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**Management and Accounting Deficiencies
Continue to Exist in District's Excess and Surplus
Property Program**

September 17, 2002

EXECUTIVE SUMMARY

PURPOSE

Pursuant to Public Law 93-198, Section 455, the District of Columbia Auditor conducted a follow-up review of findings and recommendations contained in the September 30, 2000, Auditor's report entitled "Management and Accounting Deficiencies in the District's Excess and Surplus Property Program." The report presented the results of the Auditor's examination of the accounts and operations of the Office of Contracts and Procurement's (OCP) Personal Property Division (PPD) and the District's excess and surplus property disposition function for fiscal years 1997 through 2000, as of May 30, 2000.

CONCLUSION

The District's Chief Procurement Officer and Personal Property Division Chief failed to fully implement 14 of the 19 recommendations contained in the Auditor's report entitled, "Management and Accounting Deficiencies in the District's Excess and Surplus Property Program," dated September 30, 2000. The Auditor found that Office of Contracting and Procurement officials are not aggressively seeking ways to improve accountability within OCP's Personal Property Division and the operation of the District's excess and surplus property disposal program. A key factor in helping to achieve the agency's mission and program results while minimizing operational problems is to create an effective system of internal controls supported by an accountable internal control environment which should serve to facilitate efficient and effective organizational operations.

The failure of officials and managers of the Office of Contracting and Procurement to take prompt and responsive action to the Auditor's recommendations continues to jeopardize District government assets under OCP's custody and control. Further, failure to implement the recommendations allows continuing deficiencies to exist in internal controls within the PPD. In order for PPD to maximize its effectiveness, improve control over assets, and minimize the improper disposition, theft, or misuse of government assets, the Auditor believes that all recommendations must be implemented as soon as possible.

PURPOSE

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OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the follow-up review was to determine the implementation status of recommendations contained in the September 30, 2000 report. Our review was limited to an examination of the efforts undertaken by the Office of Contracting and Procurement and the Office of the Chief Financial Officer of the District of Columbia to implement recommendations contained in the September 30, 2000 report, as well as the implementation of other measures to improve the operation of the District's surplus property disposal program, financial accountability, and the protection of assets placed in the custody of managers and employees of OCP's Personal Property Division.

In conducting the follow-up review, the audit team examined OCP's rewritten and updated regulations; PPD's revised mission statement; organization charts, and fiscal years 2000 and 2001 budgets. The Auditor notes that OCP had not established any performance measures for the PPD for fiscal years 2000 and 2001. Additionally, the Auditor reviewed standard deposit tickets, surplus property sales receipts, relevant System of Accounting and Reporting (SOAR) revenue receipt vouchers, and other documentation maintained by the Office of the Chief Financial Officer's Office of Finance and Resource Management (OFRM).

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 procurement functions of the Department of Administrative Services (DAS) to OCP. D.C. Law 11-259 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.

Presently, the disposition of District of Columbia government-owned excess and surplus personal property is the responsibility of the Chief of the Personal Property Division (PPD) within the Office of Contracting and Procurement. The PPD operates under guidelines contained in an outdated Department of General Services' Materiel Management Manual published in 1977.

The transition from personal property to excess or surplus property begins when property is first acquired by an agency. Personal property becomes excess when an agency no longer has a need for it. Excess property becomes surplus after an agency relinquishes custody of the property to the PPD which then declares the property surplus. Only the Chief of the PPD can declare excess property to be surplus property.

The PPD holds a public auction on the third Thursday of each month to sell surplus District personal property. Persons interested in purchasing surplus property are allowed to view the property on the Tuesday and Wednesday before the auction. All sales are final. Surplus property sold at auction must be paid for in cash, by certified check, cashier's check, or money order made payable to the D.C. Treasurer. The property must be 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, for any reason 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 to District agencies and non-profit organizations based in the District of Columbia.

¹Surplus property such as vehicles, backhoes, tractors, and fire apparatus are held at facilities operated by the District's Department of Public Works, Department of Corrections, and Fire Department.

IMPLEMENTATION STATUS OF AUDITOR'S RECOMMENDATIONS

The Auditor's report concerning PPD's operations and accounts contained 11 findings and 19 recommendations. The results of the Auditor's evaluation of the implementation status of the 19 recommendations are presented below.

Auditor's Finding Leading to Recommendation #1

The Auditor found that the Office of Contracting and Procurement's management, oversight, and direction of the Personal Property Division was virtually non-existent. OCP officials were responsible for issuing rules and regulations governing the disposition of District-owned excess and surplus personal property. However, the audit found that OCP failed 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 and surplus personal property.

Auditor's Recommendation #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.

OCP's Response to the Recommendation

In April 2000, the agency transcribed Section 26321.1 of the Department of General Services' Materiel Management Manual as a revision and update. Although not codified, the transcription currently represents a rewrite and publication of regulations that governs the receipt, recordation, classification, storage, transfer, and disposition of excess and surplus personal property.

Implementation Status of Recommendation #1: NOT PROPERLY IMPLEMENTED

Since its inception, the Personal Property Division has operated primarily pursuant to guidelines contained in the District's Personal Property regulations set forth in the former Department of General Services' 1977 Materiel Management Manual (MMM).² The Auditor found that on April 7, 2000, OCP issued an informal revision of the MMM entitled, "Personal Property Management Manual" (PPMM), which contains the following statement:

"Although not an official revision, the regulations outlined herein represents a **rewrite** and **update** of, and were **transcribed** from, the Department of General Services' Materiel Management Manual, Section 2632 (Equipment Management), issued July 1, 1974 ". (Auditor's Emphasis).

The Auditor does not consider this an appropriate implementation of the recommendation. Approximately 90 to 95 percent of the unofficial revision refers to excess property still in the custody of District agencies. Only 1½ pages of the 54 page document speaks to the disposition of surplus personal property in the custody of the Personal Property Division. There is no detailed description of the procedures or step-by-step guidelines that PPD personnel and agency accountable property officers/managers (APO/Ms) should follow to ensure the proper receipt, recordation, classification, storage, transfer, and disposition of District excess and surplus personal property by the PPD. For example, OCP's revision of the MMM does not address inventory procedures for surplus property entering the PPD warehouse, or the methodology for determining which excess property should be classified as surplus and how its residual value should be determined in order to obtain the highest price during the auction process.

Management in the Office of Contracting and Procurement failed to take the initiative and time to thoroughly review and revise the policies and procedures of the Personal Property Division. Improved policies, procedures, and guidelines would be a first step in transforming this revenue producing division into an efficient, self-sustaining enterprise of the District Government. Further, the "current revision", which regurgitates decades old guidelines pertaining to District personal property, does not adequately address the internal administrative and accounting controls necessary for the proper disposition of the District's excess and surplus personal property, nor does it take into account innovative, cost efficient ways of disposing of information technology equipment coming into the PPD's control.

²Chapter 9 of Title 27 of the DCMR also contains regulations pertaining to surplus property.

Auditor's Finding Leading to Recommendation #2

As with the previous finding and recommendation reflecting a lack of managerial oversight, the Auditor found that the District's Chief Procurement Officer failed to establish an operating budget, a mission statement, or any specific long and short range performance goals for the PPD. Further, the Chief Procurement Officer did not require the Chief of PPD to submit any type of management reports regarding PPD's operations on a routine basis.

Auditor's Recommendation #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 regular submission of management reports.

OCP's Response To The Recommendation

Beginning in FY2001, the Chief Procurement Officer (CPO) established long, short and intermediate range goals for the Personal Property Division (PPD) and its manager via the development and execution of an Individual Performance Plan (IPP). The CPO continues to establish new and specific goals for the PPD and its manager via the development and execution of an IPP for each performance appraisal period.

Implementation Status of Recommendation #2: NOT IMPLEMENTED

Establishing individual performance goals for the PPD Chief while not establishing any overall performance goals and measures for the Personal Property Division does not fully address the Auditor's recommendation or existing deficiencies in PPD's operation. Without clear performance goals and measures for the Personal Property Division as a whole and performance goals and standards for all PPD employees specifically, the Auditor fails to see how OCP management can measure program results, quality of service, timeliness of service delivery, quantity of outputs, costs associated with operating the division, and revenue generation.

While it is a first step, OCP's actions to implement this recommendation are inadequate. The Auditor recommended that the CPO establish specific performance goals for the Personal Property Division to include, but not be limited to, PPD's regular submission of management reports. Also, the periodic submission of administrative and financial reports are necessary for the

PPD Chief and OCP management to determine what has or has not been accomplished and to follow the progress and accomplishment of short, intermediate, and long range goals at prescribed intervals. Periodic reports are a useful tool to: 1) assist in measuring the achievement of performance goals; 2) evaluate the overall success of the PPD; 3) develop budgets; 4) track revenues and expenditures; and 5) perform trend analyses to assist in the overall management and improvement of PPD's operations.

Auditor's Finding Leading to Recommendation #3

The Auditor found that the PPD did not inventory or track excess District-owned personal property coming into its warehouse, and therefore was unable to determine the final disposition of much of the excess property received. The Auditor found that several former DAS managers drafted proposals to improve the management of PPD's excess and surplus property program, including a proposal to create an automated personal property system. The recommended policies and procedures addressed in the proposals were never implemented.

Auditor's Recommendation #3

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

OCP's Response To The Recommendation

The Individual Performance Plan for the PPD Manager outlines the requirement for establishing an automated and reliable tracking and inventory system. The requirement has been established as a critical goal and action towards completion is in progress.

Implementation Status of Recommendation # 3: NOT IMPLEMENTED

The Auditor observed that the Individual Performance Plan (IPP) for the PPD manager did list the following as a primary goal:

Develop and implement a centralized database for the physical control, accountability, tracking and reporting of all District-wide accountable (personal) property for all agencies under the procurement purview of OCP.

In carefully reviewing and discussing this goal with the PPD Chief, it became clear that it could not be accomplished without considerable financial and technical assistance from OCP management. While OCP management stated that this was a critical goal and that action towards completion was in progress, the Auditor was not provided an implementation plan or documentation assigning areas of responsibility, internal progress reports, or any other information which would provide a degree of reliability that action towards completion of this goal was, in fact, in progress. The PPD Chief only stated that meetings and discussions concerning this goal were held immediately after the audit report was issued. However, a centralized database for the physical control, accountability, tracking, and reporting of District-wide accountable personal property has not been implemented.

OCP management established December 2000 as the due date for completion of this goal, however, this date was unrealistic considering the complexity and level of effort required to achieve the goal. The Auditor determined that as of June 30, 2002, the Personal Property Division had not implemented an automated inventory system or centralized database of any type, and was not tracking surplus and excess property transferred to its custody. The PPD Chief stated that he was not sure when the PPD would be automated to include an inventory system.

Auditor's Findings Leading to Recommendations #4, #5, and #6

The Auditor found that the Office of Contracting and Procurement did not have a viable system to track and report on excess District-owned personal property coming into the PPD warehouse from District agencies, nor could PPD management determine, at any given time, excess property in its warehouse or the final disposition of that property. The Personal Property Division failed to inventory District personal property received at its warehouse and did not maintain an inventory of District-owned excess and surplus property. The PPD Chief stated that PPD had never inventoried excess property coming into its warehouse and had never conducted a physical inventory of such property. The Auditor found that excess and surplus property continues to have a "useful life," provides an "economic benefit" to the District government, and must be properly accounted for, controlled, and adequately safeguarded. Much of the property coming into PPD's control can inexplicably vanish before it reaches auction. Uninventoried surplus personal property was sold at public auctions for approximately \$1.2 million during the audit period.

Auditor's Recommendations # 4, #5, and #6

- # 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.

OCP's Response To Recommendations #4, #5, and #6

- #4. This recommendation will be met per OCP response to the recommendation #3 above.*

- #5. A response to this recommendation is still under consideration.*

- #6. This recommendation will be met per OCP response to recommendation #3 above.*

Implementation Status of Recommendations #4, #5, and #6: NOT IMPLEMENTED

These recommendations are over 22 months old. The Auditor finds it disconcerting that OCP and PPD management are still "considering" whether to implement the recommendations after 22 months. The performance of periodic inventories of a warehouse's contents is a critical function necessary to safeguard assets and establish effective accountability. The District's Office of the Chief Financial Officer states in its Financial Policies and Procedures Manual that physical inventories are necessary to ensure that adequate care is used in the control and accountability of

District assets. It is obvious from the hundreds of thousands of dollars collected from the sale of surplus property that these items have value and should therefore be properly accounted for and protected. Without the taking of periodic inventories of property coming into the Personal Property Division warehouse, there is no way to determine whether property is being adequately protected and disposed of in accordance with applicable laws, regulations, and procedures. The lack of positive action on this recommendation by OCP management indicates a lack of appreciation for the importance of performing a comprehensive inventory, and indicates a failure to recognize the critical need for establishing effective internal controls over excess and surplus District government property.

Auditor's Finding Leading to Recommendation #7

The Auditor found that there were inadequate controls over the collection, safeguarding, and deposit of cash receipts from PPD auction sales and the subsequent deposit to the D.C. Treasury. Tests of the accounting records revealed that there was a \$42,642 cash receipts shortage from the sale of District-owned excess personal property during the period covered by the audit.

Auditor's Recommendation #7

The Chief Procurement Officer, in conjunction with the Chief Financial Officer, recover the \$42,642 shortage in auction revenue.

OCP's Response To The Recommendation

Upon further review of these circumstances, the presiding CPO at the time of audit believed that the shortage was a by-product of poor accounting and lack of reconciliation between the sale of items that were later canceled and never [sold] and the corresponding outstanding accounts receivables.

Implementation Status of Recommendation #7: NOT IMPLEMENTED

OCP management offers no supporting facts to justify its belief that the \$42,642 shortage was a “by-product of poor accounting and lack of reconciliation. . .” The Auditor is not in agreement with the CPO and believes that a \$42,642 shortage still exists, and that the OCP should immediately take all reasonable steps necessary to determine the cause of the shortage and make an effort to recover these funds.

Auditor's Finding Leading to Recommendation #8

The Auditor determined that of the 29 public auctions held by PPD during the period covered by the audit, 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 \$42,642. The Auditor also found that there was a pattern of PPD management and staff 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.

Auditor's Recommendation #8

The shortage of \$42,642 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.

OCP's Response To The Recommendation

OCP officials stated that in response to recommendation #7 above, no investigation was launched.

Implementation Status of Recommendation #8: NOT IMPLEMENTED

At the very least, an outside investigative agency should conduct a thorough investigation to determine the cause of the loss. The Auditor's examination revealed a shortage in auction revenue that could be attributed to one or more factors including poor accounting controls and misappropriation. The CPO should promptly ensure that this matter is fully investigated by law enforcement, and submit a copy of the letter requesting the investigation to the Auditor.

Auditor's Finding Leading to Recommendation #9

The Auditor found that PPD personnel responsible for collecting, counting, and depositing funds from auction sales were not bonded, and thus, there was no recourse for the District government to recover funds lost due to negligence or theft.

Auditor's Recommendation #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.

OCP's Response To The Recommendation

OCP sought and received the assistance of the Office of Finance and Resource Management (OFRM) to collect and deposit funds from each public auction. OFRM provides this assistance for each public auction held by PPD.

Implementation Status of Recommendation #9: IMPLEMENTED

The Personal Property Division implemented this recommendation immediately after the audit report was issued in September 2000. The Office of Finance and Resource Management began collecting, counting, and depositing auction proceeds on October 19, 2000. The Auditor observed an auction where an OFRM representative was present and collected cash and checks from successful bidders and provided sales receipts. The Auditor verified, through OFRM's completed District Treasury standard deposit tickets and SOAR revenue receipts, that OFRM representatives collected, counted, reconciled, and deposited revenue from PPD auction sales as presented in Table I.

The Auditor is particularly concerned that while OFRM is performing these functions, there must be a further separation of duties to minimize the risk inherent in having one person collect, count, reconcile and transport auction proceeds. The same person should not perform all of these tasks. The District of Columbia Office of the Chief Financial Officer'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 following policies must be adopted and followed:

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

- ▶ Segregation of duties must be the first priority of an agency when handling cash receipts and disbursements and record-keeping functions.
- ▶ Cash received must be deposited with the Office of Finance and Treasury (OFT), intact and on a timely (daily) basis.
- ▶ Cash must be properly safeguarded and recorded.
- ▶ All bank accounts must be authorized by the OFT and must be reconciled monthly.
- ▶ Access to cash must be limited to as few employees as possible.
- ▶ All employees who handle cash must be bonded.
- ▶ All cash received must be controlled with prenumbered cash receipts. Cash register tape may be substituted for prenumbered cash receipts.
- ▶ All checks received must be restrictively endorsed "For Deposit Only, DC Treasury.

TABLE I

**Office of Finance and Resource Management
Deposits of PPD's Auction Sale Receipts
Between October 19, 2000 Through March 21, 2002**

| Public Auction Sale Number | Date Of Sale | Amount Deposited |
|-----------------------------------|---------------------|-------------------------|
| 01 - 01 | October 19, 2000 | \$ 48,697.00 |
| 01 - 02 | November 16, 2000 | 48,495.00 |
| 01 - 03 | January 18, 2001 | 27,606.00 |
| 01 - 04 | February 15, 2001 | 49,285.00 |
| 01 - 05 | March 15, 2001 | 62,975.00 |
| 01 - 06 | April 19, 2001 | 33,529.00 |
| 01 - 07 | May 17, 2001 | 14,304.00 |
| 01 - 08 | June 28, 2001 | 13,255.00 |
| 01 - 09 | July 19, 2001 | 20,305.00 |
| 01 - 10 | August 16, 2001 | 3,845.00 |
| 01 - 11 | September 20, 2001 | 33,630.00 |
| 02 - 01 | October 18, 2001 | 46,477.30 |
| 02 - 02 | November 15, 2001 | 6,933.00 |
| 02 - 03 | January 17, 2001 | 14,232.00 |
| 02 - 04 | February 21, 2002 | 26,655.00 |
| 02 - 05 | March 21, 2002 | 27,290.00 |
| TOTAL | | \$477,513.30 |

Source: OFRM accounting records and PPD public sales records.

While PPD personnel have ceased collecting, counting, depositing, and reconciling cash sales from public auctions, the Auditor found that the OFRM representative performing these functions also was not bonded and did not use lockable bank bags to transfer funds from the PPD warehouse to OFRM. Also, no security was provided during the auction while cash and checks were collected by the OFRM representative. A security guard from the Office of Protective Services picked up the OFRM representative when departing the PPD warehouse for the trip back to OFRM's offices at 441 4th Street, NW. Upon arriving at the OFRM office, the representative turned the funds over to an OFRM assistant manager who placed the funds in a safe. The funds were subsequently taken to the D.C. Treasurer for deposit.

OFRM had not established written policies and procedures for performing its newly acquired responsibilities of collecting, counting, depositing, and reconciling proceeds from PPD auctions, nor were there written standard operating procedures available for the Auditor's review. Also, neither OCP nor PPD had established an official policy relieving PPD of this function and assigning responsibility to OFRM; and there was no documented cross-walk between the two agencies. More importantly, PPD auction proceeds collected by OFRM were not being deposited to the account of OCP or PPD. Instead, the funds were deposited to the agency account of the Office of Property Management. At the time, OFRM could not explain why PPD auction proceeds were not being deposited to the agency account of the Office of Contracting and Procurement.

The Auditor observed that PPD's records of funds collected by the OFRM representative for the 16 PPD auctions listed in Table I were seriously fragmented and incomplete. For example, of the 16 auctions, PPD personnel could only locate three receipts signed by the OFRM representative indicating funds collected for auctions held February 15, March 15, April 19, and May 17, 2001. One receipt contained information from two auctions; one from Public Sale #01-04 which took place February 15, 2001, and the second from Public Sale #01-05 which took place March 15, 2001. Again, there were no written policies or procedures describing PPD's or OFRM's responsibilities regarding the handling of auction proceeds.

There must be better recordkeeping and coordination between OCP/PPD and OFRM, and written policies and procedures must be established which clearly articulate and specifically assign responsibilities. Without written policies and procedures, material weaknesses will continue to exist in the collection, counting, and deposit of funds from the sale of surplus property.

Auditor's Finding Leading to Recommendation #10

Based on previous findings of cash receipts shortages and a lack of experience and background in proper cashiering techniques, coupled with PPD employees performing this function without being properly bonded, the Auditor determined that the Office of Finance and Treasury could best perform this task.

Auditor’s Recommendation #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.

OCP’s Response To The Recommendation

A response to this recommendation is still under consideration.

Implementation Status of Recommendation # 10: NOT IMPLEMENTED

The Auditor found that OCP management chose to have OFRM employees serve as cashiers rather than employees of the D.C. Treasurer. As the Auditor stated previously in this report, OFRM cashiers are not bonded, do not have lockable bank bags to transport money collected, and OFRM officials store the funds collected in a safe until they can take it to the D.C. Treasurer. Further, the OFRM representative is not a trained cashier, and only performs this task once-a-month when PPD auctions are held. The Auditor believes that this function would best be performed by the Office of Finance and Treasury.

Auditor’s Finding Leading to Recommendation #11

The Auditor found numerous irregularities in the collection, counting, depositing, and reconciliation of cash receipts from surplus property auctions. Further, the Auditor determined that PPD personnel did not possess the requisite expertise to adequately perform these specific functions, and were not bonded.

Auditor’s Recommendation #11

The District’s Chief Financial Officer take immediate control of collecting, counting, depositing, and reconciling all funds received from PPD’s public auctions.

OCP’s Response To The Recommendation

The recommendation is currently being met per OCP response to recommendation #9 above.

Implementation Status of Recommendation #11: PARTIALLY IMPLEMENTED

The Auditor believes that this recommendation requires additional attention by OCP management and the CFO. OCP requested and OFRM agreed to assume the responsibility of collecting, counting, depositing, and reconciling all funds from the sale of surplus property. However, neither OCP nor OFRM formulated written policies and procedures for this new task. Further, OCP has not formulated any policy regarding PPD's new role now that PPD employees have been relieved of this responsibility. Currently, there is no official written policy regarding the proper handling of funds from surplus property auction sales under the purview of the CFO's office. Policies and procedures for carrying out this function should be established and published by the CFO's office.

Auditor's Finding Leading to Recommendation #12

The Auditor found that the Office of Contracting and Procurement had not established and published written policies and procedures for the daily operation of the Personal Property Division, and that the PPD had been operating under regulations issued by the Department of General Services in the Materiel Management Manual dated July 1977; guidelines that were over 20 years old and had not been updated.

Auditor's Recommendation #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.

OCP's Response To The Recommendation

The agency has established and published written policies and guidelines for daily operations of the PPD. These guidelines were distributed to agency specific Accountable Property Officers.

Implementation Status of Recommendation #12: NOT IMPLEMENTED

The Auditor does not agree that OCP has established and published written policies and procedures **for the daily operation of the PPD** (Auditor's Emphasis). The information provided

was an “overview” of accountable property, agency accountable property officers, determining acquisition cost, and dealt primarily with the roles and responsibilities of agency accountable property officers. While the “overview” touched on certain facets of the Personal Property Division, it fell far short of establishing clearly written policies and sufficiently detailed procedures for the daily operation of the PPD. Newly hired managers and employees of the Office of Contracting and Procurement, in general, and the Personal Property Division, in particular, would be at a loss in trying to function properly under this overview. Further, OCP’s managerial response to the Auditor’s recommendation indicates a continuing lack of effective management control and direction of the Personal Property Division.

Auditor’s Finding Leading to Recommendation #13

The Auditor found that PPD personnel routinely collected, counted, and deposited thousands of dollars in plain view of the general public without any type of security, placing these individuals’ safety in jeopardy, coupled with the loss of cash receipts.

Auditor’s Recommendation #13

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

OCP’s Response To The Recommendation

A response to this recommendation is still under consideration.

Implementation Status of Recommendation #13: NOT IMPLEMENTED

The Auditor finds it difficult to accept that the recommendation concerning security is “still under consideration” while District employees continue to collect thousands of dollars in cash in plain view of the public. The District’s Office of the Chief Financial Officer states in its Financial Policies and Procedures Manual that “cash must be properly safeguarded”. The potential risk is too great for this recommendation to still be “under consideration” after 22 months, and indicates that OCP management has not performed an adequate risk assessment to determine the significance of the risk, the likelihood of its occurrence, how to best manage it, and what actions should be taken to alleviate the risk as it relates to the safeguarding of cash and other assets of the PPD.

Auditor's Finding Leading to Recommendation #14

The Auditor found that re-utilization of excess property by District agencies was virtually nonexistent. OCP and PPD had not established a written policy or mechanism for regularly notifying District agencies about the availability and description of excess personal property in the PPD warehouse.

Auditor's Recommendation #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 the availability of excess personal property for agency re-utilization.

OCP's Response To The Recommendation

The ability to achieve re-utilization of District surplus property will be a component of the automated tracking and inventory system. Per OCP response to recommendation #3, actions towards implementation of an automated system are in progress.

Implementation Status of Recommendation #14: NOT IMPLEMENTED

OCP's failure to implement this recommendation prevents the re-utilization of excess personal property by other District agencies. A carefully crafted methodology to re-utilize excess District government property would be of great benefit to District agencies and instrumentalities facing budget pressures and a need to economically obtain office furniture, fixtures, and equipment. Further, it would assist agencies throughout the District government that have excess property to efficiently transfer the property to other District agencies. Each time excess property is re-utilized, it decreases paperwork, costs, and labor hours in requisitioning and purchasing new property.

Auditor's Finding Leading to Recommendation #15

As with the previous finding, re-utilization of excess District-owned personal property has not been a priority for the District's Personal Property Division. The Auditor found that of the hundreds of thousands of dollars in excess personal property coming into the PPD warehouse annually, only a very small amount was set aside for re-utilization. Further, PPD personnel did not notify District agencies as to what property was available for re-utilization. Only by chance would a few District agencies inquire about specific excess property, and then, one would have to "walk through" the warehouse to find out what, if anything, was available.

Auditor's Recommendation #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.

OCP's Response To The Recommendation

Due to personnel and budgetary constraints within both the agency and PPD, a response to this recommendation is still under consideration.

Implementation Status of Recommendation #15: NOT IMPLEMENTED

Again, the Auditor believes that a well-crafted policy governing the re-utilization of excess District government property would benefit the District in general, and the OCP/PPD in particular. Cost avoidance may prove to be one such benefit in that District agencies could quickly and inexpensively acquire needed furniture and equipment, enabling the District to maximize its excess personal property. Further, agencies may be able to quickly and inexpensively acquire needed furniture and equipment, and the District government can maximize the use of District owned property. We believe that the amount of excess personal property continues to grow and that this is an opportunity for OCP/PPD to establish clear directions and move the PPD forward as a self-supporting entity.

Auditor's Finding Leading to Recommendation #16

The Auditor found that the PPD was receiving payments from the sale of District-owned scrap metal and iron by the District's Department of Corrections' (DOC) Supply Management Division, and that there were inadequate controls over the disposal and receipt of funds for this scrap metal and iron. There

was no contract between DOC and the vendor receiving the scrap metal. Further, neither OCP nor PPD had any written policy or regulations concerning PPD's involvement in this process, and that the DOC was the only agency that generated scrap metal and iron through its Lorton facilities.

Auditor's Recommendation #16

The Department of Corrections' Supply Management Division immediately cease the shipment of scrap metals and iron to Davis Industries.

OCP's Response To The Recommendation

The agency ceased the shipment of surplus metals and iron to Davis Industries in the absence of a written contract. Further, OCP awarded a competitive written contract for the shipment of scrap metals and iron.

Implementation Status of Recommendation #16: IMPLEMENTED

The Auditor commends Department of Corrections and Office of Contracting and Procurement officials in their positive response to the recommendation.

Auditor's Finding Leading to Recommendation #17

The Auditor found that the process of the District selling scrap metal and iron to a private vendor was pursuant to an "informal arrangement", not a formal written contract. Without a contract, there was no way for the Auditor to determine whether the District was receiving adequate payment for the scrap metal and iron sold.

Auditor's Recommendation #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.

OCP's Response To The Recommendation

Same as our response to recommendation # 16.

Implementation Status of Recommendation #17: IMPLEMENTED

Awarding a written contract for the sale of surplus scrap metal and iron is a positive step towards improving the administrative and accounting controls for the sale of scrap metal by the District government. Further, relieving the PPD of the responsibility for receiving checks from a contractor purchasing scrap metal and placing this task with the agency that sold the surplus metal and iron establishes better internal controls for this process.

Auditor's Finding Leading to Recommendation #18

Absent a formal written contract and supporting documentation, the Auditor could not determine: 1) the total amount of scrap metal and iron delivered by DOC to a private vendor; 2) the amount of money realized by the District for the deliveries; and 3) whether the District was properly paid. Further, the Auditor could not account for all payments the PPD received from the sale of scrap metal and iron.

Auditor's Recommendation #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.

OCP's Response To The Recommendation

OCP did not respond or provide any information relative to this recommendation, however, the Director of the Department of Corrections responded.

Implementation Status of Recommendation #18: IMPLEMENTED

The Director of the Department of Corrections (DOC) stated that DOC and the Chief Financial Officer performed a reconciliation of scrap metal sold to Davis Industries for fiscal

years 1998, 1999, and 2000. The reconciliation found that \$1,961.70 was owed to the Department of Corrections from the sale of scrap metal delivered to Davis Industries, and that DOC's Industrial Services Division, which sold the metal, agreed to reimburse the DOC this amount. The Auditor found, however, that due to the closing of the Lorton prison complex, DOC's Industrial Services Division never reimbursed DOC the \$1,961.70.

Auditor's Finding Leading to Recommendation #19

The Auditor found that the District's Personal Property Division was designated as the state agency for surplus property (SASP), and as such, was responsible for requesting, receiving, storing, and distributing surplus federal government property to District of Columbia government agencies, and District of Columbia nonprofit, 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 Auditor found that the District's state agency for surplus property (PPD) did not comply with established rules and regulations.

Auditor's Recommendation #19

The Chief Procurement Officer and the Chief of the Personal Property Division must comply with the provisions 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.

OCP's Response To The Recommendation

Due to personnel and budgetary constraints within both the agency and PPD, a response to this recommendation is still under consideration.

Implementation Status of Recommendation #19: NOT IMPLEMENTED

The Personal Property Division is the State Agency for Surplus Property for the District of Columbia government. As such, it is PPD's responsibility to acquire and distribute federal surplus property to all eligible donees in the District. The PPD has

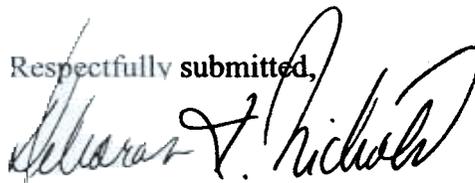
consistently failed to adhere to this provision in Title 27 of the District of Columbia Municipal Regulations (DCMR), thereby preventing District government agencies in particular, and non-profit organizations in the District in general, the benefit of receiving and utilizing federal government surplus property. It is the Auditor's belief that the PPD, serving as the State Agency for the District of Columbia government, should abide by the provisions of Chapter 9 of Title 27 of the DCMR by fully implementing the recommendation. Further, PPD's effective performance of this function should be included in its performance plan and goals for fiscal year 2003 and future fiscal years.

CONCLUSION

The District's Chief Procurement Officer and Personal Property Division Chief failed to fully implement 14 of the 19 recommendations contained in the Auditor's report entitled, "Management and Accounting Deficiencies in the District's Excess and Surplus Property Program," dated September 30, 2000. The Auditor found that Office of Contracting and Procurement officials are not aggressively seeking ways to improve accountability within OCP's Personal Property Division and the operation of the District's excess and surplus property disposal program. A key factor in helping to achieve the agency's mission and program results while minimizing operational problems is to create an effective system of internal controls supported by an accountable internal control environment which should serve to facilitate efficient and effective organizational operations.

The failure of officials and managers of the Office of Contracting and Procurement to take prompt and responsive action to the Auditor's recommendations continues to jeopardize District government assets under OCP's custody and control. Further, failure to implement the recommendations allows continuing deficiencies to exist in internal controls within the PPD. In order for PPD to maximize its effectiveness, improve control over assets, and minimize the improper disposition, theft, and misuse of government assets, the Auditor believes that all recommendations must be implemented as soon as possible.

Respectfully submitted,



Deborah K. Nichols,
District of Columbia Auditor

AGENCY COMMENTS

AGENCY COMMENTS

On August 16, 2002, the District of Columbia Auditor submitted this report in draft for review and comment to the Office of Contracting and Procurement's Chief Procurement Officer, the District of Columbia Chief Financial Officer (CFO), and the Deputy Chief Financial Officer of the Office of Finance and Resource Management (OFRM). Comments on the draft report were due August 23, 2002. The Deputy Chief Financial Officer of OFRM requested and received an extension for submission of comments to September 3, 2002.

Comments were received on September 3, 2002 from the Deputy Chief Financial Officer of the Office of Finance and Resource Management. The Chief Procurement Officer and the Chief Financial Officer of the District of Columbia did not respond to the draft report. Where appropriate, changes to the final report were made to reflect the comments received. All written comments received by the Auditor are appended, in their entirety, to the final report.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF FINANCE AND RESOURCE MANAGEMENT



MEMORANDUM

TO: Deborah K. Nichols, District of Columbia Auditor
Office of the District of Columbia Auditor

FROM: 
Barbara Jumper, Deputy Chief Financial Officer
Office of Finance and Resource Management (OFRM)

DATE: August 28, 2002

SUBJECT: Response to Draft Report

The Office of Finance and Resource Management (OFRM) is in receipt of the draft report entitled, "Follow-up Review of the District's Excess and Surplus Property Program." In keeping with the policy of the District of Columbia Auditor to obtain written comments on draft reports from directly affected agencies, OFRM offers the following comments and suggested corrections.

1. Page 18 Para. 2 "Auditor's Finding Leading to the Recommendation. Based on previous findings of cash receipts shortages and a lack of experience and background in proper cashiering techniques, coupled with PPD employees performing this function without being properly bonded, the Auditor determined that the Office of Finance and Treasury could best perform this task." Para 3. "Auditor's Recommendation #10 The Office of Contracting and Procurement should arrange to utilize employees from the Office of D.C. Treasurer as cashiers during future auctions".
In response, OFRM wishes to concur with the Auditor's finding and recommendation. We also agree with the Auditor's concern expressed during the Implementation Status of Recommendation #9 on page 14, Para 3, that "while OFRM is performing these functions, there must be a further separation of duties to minimize risk inherent in having one person collect, count, reconcile and transport auction proceeds; the same person should not perform all the above mentioned tasks."
2. Page 17 Para. 2 line 6 "...PPD auction proceeds collected by OFRM were not being deposited to the account of OCP or PPD. Instead, the funds were deposited to the agency account of the Office of Property Management [OPM]. OFRM's assistant accounting manager failed to explain why PPD auction proceeds were not being deposited to the agency account of the Office of Contract and Procurement"
In response, OFRM wishes to concur with the Auditor's statement. During the reorganization of the Department of Administrative Services, which created OPM and the

Office of Contract and Procurement (OCP) among other entities, the account in which auction proceeds were being deposited remained under the responsibility of OPM. OFRM will change the account's attributes so that this account will be under OCP. However, OFRM wishes to have the "assistant accounting manager" removed from the report. This statement incorrectly identifies the assistant accounting manager as the auditee instead of the organization.

3. Page 19 Para. 4 line 2 "The CFO has assigned OFRM the responsibility of collecting, counting, depositing, and reconciling all funds from the sale of surplus property without formulating policies and procedures for this new task".

In response, OFRM wishes to state that the CFO has not officially assigned this responsibility to this office. Also, OFRM wishes to direct the Auditor to response to item 1. above.

In closing, I wish to thank you and your staff for the courtesies extended to me and my staff and for affording OFRM the opportunity to comment on this draft report.
