized by other District agencies. Lax internal controls within the PPD prevented the audit team from determining whether the laptop computers were: (i) sold at auction, (ii) re-utilized by another District agency or non-profit entity, (iii) pilfered, or (iv) scrapped. Lax internal controls and a lack of accountability over the custody and control of District excess and surplus property represents a high-risk area for abuse, misuse, and theft of property before it can be inventoried, made available for re-utilization by other District agencies, or auctioned.

RECOMMENDATIONS

1. The Chief Procurement Officer must immediately establish and publish rules and regulations governing the proper receipt, recordation, classification, storage, transfer, and disposition of District excess and surplus personal property.
2. The Chief Procurement Officer must establish specific long and short range performance goals for the Personal Property Division, to include but not be limited to, PPD's submission of monthly, quarterly, and annual reports.
3. The Chief Procurement Officer should automate the Personal Property Division with a user-friendly, reliable, accurate, readily accessible computer system, which must accommodate, amongst other systems, an inventory system.

THE PERSONAL PROPERTY DIVISION FAILED TO INVENTORY DISTRICT-OWNED PERSONAL PROPERTY AT ITS WAREHOUSE OR TO MAINTAIN AN INVENTORY OF EXCESS AND SURPLUS PROPERTY

The Materiel Management Manual, Section 2632.1(M), entitled "Physical Inventories", briefly states, in relevant part, that "... physical inventories of all accountable personal property will be made at least annually by each department . . ." The Auditor did not find any specific rules or regulations in the Materiel Management Manual or within the Personal Property Division directing PPD to inventory all items coming into its warehouse. Further, the PPD Chief stated that during his tenure, which began in 1993, the PPD staff had never inventoried excess property coming into the warehouse or conducted a physical inventory of excess property in the warehouse.

The Auditor observed that the U.S. Department of Energy's (DOE) regulations entitled "Managing Government Property and Records," states that annual physical inventories are taken of sensitive items and a blind wall-to-wall inventory of capital equipment is conducted biennially. Also, the University System of New Hampshire's regulations on "Disposal of Surplus Property" state that it maintains a property inventory system that is updated periodically. Comparable regulations were noted in other federal and state agencies responsible for managing excess and surplus property.

The District's Office of the Chief Financial Officer (OCFO) has classified District-owned excess personal property, such as computer equipment, furniture and accessories, laboratory equipment, and vehicles as fixed assets. Further, the OCFO's Financial Policies and Procedures Manual states, in relevant part, that District-owned fixed assets must be adequately accounted for, controlled, and safeguarded, and that:

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- A. Fixed assets comprise the majority of the District's total assets. Care must be taken in safeguarding and accounting for all fixed assets. [Auditor's Emphasis]
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Further, the OCFO's policies and procedures emphasize that "documents relating to the acquisition and disposal of fixed assets are to be retained throughout the life of the fixed asset and for specific periods after disposal. . ." Additional OCFO policies and procedures governing the care of fixed assets are presented in Appendix I.

Personal property declared excess continues to have a "useful life," provides an "economic benefit" to the District government, and must be properly accounted for, controlled, and adequately safeguarded. The Auditor found that excess personal property, of an undetermined value, was sold by PPD at public auctions for approximately \$1.2 million during the almost three-year period of this

audit, which authenticated its useful life and economic benefit. However, not one piece of this property was inventoried, appraised, or assigned a fair market value.

When the Chief of the Personal Property Division signs off on property disposal actions from District agencies disposing of excess personal property, the agency's APO/M is instructed by the PPD to "drop from your accountable records" the value of the personal property. Therefore, District-owned excess personal property with a continued useful life and economic benefit has been dropped from District government accounting records but not picked up by a PPD inventory system. As a consequence of this lapse, the value (\$1.2 million) of excess personal property transferred to PPD is no longer captured as a District asset. PPD does not maintain an inventory of excess and surplus property, nor does it account for the final disposition and ultimate removal of excess and surplus property from PPD's custody. The creation and maintenance of an inventory by PPD would establish a level of control and accountability that, if followed, would make it difficult to lose, misuse, or misappropriate these assets.

PPD's failure to maintain an inventory of District-owned excess and surplus personal property at its warehouse, or establish and use an effective inventory system, has exposed District assets to loss, waste, and misappropriation while fostering an ineffective internal control environment. The Auditor observed that the only way to determine the type and amount of excess property physically inside the District's personal property warehouse was to conduct a daily inspection. The Auditor conducted an inspection and observed that the warehouse was full of excess personal property, still with a useful life and economic benefit to the District government, that was not inventoried or assigned a fair market value. Any of these items could have been lost, pilfered, or simply given away without accountable officials in the Office of Contracting and Procurement or the Office of the Chief Financial Officer having knowledge of its whereabouts, or the value of the missing assets.

The OCFO's Financial Policies and Procedures Manual established specific policies and procedures to ensure that inventories are properly accounted for and safeguarded. The OCFO's Policies and Procedures Manual states, in relevant part, that:

- A. Each agency Director must designate an agency Property Control Officer to account for inventory and ensure that all divisions within the agency comply with the Manual.
- B. The agency controller must receive all inventory representations from the Property Control Officer and approve reconciliations and adjustments to the detailed accounting records resulting from the physical inventory.
- C. Adequate accounting control over inventory must be established and maintained.
- D. Inventories should be stored where loss from fire, theft, temperature variations, humidity or other elements are minimized. [Auditor's Emphasis]
- E. The custodian must compare quantities received against receiving reports.
- F. If the total value of inventory is \$25,000 or more, then a perpetual inventory system must be used. Otherwise, either a periodic or perpetual inventory system may be used. [Auditor's Emphasis]
- G. District agencies should perform a complete physical inventory annually if a periodic inventory system is used. If a perpetual inventory system is used, a complete physical inventory should be performed at least once every three years. However periodic testing during the year of items in the inventory must be performed to verify the accuracy of the perpetual inventory records.
- H. Any discrepancies between the inventory records and the physical count must be investigated and resolved.

Further, Section 1030.601, Physical Inventory Procedures, as listed in the OCFO's Financial Policies and Procedures Manual states, in relevant part, that:

- A. When the agency performs a physical inventory, it should be done as close to the fiscal year-end as possible and adjusted for issues, receipts or other changes between the date of the physical inventory and the fiscal year-end.
- B. Each agency should develop written instructions that clearly indicate the procedures for taking the physical inventory.

- G. The agency can use either tags or inventory count sheets for the physical inventory count.
- H. If inventory tags are used,. . . they should be pre-numbered. The purpose of a tag system is to reduce the risk of an inventory item being counted twice or not counted at all.

In summary, the Personal Property Division failed to adhere to the OCFO's policies and procedures and did not properly safeguard and account for fixed assets that entered its warehouse.

RECOMMENDATIONS

- 1. The Chief Procurement Officer must establish and place into immediate use in the District's Personal Property Division a viable inventory system requiring periodic audits.
- 2. The Chief of the Personal Property Division must inventory all excess personal property currently in the Division's warehouse, and all property coming into its warehouse in accordance with the OCFO's Financial Policies and Procedures Manual.
- 3. The Chief Procurement Officer must develop and implement an inventory tracking system to track and report on all excess property from the time it enters the PPD warehouse until its final disposition.

INADEQUATE CONTROLS OVER THE COLLECTION, SAFEGUARDING, AND DEPOSIT OF CASH TO THE DISTRICT TREASURY

The OCFO's Financial Policies and Procedures Manual, Section 1010.300 states, in relevant part, that there is a relatively high risk associated with transactions involving cash; thus a strong system of internal control is required. The OCFO has directed that the following policies be adopted and followed:

- 1. All cash receipts must be promptly recorded and controlled.

2. Segregation of duties must be the first priority of an agency when handling cash receipts and disbursements and record-keeping functions.
3. Cash received must be deposited with the Office of Finance and Treasury (OFT), intact and on a timely (daily) basis. (Auditor's Emphasis)
4. Cash must be properly safeguarded and recorded.
5. Access to cash must be limited to as few employees as possible.
6. All employees who handle cash must be bonded. . . (Auditor's Emphasis)
7. All cash overages and shortages must be controlled and disposed of in accordance with established procedures. If significant shortages/overages occur, contact the Accounting Operations Manager in OFOS [Office of Financial Operations and Systems].

The Auditor found that the Personal Property Division, during the approximate three-year period of this audit, failed to adhere to the OCFO's policies and procedures in the collection, safeguarding, and deposit of cash receipts from auctions.

\$42,642 in Cash Shortages From the Sale of District-Owned Surplus Personal Property

The OCFO's Financial Policies and Procedures Manual, Section 1010.300, states, in relevant part, that: "All cash overages and shortages must be controlled and disposed of in accordance with established procedures." Section 1010.603 of the OCFO's Manual outlines the procedures presented below that are to be followed in the event of cash shortages or overages:

- A. If a shortage or overage occurs in the daily cash receipts, fully explain the variance in the daily cash receipts summary.
- B. All overages in the daily cash receipts are to be immediately deposited to the General Fund.
- C. Any shortage in the daily cash receipts must be recorded as a reduction of revenue. Revenue cannot be recorded in excess of total cash receipts.

- D. If the daily cash receipts are over or short by \$100 or more, or by a significant percentage of the daily cash receipts, contact the Manager of Cashiering Operations within the Office of the Chief Financial Officer.
- E. If excessive and/or repetitive shortages or overages persist in the daily cash receipts, the agency must take the applicable personnel actions to resolve the problem. This may require relieving the employee of his/her duties.

The Auditor determined that of the 29 public auctions held by PPD during the audit period, there were 23 instances, or approximately 79%, in which the total of all sales receipts exceeded the amount deposited, thus resulting in cash shortages totaling approximately \$42,642.05. For example, PPD held a public auction on July 22, 1999 where the sales receipts totaled \$29,790, but the amount on the deposit ticket totaled only \$26,235, a difference of \$3,555. The PPD Chief counted the money and made the deposit on July 23rd, a day after the public auction.

Two payment receipts from the July 22nd auction, number 4238 for \$1,475 was dated July 26th, and receipt number 4239 for \$2,050 was dated July 27th. Both receipts indicated that the payments were made in cash. The receipts totaled \$3,525. The PPD Chief should have deposited these funds with the D.C. Treasurer on or before the close of business, July 28, 1999. However, there were no records of another deposit until August 30, 1999, four (4) days after the public auction held on August 26, 1999. The deposit for this public auction should have reflected an overage of at least \$3,525, the total of the two sales receipts from the auction held on July 22nd. However, the deposit for the August 26th public auction also reflected a shortage of \$62. The shortage in deposits for the July 22nd and August 26th auctions totaled \$3,617. The Auditor found no evidence of any attempt by PPD to comply with the OCFO's procedures that were to be followed in the event of a cash shortage or overage. Thus, the shortages were never accounted for or resolved in other appropriate ways.

The Auditor also noted a pattern of PPD management failing to reconcile sales receipts with deposit tickets, failing to resolve discrepancies between cash receipts and deposits, and failing to submit official reports to the appropriate OCP and OCFO managers detailing such discrepancies.

This irregularity was evident in the substantial number of shortages occurring over an extended period of time.

In the area of cash collections, it is a standard policy that receipts must be pre-numbered, used in sequential order, strictly controlled, and strictly accounted for, including all voided receipts. Contrary to this standard, the Auditor found a number of sale receipts missing and not accounted for after several PPD auctions. For example, in reconciling receipts and deposits from the auction conducted February 20, 1998, the Auditor noted the deposit ticket was for \$37,484, while the available receipts totaled \$37,187.50, reflecting an overage of \$296.50. Sales receipts, generated during the February 20th auction, began with number 3470 and ended with number 3488, a total of 19 consecutive receipts. The Auditor observed that 5 of the 19 sales receipts were missing. The five receipts, numbered 3472, 3479, 3481, 3482, and 3487, totaled \$5,223. There were no indications that the five missing receipts had been voided, in which case they should have been placed in the sales folder and noted as such. Further to this, the Auditor found that there were no receipts for buyer number 001 who bid \$750 for a van, buyer number 002 who bid \$528 for a motorcycle, and buyer number 054 who bid \$3,945 for 16 late model vehicles. The three bids totaled \$5,223. The Auditor added the \$5,223 to the total receipts of \$37,187.50, which resulted in an overall shortage of \$4,926.50 as reflected in Table I. The three bids accounted for 3 of the 5 missing sales receipts. Two of the 5 receipts could not be accounted for, and PPD's records were insufficient to determine which buyers may have bid on other vehicles that were listed for auction.

The Auditor did not discover any official OCP or OCFO policy or directive requiring PPD to submit monthly, quarterly, or annual financial reports of public auction receipts and deposits. There was clearly a lack of OCP managerial oversight and direction of PPD's performance and accountability for the noted discrepancies between receipts and deposits. Asked what may have precipitated the discrepancies, the PPD Chief stated that he "had no idea."

Table I presents the differences between sales receipts and deposit ticket amounts for the 29 public auctions held from November 20, 1997 through May 18, 2000.

TABLE I

**AUDITOR'S RECONCILIATION OF
PPD'S SALES RECEIPTS TO DEPOSIT TICKETS
FOR THE PERIOD NOVEMBER 20, 1997 THROUGH MAY18, 2000**

NUMBER OF PUBLIC AUCTION	DATE OF PUBLIC AUCTION	DEPOSIT TICKET TOTAL	TOTAL SALES PROCEEDS	DIFFERENCE BETWEEN DEPOSIT TICKET AND SALES RECEIPTS (shortage)/overage
00 - 7	05/18/00	\$88,565.00	\$88,565.00	\$0.00
00 - 6	04/20/00	\$106,845.00	\$107,565.00	(\$720.00)
00 - 5	03/16/00	\$30,506.00	\$30,506.00	\$0.00
00 - 4	02/17/00	\$83,962.00	\$83,962.00	\$0.00
00 - 3	01/20/00	\$6,045.00	\$6,080.00	(\$35.00)
00 - 2	11/18/99	\$42,511.00	\$42,511.00	\$0.00
00 - 1	10/21/99	\$54,891.50	\$54,615.00	\$276.50
99-10	09/16/99	\$37,645.00	\$38,030.00	(\$385.00)
99-09	08/26/99	\$28,004.00	\$28,120.00	(\$116.00)
Second Deposit		\$11,710.00	\$11,767.00	(\$57.00)
99-08	07/22/99	\$26,235.00	\$29,790.00	(\$3,555.00)
99-07	06/17/99	\$25,009.00	\$25,045.00	(\$36.00)
99-06	05/20/99	\$13,700.00	See below	See below
Second Deposit		\$2,406.50	\$16,810.00	(\$703.50)
99-05	04/22/99	\$27,791.00	\$29,053.00	(\$1,262.00)
99-04	03/18/99	\$33,752.00	\$33,772.00	(\$20.00)
99-03	02/18/99	\$59,217.00	\$44,253.00	\$14,964.00

99-02	01/21/99	Included in 02/18/99 deposit	\$9,404.00	(\$9,404.00)
99-01	11//19/98	Included in 02/18/99 deposit	\$15,856.00	(\$15,856.00)
99-01*	06/17/99	\$3,016.32\$	\$3,341.27	(\$324.95)
98-10	09/17/98	\$28,075.00	\$28,350.00	(\$275.00)
98-09	08/17/98	\$30,526.00	\$31,579.00	(\$1,053.00)
98-08	07/16/98	\$19,692.00	\$20,992.00	(\$1,300.00)
98-07	06/16/98	\$26,285.00	\$28,535.00	(\$2,250.00)
98-06	05/21/98	\$67,297.00	\$67,787.00	(\$490.00)
98-05	04/16/98	\$24,934.00	\$27,954.00	(\$3,020.00)
98-04	03/19/98	\$34,577.50	\$33,736.00	\$841.50
98-03	02/19/98	\$127,050.90	\$132,853.00	(\$5,802.10)
98-02	01/15/98	\$33,879.00	\$37,253.00	(\$3,374.00)
98-01	11/20/97	\$41,705.00	\$45,464.00	(\$3,759.00)
98-01*	02/20/98	\$37,484.00	\$42,410.50	(\$4,926.50)
Grand Total		\$1,153,316.72	\$1,195,958.77	(\$42,642.05)

Source: Personal Property Division, Office of the OCFO, and the D.C. Auditor's Office

*Sealed Bids

RECOMMENDATIONS

1. The Chief Procurement Officer, in conjunction with the Chief Financial Officer, recover the \$42,642.05 in shortages to the District Treasury.
2. The \$42,642.05 shortages in auction proceeds must be immediately investigated further by the Office of the Inspector General, the Metropolitan Police Department, or the Federal Bureau of Investigation.
3. The Office of Contracting and Procurement's Personal Property Division staff immediately cease collecting and depositing funds from public auctions until all employees are properly bonded and trained in collecting, counting, depositing, and reconciling cash sales.
4. The Office of Contracting and Procurement should arrange to utilize employees from the Office of the D.C. Treasurer as cashiers during future auctions.

5. The District's Chief Financial Officer take immediate control of collecting, counting, depositing, and reconciling all funds received from PPD's public auctions.
6. The Chief Procurement Officer immediately establish and publish written policies and guidelines for the daily operations of the PPD and immediately implement effective management controls over and direction of all functions of the Personal Property Division.
7. The Chief Financial Officer in conjunction with the Chief Procurement Officer should ensure that adequate security is provided at all future public auctions.

Cash Sales Were Not Timely Deposited

The OCFO's Financial Policies and Procedures Manual, Section 1010.300, states in relevant part that "cash received must be deposited with the Office of Finance and Treasury (OFT), intact and on a timely (daily) basis". The Auditor found that the OCP's Personal Property Division routinely collected thousands of dollars each month from the auction of District-owned surplus personal property but the Chief of PPD did not deposit the cash receipts on a timely basis. For example, the Personal Property Division held a public auction on Thursday, March 16, 2000 and collected \$30,506, of which \$16,548 was in the form of cash. The District Treasury's standard deposit ticket, completed by the PPD Chief, indicated that these funds were not deposited until March 29, 2000, 13 days later.

Another public auction was held on February 17, 2000, and \$83,962 was collected; the deposit for that auction was made on February 29, 2000, 12 days later. A public auction was also held on February 18, 1999, but the deposit ticket was dated March 19, 1999, 29 days after the public auction. Further, the deposit of \$59,217 from the auction on February 18, 1999 included collections from a public auction held November 19, 1998, where \$15,856 was collected, and from an auction held January 21, 1999, where \$9,404 was collected. This indicated that the Personal Property Division Chief maintained possession of \$15,856 from November 19, 1998 until March 19, 1999, a total of 121 days. Also, the Chief of the Personal Property Division maintained possession of \$9,404 for a total of 57 days, from January 21, 1999 until March 19, 1999.

The Auditor compared all sales receipts with deposit tickets from 29 public auctions held between November 20, 1997 and May 18, 2000. The comparison, as presented in Table II, revealed that PPD personnel did not make any deposits on the same day of the public auction, and that only 3 of the 29 deposits were made one day after a public auction. Deposits from the remaining 26 public auctions were made between 4 and 121 days after the public auction. The 29 public auctions generated approximately \$1.2 million, of which a significant portion was withheld from the District Treasury for 4 to 121 days. The Personal Property Division Chief stated that proceeds from public auctions were kept in a safe in his office until he made the deposits. All deposit tickets reviewed during this audit were signed by the PPD Chief. The Auditor found no evidence that a representative from the Office of the Chief Financial Officer or the Office of Contracting and Procurement conducted any independent reviews of sales receipts and deposit tickets after each auction.

The consistently late deposit of cash sales collected by the PPD over an approximately three year period revealed a total lack of internal controls in the handling of cash sales and a total disregard for OCFO policies governing District assets. PPD's invariably late deposits placed District assets at great risk of loss or theft, may have provided unauthorized interest free loans to unknown individuals for their personal use, and also prevented the District government from using these funds for bill payment or investment. The continued late deposits also revealed lax managerial oversight and direction by the Office of Contracting and Procurement and the Office of the Chief Financial Officer.

Table II presents 29 auctions conducted by PPD personnel at 2000 Adams Place, NE. The table reveals the number and date of the public auction, the deposit ticket date, number of days between each auction and the actual deposit of receipts, and the date and amount of each deposit.

TABLE II

**PERSONAL PROPERTY DIVISION'S
LATE DEPOSIT OF AUCTION PROCEEDS
FOR THE PERIOD NOVEMBER 20, 1997 THROUGH MAY 18, 2000**

Public Auction Number	Date of Public Auction	Deposit Ticket Date	Number of Days Between Auction and Deposit of Sales Receipts	Deposit Ticket Total
00 - 7	05/18/00	05/23/00	5	\$88,565.00
00 - 6	04/20/00	04/28/00	8	\$106,845.00
00 - 5	03/16/00	03/29/00	13	\$30,506.00
00 - 4	02/17/00	02/29/00	12	\$83,962.00
00 - 3	01/20/00	01/31/00	11	\$6,045.00
00 - 2	11/18/99	11/26/99	8	\$42,511.00
00 - 1	10/21/99	10/29/99	8	\$54,891.50
99-10	09/16/99	09/27/99	11	\$37,645.00
99-09	08/26/99	08/30/99	4	\$28,004.00
Second Deposit		09/15/99	20	\$11,710.00
99-08	07/22/99	07/23/99	1	\$26,235.00
99-07	06/17/99	06/18/99	1	\$25,009.00
99-06	05/20/99	05/21/99	1	\$13,700.00
Second Deposit		05/28/99	8	\$2,406.50
99-05	04/22/99	05/18/99	26	\$27,791.00
99-04	03/18/99	03/31/99	13	\$33,752.00
99-03	02/18/99	03/19/99	29	\$59,217.00
99-02	01/21/99	Same as above	57	Included in 3/19/99 deposit
99-01	11//19/98	Same as above	120	Included in 3/19/99 deposit

99-01*	06/17/99	06/30/99	13	\$3,016.32\$
98-10	09/17/98	09/22/98	5	\$28,075.00
98-09	08/17/98	08/28/98	11	\$30,526.00
98-08	07/16/98	07/29/98	13	\$19,692.00
98-07	06/16/98	07/01/98	15	\$26,285.00
98-06	05/21/98	06/02/98	12	\$67,297.00
98-05	04/16/98	04/29/98	13	\$24,934.00
98-04	03/19/98	04/01/98	13	\$34,577.50
98-03	02/19/98	02/26/98	7	\$127,050.90
98-02	01/15/98	01/28/98	13	\$33,879.00
98-01	11/20/97	12/01/97	11	\$41,705.00
98-01*	02/20/98	02/26/98	6	\$37,484.00
Grand Total				\$1,153,316.72

*Denotes a Sealed Bid

Source: Personal Property Division, Office of the Chief Financial Officer, and Office of the D. C. Auditor

PPD Personnel Who Collected, Counted, And Deposited Funds From Public Auctions Were Not Bonded And Had No Previous Experience As Cashiers

The OCFO's Financial Policies and Procedures Manual, Section 1010.300, states in relevant part that "All employees who handle cash must be bonded." The Auditor found that, throughout the audit period, the Chief of the Personal Property Division, along with a property disposal specialist and a property disposal technician, received payments, made change, counted, and deposited thousands of dollars collected from purchasers of District surplus property without being bonded for loss or theft. The Auditor also found that the three PPD employees had no previous training or experience as cashiers.

The OCFO's Manual also states, in relevant part, that "written procedures on all cashiering and cash controls must be maintained by each agency." Further, the Personal Property Division had no written procedures on cashiering or cash controls. The development, implementation, and adherence to written policies and procedures (internal controls) on all cashiering functions and cash controls are essential to prevent the mishandling of cash and to safeguard receipts against loss. The implementation and adherence to written policies and procedures is also necessary to protect employees from inappropriate charges of mishandling funds by defining each employee's responsibilities in the cash handling process, ensuring separation of duties, and establishing accountability.

The OCFO's Manual states, in relevant part, that "segregation of duties must be the first priority of an agency when handling cash receipts and disbursements and record-keeping functions." The Auditor found that there was no meaningful segregation of duties with regard to handling cash receipts and record-keeping before, during, or after surplus property auctions. The Auditor also found that the same property disposal technician, on several occasions, completed the sales receipt, collected the funds, made change when required, and placed the money in a desk drawer, without assistance from any other PPD employees. The Auditor further found that, on occasion, the PPD Chief made out and signed sales receipts for buyers, collected and counted the funds, and made all deposits.

Security During Public Auctions Was Inadequate

The Auditor found that there was a complete lack of security during the payment process after public auctions. Upon completion of an auction, the property disposal technician and specialist moved upstairs to the second floor of the warehouse and began writing receipts for each successful bidder, taking in cash and checks for payments, making change, and placing the funds into the property disposal technician's desk drawer. No security was present as these transactions took place. This practice not only exposed District assets to a great risk of loss, it also exposed District employees to a great risk of harm.

**PPD Failed to Adhere to Its Own Guidelines
and Allowed Purchasers of Surplus Property
To Pay For Items After The Date of Sale**

The "Instructions To Bidders" sheet, produced and distributed by PPD to all persons bidding on surplus District property offered for sale, states in relevant part that ". . . full payment is required by close of business on the day of the auction . . . Failure to make payment as required will result in a judgment of default against the successful bidder and the property in default being made available for sale at a future date/time." The Auditor found that, during the period of this audit, the Chief of the PPD failed to adhere to these instructions, improperly allowing some bidders to pay for items purchased several days after the date of the sale. The Auditor's reconciliation of sales receipts to deposit tickets revealed that this occurred in all 29 public auctions. For example, PPD held a public auction on Thursday May 18, 2000, and the PPD Chief allowed bidders 811 and 821 to pay \$14,025 and \$1,450 respectively on May 19th. The PPD chief also allowed bidders 810, 812, and 835 to pay \$3,720, \$300, and \$625 respectively on May 22, 2000. The Auditor's analysis of documents from the public auction held November 19, 1998 revealed that the PPD accepted payments for surplus property through November 25, 1998. Further, the public auction held February 19, 1998 revealed PPD accepting payments as late as March 10, 1998.

The PPD staff must adhere to the division's stated policy that ". . . full payment is required by close of business on the day of the auction . . . Failure to make payment as required will result in a judgement of default against the successful bidder and the property in default being made available for sale at a future date/time." A failure to adhere to this policy should result in the responsible employee being held accountable to the fullest extent under the District's Comprehensive Merit Personnel Act, as amended, and related District personnel rules. As previously noted, there appeared to be a lack of managerial oversight by the Office of Contracting and Procurement to ensure that the PPD operated in accordance with its written guidelines, the failure of which contributed to general ineffectiveness in controlling and protecting the personal property resources of the District government.

RE-UTILIZATION OF EXCESS PROPERTY BY DISTRICT AGENCIES IS VIRTUALLY NONEXISTENT

The Auditor observed that the United States General Services Administration (GSA) mandates that federal agencies, to the fullest extent practicable, use excess personal property as the first source of supply in meeting their requirements. The District's Materiel Management Manual does not require that excess District property be utilized by District agencies, to the fullest extent possible, as the first source of supply. This requirement would be especially beneficial to District agencies with limited budgets that could acquire and utilize excess personal property in lieu of procuring new and more costly furnishings and equipment. However, the District's PPD failed to set aside sufficient quantities of excess personal property for other District agencies and, more importantly, failed to routinely notify agencies when excess personal property was available. It appeared that the primary goal of the PPD was to move excess personal property out of the warehouse in the shortest period of time through public auctions. Very little thought, if any, was given to re-utilization of excess personal property by other District agencies.

The Auditor did not find any written policy regarding agency notification of the availability of excess personal property. First and foremost, PPD did not inventory the excess personal property coming into its warehouse, and therefore, had no way of knowing or communicating exactly what excess personal property was available for re-utilization. Further, PPD had no mechanism in place to routinely notify District agencies of available excess personal property. If, by chance, an agency called and requested specific excess personal property, someone had to "walk-through" the warehouse to see if it was available, a time-consuming and inefficient process.

The PPD Chief was asked what methodology PPD utilized in notifying agencies of the excess personal property available in its warehouse and the types of property set aside for re-utilization. The PPD Chief responded that PPD does not notify agencies concerning available excess personal property or make a point to set aside any specific property for re-utilization.

Records in the PPD indicated that no District agencies acquired excess personal property from its warehouse during the month of May 2000. For the month of April 2000, only one District agency selected excess property from the warehouse. For the month of March, five agencies made small selections, and a review of January and February records revealed that only two agencies made small selections during each month. During the audit period, re-utilization of excess personal property by other District agencies was minimal at best.

The PPD set aside a small portion of its warehouse to store and display some excess personal property for agency re-utilization. However, a walk-through of this section by the Auditor revealed that there was no organization of like items, and that available items were covered in several layers of dust and scattered about the floor in boxes. Items on shelves were not properly labeled or well presented or catalogued. Most of the items were old or outdated, such as typewriter ribbons of all kinds, carbon paper, and other items that most offices no longer utilize.

RECOMMENDATIONS

1. The Chief Procurement Officer and the Chief of the Personal Property Division immediately establish, publish, and distribute to all District agencies, specific policies and procedures concerning timely notification, identification, and availability of excess personal property for agency re-utilization.
2. The Chief of the Personal Property Division make re-utilization of excess personal property a priority by conducting an inventory and setting aside personal property, cleaned and refurbished, if necessary, for use by District agencies.

INADEQUATE CONTROLS OVER THE DISPOSAL AND RECEIPT OF FUNDS FOR SCRAP METALS AND IRON

The Materiel Management Manual does not address the PPD's responsibility or accountability for the collection and deposit of funds received from the disposal of District owned scrap metal and iron. Neither the Office of Contracting and Procurement nor the Personal Property Division have any written policy or regulations concerning PPD's involvement in this process. However, the PPD Chief made available to the Auditor a copy of a check and "monthly settlement" statement in the amount of \$159. The statement reflected that four deliveries of scrap metal and iron totaling 31,820

"hundred weight" (one hundred pound units), at a unit cost of \$0.50, were delivered by Simmons, a private contractor, to Davis Industries, Inc. of Lorton, Virginia. There were no other receipts or explanation for the \$159 check received by PPD. The Auditor did not find a standard deposit ticket indicating that the \$159 was ever deposited to the D.C. Treasury.

The Auditor found five deposit tickets in PPD that included line items for scrap metal. The five deposits totaled \$1,369.84 for payments received from December 1, 1997 through August 30, 1999. The PPD Chief stated that PPD had been receiving periodic small checks for scrap metal and iron from Davis Industries "for quite some time," but that he did not have a contract or complete records concerning this arrangement, the payments, or the scrap metal and iron disposal program.

The Auditor observed that the District's Department of Corrections (DOC) was the only agency that generated scrap metal and iron through its Lorton facilities. A DOC official within its Supply Management Division stated that scrap metal and iron had been delivered by Simmons or DOC personnel to Davis Industries on a regular basis for a number of years, but that the agreement was oral, and that he was not aware that the District has a contract with Davis Industries. A manager at Davis Industries stated that his company had received deliveries of scrap metal and iron from the District for several years and that Davis Industries routinely sent checks for the scrap metal and iron to the PPD. The Davis Industries representative also was not aware of a contract with the District for scrap metal and iron.

Davis Industries provided copies of 11 checks totaling \$1,202.50 made payable to the D.C. Treasurer and, allegedly, sent to the PPD between September 8, 1998 and June 6, 2000. A review of the eleven checks revealed that Davis Industries paid \$1.00 per hundred weight for scrap metal for September and October 1998. Davis Industries dropped the price to \$0.50 per hundred weight for the remaining nine payments. This informal arrangement provided no way for the Auditor to determine whether Davis Industries should have paid \$1.00 per hundred weight, \$0.50 per hundred weight, or some other price.

The Auditor found discrepancies between the Department of Corrections' Supply Management Division scrap metal tickets reflecting the weight of scrap metal delivered to Davis Industries and the settlement tickets reflecting the weight of scrap metal received from DOC. The Department of Corrections' Supply Management Division provided the Auditor with 190 scrap metal delivery tickets to Davis Industries. However, Davis Industries provided only 44 receipts for deliveries of scrap metal, a difference of 146 deliveries.

Further, the PPD, which received checks from Davis Industries for scrap metal, had no knowledge of the amount of scrap metal shipped from DOC or what was received by Davis Industries. Periodic reconciliations were never performed by DOC or PPD to determine whether the amount of scrap metal shipped by DOC was the same as the amount of scrap metal received by Davis Industries, and that Davis Industries actually paid the D.C. Treasurer the correct amount for all legitimate scrap metal received from DOC. There was, and is, a total lack of controls regarding this arrangement and it must be stopped immediately until a properly executed competitive contract is awarded and an effective system of financial accountability is established.

Absent a properly executed competitive contract and supporting documentation, the Auditor could not determine the total amount of scrap metal delivered by DOC, the amount of money realized by the District for the deliveries, whether the District was properly paid, and cannot account for all payments PPD received for scrap metals.

RECOMMENDATIONS

1. The Department of Corrections' Supply Management Division immediately cease the shipment of scrap metals and iron to Davis Industries.
2. The Office of Contracting and Procurement competitively award a valid written contract and establish the appropriate administrative and accounting controls for the sale of scrap metal and iron by the District government.

3. The Chief Procurement Officer, the Director of the Department of Corrections, and the District's Chief Financial Officer determine the total amount of scrap metal delivered to Davis Industries, the amount of money received for the deliveries, and ensure that the District government is paid for all scrap metal sold. A full written report of the results of this examination must be made to the District of Columbia Auditor by the Chief Procurement Officer, Director of the Department of Corrections, and the District's Chief Financial Officer, within 90 days of the date of this report.

THE DISTRICT'S STATE AGENCY FOR SURPLUS PROPERTY WAS NOT IN COMPLIANCE WITH ESTABLISHED RULES AND REGULATIONS

The Personal Property Division is designated as the state agency for surplus property (SASP), and as such, is responsible for requesting, receiving, storing, and distributing surplus federal government property to District of Columbia government agencies, and District of Columbia non-profit, tax exempt educational and health institutions determined to be eligible to receive surplus personal property under Section 203(j) of the Federal Property and Administrative Services Act of 1949. The PPD chief, acting as the state agent, is authorized to make charges, assess fees, and distribute surplus property in accordance with all Federal and District of Columbia laws and regulations governing the donation program.

Title 27 of the District of Columbia Municipal Regulations, Section 901.1, states that the D.C. SASP is authorized to "acquire and distribute to all eligible donees in the District of Columbia any and all surplus property deemed surplus to the Federal government", and Section 903.6 states, in relevant part, that: "The SASP shall distribute property from one warehouse at #5 Village Lane, SW., Washington, D. C.", and Section 904.1 states that "The SASP shall use the D.C. Systems for inventory control and accounting". During the period of this audit, the District's state agency for surplus property did not receive, store, or directly distribute any surplus federal government property. As such, the SASP did not utilize procedures for inventory control and accounting as required by the regulations. Further, the SASP did not routinely screen the federal General Services Administration's inventory of surplus property or notify any donees of available surplus property.

District agencies do not utilize the SASP to acquire federal surplus property. The District government is treated as an entity of the federal government, and as such, any District agency can acquire surplus federal property directly from a federal entity without going through the SASP. The District's state agency for surplus property had no records on file reflecting those District agencies that utilized federal surplus property or the quantity of surplus property ordered during fiscal years 1998, 1999, and 2000.

The PPD, serving as the SASP, is required to approve applications submitted by D.C. non-profit, tax exempt, educational and health institutions prior to those entities acquiring federal government surplus property. Approved non-profits desiring surplus property must then complete and submit requests for surplus property using Standard Form 123, as prescribed by the General Services Administration (GSA), to the SASP. The Personal Property Division Chief, acting as the SASP, will either approve or disapprove the request for surplus property, and if approved, sign the Standard Form 123 and forward it to the federal agency that has the surplus property. The requesting non-profit will pick up the property, or have the surplus property picked up directly from the federal agency. The SASP had no direct involvement in acquiring or distributing the surplus property during the audit period; and further, the audit team found no instance where the PPD/SASP distributed surplus federal property to qualifying non-profit organizations.

Title 27, Sections 909.1 and 909.2 also state, in relevant part, that:

"The SASP shall be financed through the use and collection of service charges,"and that, "The service charge shall be based on the prorated expenses incurred annually by the SASP, and shall be assessed at a rate designed to provide adequate coverage for all cost factors involved in the acquisition and distribution of surplus property."

The SASP did not collect or deposit any service charges from donees receiving surplus federal government property during the period of this audit. The Auditor observed that the District's state agency for surplus property is routinely administered by only one person who also serves as the secretary to the Chief of the PPD. This person's annual salary is paid through the Office of

Contracting and Procurement's appropriated budget and no portion of the annual salary is reimbursed from service charges collected.

Compliance with the provisions of the DCMR, Title 27, Chapter 9 by the Office of Contracting and Procurement, Personal Property Division, is required by law. OCP and PPD managers are responsible for complying with applicable laws, using available resources efficiently, economically, and effectively to achieve the purposes for which the state agency was established.

RECOMMENDATION

The Chief Procurement Officer and the Chief of the Personal Property Division must comply with the provisions as prescribed in the District of Columbia Municipal Regulations, Title 27, Chapter 9, pertaining to the District of Columbia State Agency for Surplus Property. Specifically, the D.C. SASP must "acquire and distribute" to all eligible donees in the District federal surplus property, and operate the state agency surplus property program in accordance with District law.

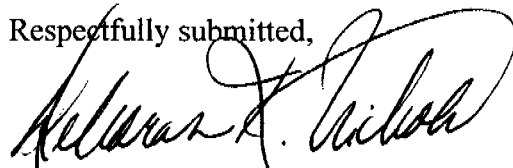
CONCLUSION

The Office of Contracting and Procurement's Personal Property Division did not operate in compliance with applicable policies, procedures, and standards relative to cash collections and cash handling functions. PPD failed to implement proper safeguards to protect District-owned assets under its control. Further, the desired results or benefits for which this program was established was not sufficiently achieved during the almost three year period covered by this audit. It is the Auditor's opinion that this was due in significant part to a gross lack of managerial oversight and direction, including but not limited to, the failure to develop, implement, or update operational directives and guidelines for the Personal Property Division. The Office of the Chief Financial Officer failed to provide adequate, effective oversight of or assistance to PPD's cash collection and cash handling functions. As a consequence, monies collected by PPD employees were not properly accounted for, reconciliations were not performed, and cash overages and shortages were never resolved. In essence, proper stewardship of public money entrusted to the custody and care of PPD's staff and manager was never established which resulted in mismanagement of this function and unexplained losses in revenue from this source.

Excess personal property received from District agencies was not properly inventoried, adequately safeguarded, or accounted for by the staff of the Personal Property Division. Excess personal property was routinely declared surplus and sold without giving consideration to a key provision of the law which clearly states that excess personal property should be utilized as a first source of supply in meeting other District agency requirements. Further, excess property was declared surplus and sold without determining its fair market value, and in most instances, without advertising upcoming auctions to the general public, thus limiting participation and minimizing competition in the bid process. There was a complete lack of security during the auction process and over excess personal property in PPD's warehouse, which compromised District assets and the lives of PPD personnel.

Further, the lack of a strong system of internal accounting controls within the Office of Contracting and Procurement's Personal Property Division resulted in the loss or theft of approximately \$42,642.05 in cash or cash equivalents received from the sale of surplus District property. Extensive delays in PPD's deposit of funds to the District treasury may have contributed to revenue losses by preventing the District government from using these funds for bill payment and investment purposes, and by possibly providing unauthorized interest free loans to unknown individuals for their personal use. A lack of managerial oversight and direction, inexperience, and a general failure to adhere to established policies and procedures regarding internal controls over the collection and deposit of cash placed District excess and surplus property at great risk of loss and misuse.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

Deborah K. Nichols,
District of Columbia Auditor

AGENCY COMMENTS

AGENCY COMMENTS

On August 15, 2000, the District of Columbia Auditor submitted a draft audit report for review and comment to the Office of Contracting and Procurement's (OCP) Chief Procurement Officer, the District of Columbia Chief Financial Officer (CFO), and the Director of the Department of Corrections (DOC). Comments on the draft report were due August 30, 2000. The Chief Procurement Officer and the Chief Financial Officer requested and received an extension for submission of comments on September 5, 2000.

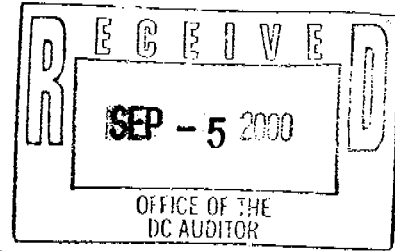
Comments on the draft audit report were received on September 5, 2000 from the Office of Contracting and Procurement and the Chief Financial Officer. The Chief Procurement Officer and the Chief Financial Officer's comments were in substantial agreement with the Auditor's findings and recommendations and both Officers indicated their commitment to resolving the audit findings and implementing the Auditor's recommendations. The Department of Corrections did not provide comments to the Auditor's draft report.

All comments received are attached in their entirety and made a part of the Auditor's final report.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of Contracting and Procurement



Office of the Director



MEMORANDUM

TO: Deborah K. Nichols
District of Columbia Auditor

FROM: Elliott B. Branch *Elliott B. Branch*
Director

SUBJECT: Comments on Compliance and Performance Audit of the Office of Contracting and Procurement Personal Property Division – FY98 through FY00

The Office of Contracting and Procurement (OCP) has observed and assessed the findings and recommendations of the subject audit report. In consideration, OCP hereby provides the following comments toward remediation and/or resolution.

1. **DCA Finding/Deficiency:** Failure to update and revise existing property management regulations – Dept. of General Services' 1977 Materiel Management Manual.

DCA Recommendation: The Chief Procurement Officer must immediately establish and publish rules and regulations governing the proper receipt, recordation, classification, storage, transfer, and disposition of District excess and surplus personal property.

OCP Response: OCP takes no exception to this finding and recommendation. OCP and its staff of legal counsels will begin reviewing all existing personal property rules and regulations in an effort towards establishing draft policies and legislation aimed at improving the receipt, identification, transfer and disposition of excess and surplus personal property.

OCP Target Timeframe: November 2000

2. **DCA Finding/Deficiency:** No apparent system for (physical) accounting, tracking, inventory and controlling the intake, transfer, disposition and reporting of excess and surplus property.

DCA Recommendation: The Chief Procurement Officer must establish specific long and short range performance goals for the Personal Property Division, to include but not be limited to PPD's submission of monthly, quarterly, and annual reports.

The Chief Procurement Officer should automate the Personal Property Division with a user-friendly, reliable, accurate, readily accessible computer system, which must accommodate, amongst other systems, an inventory system.

OCP Response: OCP takes no exception to this finding and recommendation. OCP has already begun the planning and configuration of a citywide tracking and inventory system for the receipt, transfer, disposition, and reporting (quarterly) of excess and surplus property. This action represents a current performance management goal within the approved FY00 Individual Performance Plan for the Chief of PPD dated 6/6/2000.

OCP Target Timeframe: October 2000

3. **DCA Finding/Deficiency:** No appraisal or fair market (value) consideration of property to be auctioned.

DCA Recommendation: PPD must appraise and/or provide fair market consideration for property deemed surplus and scheduled for auction.

OCP Response: OCP takes exception to this finding and recommendation. Although OCP agrees with the auditor's recommendation for appraising actionable surplus property for the purpose of maximizing potential sales revenue, however, pursuant to the duties and functions of the Office of the Chief Financial Officer (OCFO), it is OCP's understanding that the appraisal and valuation of the District Government's fixed assets (which include accountable property) is a duty and function within the OCFO. On the other hand, OCP will engage the OCFO to assist in any development of a collaborative protocol for the valuation of certain classes of auctionable surplus property.

OCP Target Timeframe: October 2000

4. **DCA Finding/Deficiency:** No security or safeguards during public auction. Poor control, reconciliation, record keeping and safeguarding of cash and deposit receipts. No segregation of duties. Inadequately trained personnel with regards to not being bonded and licensed to handle cash and conduct public auctions, respectively.

DCA Recommendation: The Office of Contracting and Procurement's Personal Property Division staff immediately cease collection and depositing funds from public auctions until all employees are properly bonded and trained in collecting, counting, depositing, and reconciling cash sales. The Office of Contracting and Procurement should arrange to utilize employees from the Office of the D.C. Treasurer as cashiers during future auctions. The District's Chief Financial Officer take immediate control of collecting, counting, depositing, and reconciling all funds received from PPD's public auctions.

OCP Response: OCP takes no exception to these findings and recommendations. OCP will broach these findings and recommendations with the OCFO and establish a written plan for the CFO to acquire and manage all cash related duties and functions relative to the sale of surplus property. OCP will segregate and subsequently relinquish these duties, which shall include all cash handling, safeguarding, reconciliation and deposits, to the OCFO. Furthermore, pursuant to the approved Individual Development Plan (dated 6/6/00) for the Chief of PPD, training towards certification as a licensed public auctioneer has been identified and scheduled.

OCP Timeframe: September 2000

5. **DCA Finding/Deficiency:** No written policy or protocol on reutilization of excess property-- No public dissemination of what is "excess" and available to other agencies.

DCA Recommendation: The Chief Procurement Officer and the Chief of the Personal Property Division establish, publish, and distribute to all District agencies, specific policies and procedures concerning timely notification, identification, and availability of excess personal property for agency re-utilization. The Chief of the Personal Property Division make re-utilization of excess personal property a priority by conducting an inventory and setting aside personal property, cleaned and refurbished, if necessary, for use by District agencies.

OCP Response: OCP takes no exceptions to these findings and recommendations. As a result of not maintaining a citywide inventory and tracking system, OCP fully realizes

its inability to identify, segregate and disseminate information on citywide excess property for the purpose of reutilization. As stated earlier, OCP is currently configuring a system for deployment and subsequent eradication of any deficiency related to the reporting and (information) dissemination of excess property for re-utilization.

However, via an existing program called “OCP Reuse and Recycle” OCP is currently providing web based access and instructions to all procurement personnel located centrally and within the OCP service agencies abroad for acquiring “federal” surplus property for re-utilization. Although this program <which is a product of our State Agency for Surplus Property (SASP) function> is located within our Intranet, OCP intends to migrate this web-based program to its Internet for citywide access and consumption.

OCP Target Timeframe: October 2000

6. **DCA Finding/Deficiency:** No written contractual arrangement or agreement for accountability and reconciliation on receipt and delivery of scrap metal (and payment) between vendor, agencies and/or PPD.

DCA Recommendation: The Personal Property Division and the Department of Corrections’ Supply Management Division immediately cease the shipment of scrap metals and iron to Davis Industries. The Office of Contracting and Procurement must competitively award a valid written contract and establish the appropriate administrative and accounting controls for the sale of scrap metal and iron by the District government.

OCP Response: OCP takes no exception to these findings and recommendations. The Chief Procurement Officer will immediately task his Agency Chief Contracting Officer (ACCO) for the Department of Correction to further validate and substantiate these findings. Upon validation of findings and a determination that there is an on-going requirement for the shipment of scrap, OCP will cease the current informal arrangement and invoke emergency contracting procedures to establish a temporary valid written contract until a permanent competitive contract is awarded.

OCP Target Timeframe: September 2000

In conclusion, OCP would like to thank you for the opportunity to review and respond. OCP deems these findings to be of a serious nature and shall take all necessary steps towards remediation. Further, in accordance with the District of Columbia Performance Management Program, OCP will establish corresponding performance goals (aimed at remediation) for the Personal Property Division, its Chief and his immediate manager.

cc: Donald Wright, ODCA-Auditor
Hussein Aden, ODCA-Auditor
Jonathan Butler, OCP-Asst. Director (Shared Services)
Canardo M. Richardson, OCP-Chief, Personal Property Division

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



September 5, 2000

Deborah K. Nichols
District of Columbia Auditor
717 14th Street, NW
Suite 900
Washington, DC 20005

CONFIDENTIAL

Subject: Response to DC Auditor Personal Property Report

Dear Ms. Nichols:

I am in receipt of your draft report entitled "Compliance and Performance Audit of the Office of Contracting and Procurement's Personal Property Division For Fiscal Years 1998 Through 2000". As requested, I am providing comments on the DC Auditor's recommendations made in the respective report regarding the Office of the Chief Financial Officer.

The DC Auditor recommended that the Office of Contracting and Procurement (OCP) arrange to utilize employees from the Office of the DC Treasurer as cashiers during future auctions.

The CFO agrees with your recommendation, and will direct the Deputy Chief Financial Officer for the Office of Finance and Treasury (OFT) to coordinate with the OCP to ensure that skilled cashiers are used at future auctions.

The DC Auditor recommended that the District's Chief Financial Officer take immediate control of collecting, counting, depositing, and reconciling all funds received from Personal Property Division's public auctions.

The CFO agrees with your recommendation. The Office of Finance and Resource Management (OFRM) performs financial management functions for the Office of Contracting and Procurement. As such, the Chief Financial Officer of OFRM has and will continue to take an active role in implementing financial management controls over personal property. In fact, OFRM's CFO has previously communicated several of the DC Auditor findings to the Director of OCP, and will continue to ensure that these findings are resolved. Further, a member of the OFRM accounting team will be present at each auction to oversee the operation to include reconciliation of cash and timely deposit.

The DC Auditor recommended that the Chief Financial Officer in conjunction with the Chief Procurement Officer should ensure that adequate security is provided at all future public auctions.

The CFO agrees with the recommendation. The CFO of OFRM has previously communicated the concern of security to the Director of OCP. OFRM will continue to work with OCP to ensure that security is present on the day of the auction, and that the cash is adequately secured.

The Chief Procurement Officer, the Director of the Department of Corrections, and the District's Chief Financial Officer should determine the total amount of scrap metal delivered to Davis Industries, the amount of money received for the deliveries, and ensure that the District government is paid for all scrap metal sold.

The CFO agrees with the recommendation, and will direct the CFO at the Department of Corrections to work with the Chief Procurement Officer and the Director of the Department of Corrections to review the scrap metal program and ensure that all monies due to the District government have been paid.

If you have any further questions or concerns please contact me at (202) 727-2476, or your staff may contact Wilma G. Matthias, Director of Internal Audit and Internal Security at (202) 442-6433.

Sincerely,

Natwar Gandhi / by 9/5
9/05/00

Natwar M. Gandhi
Chief Financial Officer

Cc: Barbara Jumper, CFO/OFRM
John Robinson, Acting DCFO/OFT
Jean Dolton, CFO/DOC

APPENDIX

The following policies and procedures, as presented in the Office of the Chief Financial Officer, are specific requirements for the establishment and maintenance of a fixed asset central accounting system.

1. A listing [inventory] of fixed assets must be maintained.

The listing should include the following information:

- a. Property Identification Numbers
(property tax number, serial number, parcel number or other number specifically identifying the item).
- b. Description (model number, size, color, etc.).
- c. Location (address, building, room, parcel number, etc.).
- d. Method of Acquisition (purchase, donation, escheat, etc.).
- e. Source of Funding (the fund which financed the asset).
- f. Acquisition Date (month and year acquired).
- g. Purchase Document Number
(purchase order/claim number or any other number which can be used to identify the asset).
- h. Cost (actual if available or estimated historical cost, if actual is not available).

DOCUMENT RETENTION POLICY

- A. Documents relating to the acquisition and disposal of fixed assets are to be retained throughout [Auditor's emphasis] the life of the fixed asset and for the following periods after disposal:
1. Purchases with District funds - The document retention period for fixed assets purchased with District funds will continue for 3 fiscal years after the disposal date.
 2. Purchases with Federal grant funds - The document retention requirements for fixed assets purchased with Federal grant funds are contained in OMB Circular A-102, Attachment C. All financial records, supporting documentation, statistical records and all other records pertinent to a grant shall be retained for a period of 3 years from the date of submission of the final grant expenditure report, or for grants that are renewed annually, from the date of the submission of the annual financial status report.
- B. Documents required to be retained include all records supporting the cost, acquisition date, description of the fixed asset and disposal including: vendor invoices, claims, requisitions, purchase orders, packing slips, receiving reports, Form DC 2630-8, "Property Disposal Action" (Exhibit 1020.800C) and Form FA1020, "Certificate of Disposal" (Exhibit 1020.800D).
- C. If an agency transfers an asset to another District agency, the agency that originally purchased the asset should retain the original documents in accordance with the document retention procedures stated above and forward copies of these documents to the agency receiving the asset.

* * * * *