

OFFICE OF THE CITY AUDITOR

CITY SURPLUS STORE BUSINESS DEVELOPMENT & PROCUREMENT SERVICES



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September 10, 2004

Memorandum



CITY OF DALLAS

September 10, 2004

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted an audit of the City Surplus Store, operated by Office Services, a division of the Department of Business Development and Procurement Services (BDPS).

In our opinion, the City Surplus Store (Store) serves as a good outlet for City/Police Departments to promptly and conveniently transfer surplus/confiscated property and to assist in keeping storage space open. However, due to personnel, lease rental and other operating costs, the Store does not appear to be operating economically. Current operating expenses exceed revenues generated by the Store. Additionally, the Store's operations can be improved by developing procedures to address controlling inventory, pricing, accountability, marketing strategies, and other operational concerns.

These concerns are discussed in the Opportunities for Improvement section of this report.

We appreciate the cooperation of City staff during our examination.

Thomas M. Taylor

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City Auditor

c: Mary K. Suhm, Interim City Manager

AUDIT OF THE CITY SURPLUS STORE

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EXECUTIVE SUMMARY

We have conducted an audit of the City Surplus Store (Store), operated by Office Services, a Division of the Department of Business Development and Procurement Services (BDPS). Our audit period was October 1, 2002, through April 30, 2004.

As a result of our inquiries, observations, examinations, and tests, we conclude that the Store serves as a good outlet for City/Police Departments to promptly and conveniently transfer surplus/confiscated property and to assist in keeping storage space open. Currently, costs to operate the store exceed sales revenues. Additionally, improvements are needed for controlling inventory, pricing, accountability, marketing strategies, and other areas. We have summarized our findings below:

- City Code is not in compliance with City Council actions. Currently, the Store operation, though approved, is not an authorized activity per the current City Code. The Attorney is following up on a request regarding changes needed to the City Code.
- Inventory and transfer controls need improvement. The Store does not maintain a complete inventory listing of items received, transferred, sold and/or disposed of otherwise, and the information on the Transfer Form is incomplete and inadequate. Also, current procedures are inadequate to account for items removed from the Store by employees from other City Departments. Thus, there is no assurance that all surplus items have been properly accounted for.
- Values assigned to items transferred are not consistent with similar items sold or available in the Store. Values assigned to items transferred to City Departments appear to be overstated and are not consistent with the values assigned to items available to the public. Thus, the value of reported savings to the City may be overstated.
- The change fund for the Store is not properly, approved, recorded, and obtained. The Store improperly retained and used cash from sales to provide change to customers. Thus, revenues were not properly recorded, and cash was used improperly.

- Restrictions on employees not eligible to purchase surplus items cannot be effectively enforced. Sales to the public require additional monitoring and documentation to ensure that employees who are restricted do not make purchases from the Store. Current policies and procedures do not deter relatives or persons connected to restricted employees from purchasing items from the Store.

We commend the department for accepting our recommendations and taking steps to resolve these issues.

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Authorization

We have conducted an audit of the City Surplus Store (Store), operated by Office Services, a Division of the Department of Business Development and Procurement Services (BDPS). This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included tests of the accounting records and other audit procedures that we considered necessary in the circumstances. Our audit covered October 1, 2002, through April 30, 2004. We also examined certain related procedures, transactions and events occurring before and after that period. The objectives of our audit were to determine whether the new concept of retail sales of surplus, unclaimed and confiscated items:

- Produces additional revenues
- Operates cost efficiently and effectively

Our audit was limited to the review of retail sales of surplus, unclaimed and confiscated property and the policies and procedures pertaining to the disposal of these items authorized by Section 2-37.2 of the Dallas City Code and Administrative Directive 6-1, Control of City Property. For the purpose of this audit, surplus, unclaimed and confiscated property do not include real property; City-owned firearms and accessories recommended for trade-in; cash money that has been abandoned, stolen, recovered, remained unclaimed or been held for evidence; restricted weapons that are required to be destroyed; surplus weapons sold to certain personnel; and certain collectible property.

To develop an understanding of the operations, policies and procedures, we:

- Held discussions with management and Store personnel regarding internal controls, reviewed policies and procedures and other matters;
- Reviewed City Code and Administrative Directives;
- Reviewed City Council Resolution No. 023082 and the Sublease Agreement;
- Reviewed auctioneer's statements of revenue from auction proceeds for surplus property for FY 2001, FY 2002 and October 2002 through January 2003;
- Reviewed documents pertaining to the operation of the Store from February to April 30, 2004; and
- Conducted site visits to the Store and observed operations. Vouched retail sales transactions to summary sales reports and to accounting records in the financial systems.

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Overall Conclusion

In our opinion, the concept of a City Surplus Store is good as an outlet for City/Police departments to promptly and conveniently transfer surplus/confiscated property and to assist in keeping storage space open. However, the Store does not appear to be operating economically. Currently, personnel, lease rental and other operating costs exceed revenues. Additionally, BDPS can improve operations by developing procedures to adequately address controlling inventory, pricing, accountability, marketing strategies and other operational concerns.

These areas are noted and discussed in the Opportunities for Improvement section of this report. A separate management letter was issued to BDPS management regarding administrative functions.

Management's Overall Response:

The City of Dallas used an auctioneer to dispose of police confiscated and City surplus property until BDPS opened the City Store in February 2003. The auctions were held no more than three times a year. Obviously the City departments, as well as the Dallas Police Property room, had property that needed to be disposed of more frequently but had no outlet to do so. The City departments would hold the property until notified by BDPS of the next scheduled Auction. The departments then had a very short window with which to deliver the surplus or confiscated property to the auction site which resulted in significant storage and transport costs.

The City Store concept of disposing of surplus property in a retail setting came into existence only after BDPS was notified that its current location at the Dallas Naval Air Station was going to be leased and could no longer be used for auctions. BDPS, working with Property Management, searched for a warehouse to lease since no other City property was available that could accommodate the storage of surplus and confiscated property. The location best suited to the needs of the City, also had a finished space in the front of the building which was ideally suited to retail sales, and thus the idea of the City Store was born. Ultimately the sale of surplus and disposal property is not a revenue generating endeavor, regardless of locations, however, the City Store has significantly mitigated the costs that would have incurred by being forced to lease a warehouse.

Background

BDPS is responsible for the disposal of “personal property owned by the City that has been declared surplus, obsolete, worn-out or useless by the head of a department and is no longer needed for public use.” BDPS receives surplus property from City Departments, as well as from property confiscated by the Police Department. City surplus personal property includes items such as

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computers and office equipment, file cabinets, scrap metal, used uniforms, used office furniture and fittings, etc.

BDPS has the authority to dispose of surplus items in the best interest of the City by sealed bid, public auction or posted prices. Current disposal practices at the store are:

- Redistribution within the City before items are offered for sale to outside purchasers. Surplus items will first be offered to City Departments. Transfers to City Departments are on a first-come basis.
- Public sale - the Store is open to the public on Thursdays.

City Council Resolution No. 023082 approved a two-year Sublease Agreement with a one-year renewal option for the 7,975 square feet Store, at a monthly rental rate of \$3,156.77. The lease term began on November 1, 2002 and will end on October 31, 2004. The Store is located at 1201 Turtle Creek Boulevard (at the intersection of Turtle Creek and Irving Boulevards). It first opened to the public on March 5, 2003. Only cash and/or credit cards are accepted for items sold. No checks or refunds are accepted.

The City is responsible for the following expenses related to the leased premises:

- Installation, maintenance and expense of its own telephone and security services
- Real estate taxes on the premises during the lease term
- Utilities, including electric, gas, water and sanitation services
- Maintenance and repair of all equipment and systems including, but not limited to, all mechanical, heating and air conditioning, plumbing and electrical systems, light fixtures, etc.
- Janitorial services and daily routine maintenance
- Dumpster facilities for trash

The following is a summary of the Revenues and Expenses for surplus items sold through auctions for FY 2000/01, FY 2001/02 and for the four months, October through January 2003. Revenues and expenses for operating the Store are for the period February 2003 through April 2004.

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DESCRIPTION	AUCTION SALES****			SURPLUS STORE	
	FY 2000/2001	FY 2001/2002	October 2002 – January 2003	February - September 2003	October 2003 – April 2004
Revenues (Cash Basis)	\$92,686	\$68,898	\$63,540	\$125,591	\$77,612
Expenses					
• Personnel	\$50,000*	\$50,000*	\$17,123	\$94,792	\$53,658
• Lease rental	-\$0-	-\$0-	-\$0-	\$25,254	\$22,092
• Real Estate Taxes	-\$0-	-\$0-	-\$0-	-\$0-	\$7,883
• Utilities/Alarm	-\$0-	-\$0-	-\$0-	\$5,712	\$4,998
• Janitorial	-\$0-	-\$0-	-\$0-	\$1,085	\$948
• Commissions	\$17,659	\$13,354	\$12,066	-\$0-	-\$0-
• Miscellaneous**	\$2,142	\$1,781	\$8,926	\$71	-\$0-
• Imputed Facility Cost*****	<u>\$56,534</u>	<u>\$56,534</u>	<u>\$34,051</u>	<u>\$0</u>	<u>\$0</u>
Total Expenses	<u>\$126,335</u>	<u>\$121,669</u>	<u>\$72,166</u>	<u>\$126,914</u>	<u>\$89,579</u>
Net Operating Income/(Loss)	(\$33,649)	(\$52,771)	(\$8,626)	(\$1,323)	(\$11,967)
Transfers to City Departments (Values Assigned by BDPS) (See Finding 3.)	N/A	N/A	\$3,125***	\$36,094	\$25,405
Total	(\$33,649)	(\$52,771)	\$5,501	\$34,771	\$13,438

* Based on discussion with former BDPS Manager, we used one-third of the total salaries and related expenses for the two employees assigned to Auctions. (Amounts provided by BDPS were 100% salaries and related expenses for one person, \$91,000 and \$92,000, respectively).

** Miscellaneous expenses include jewelry appraisal fee, generator rental, transportation costs, electrician fee, and other expenses. Miscellaneous expenses do not include expenses such as Communication Information Services costs, allocated overhead, etc. These amounts have not been identified for inclusion in this amount.

*** Amount represents transfers to City Departments for the period October 2002 through January 2003.

**** Amounts restated to provide a more reasonable comparison of expenses.

***** Unverifiable imputed space costs provided by BDPS based on the Baylor Street and Naval Air Station Dallas locations. For presentation purposes only.

N/A: Property transfers were not previously recorded.

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During our audit, we identified certain policies, procedures and practices that could be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, opportunities for improvement presented in this report may not be all-inclusive of areas where improvements may be needed.

1. City Code is not in compliance with City Council actions.

Current City Code requirements pertaining to the disposal of surplus property is not compliant with City Council actions. During an October 7, 2002 briefing to the Business and Commerce Committee, BDPS personnel requested the Committee to authorize the lease “and to revise some of the City Codes to provide some consistency on how we are allowed to dispose of property.” On October 23, 2002, City Council Resolution No. 023082 approved the Sublease Agreement with Texas Joint Venture and the City of Dallas to use the office, warehouse building and parking area for the use by the Sales and Auction Section of BDPS. It has been a year and a half since Council approved the operation of the Store. However, the City Code has not been revised to provide for the disposal of surplus and unclaimed property by methods including retail sale.

City Code 2-37.4(a) - Method of Sale states:

Except as otherwise provided ... the Director shall sell unclaimed property and surplus, obsolete, worn out, or useless property by public auction or be accepting sealed bids to the highest bidder. The property may be auctioned, each piece individually or in assembled lots, whichever the Director determines will bring the best price obtainable ...

Administrative Directive 6.1, Section 6.2.4 - *Control of City Property* provides that the Office Services Section of BDPS:

Disposes of surplus property in the best interest of the City by sealed bid, public auction, or posted prices.

In October 2002, the Director of BDPS requested the City Attorney’s Office (Attorney) to make the necessary changes to the City Code to allow for the sale of property at posted prices. During the audit, we requested the Attorney to provide the current status regarding BDPS’ request for changes to the City Code. The Attorney is following up on this request.

Currently, the Store operation, though approved by City Council, is not an authorized activity per the current City Code. Consistency in written policy and procedures are a component of City Administrative controls and are essential

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when implementing a new program. Written procedures serve as a reference and are integral to proper administration.

We recommend the Director of BDPS follow-up on the requests to the City Attorney to complete the required City Code changes and submit the changes to Council for approval.

Management's Response:

Concur, a memo was sent to the City Attorney's Office on July 22, 2004, requesting the status of the changes requested in October 2002 by BDPS. Additionally, BDPS will follow-up to ensure the required changes be submitted to City Council for approval.

2. Inventory and transfer controls need improvement.

Controls over surplus inventory items, procedures for documenting transfers and accounting for surplus property to City Departments need improvement. The Store receives a Property Disposal/Transfer Report (Transfer Form) for surplus property received at the Store. The Transfer Form is also used to record surplus property transferred from the Store to other City Departments. The Transfer Form, created on April 4, 1989 and revised on June 21, 2004, was also used to record auction sales.

We noted that:

- A complete inventory listing is not maintained by the Store for items received, transferred, sold and/or disposed otherwise. Surplus property is delivered to the Store. Confiscated property is picked up from the Police Property Room. All items received at the Store are examined and/or tested by Store personnel to determine usable condition. The Store Manager uses an Excel worksheet to develop an inventory listing of only usable items with assessed values of \$50 or more. This list is used as a control sheet for the prices of items displayed in the event the price tag is removed. The list is updated weekly to add new items received as well as to delete items (valuing \$50 or more) transferred to other City Departments and/or sold to the public.

Slow moving items initially valued \$50 or more will be deleted from the list when the assessed value falls below \$50, as a result of the 15% incremental weekly reduction in prices. The price of other items (initially valued less than \$50), which have not been transferred or sold, will also be reduced by 15% incrementally weekly to a minimum of \$1 with the anticipation that these items will be sold. The Store Manager may place

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these slow moving items back in the warehouse and/or depending on the type and condition of the items, place them in the garbage for disposal, after all other efforts (salvage dealers, etc.) have been exhausted. BDPS management stated that items disposed of, other than by transfers or sales, are at the discretion of the Store Manager. Neither the items disposed of, nor the process for disposing of the items, is documented. This practice could lead to questionable operations.

An adequate inventory system has not been implemented. Thus, there is no assurance that all items are properly accounted.

- Information required on Transfer Forms is incomplete and inadequate. The Transfer Form has not been updated to reflect current use by the Store. We reviewed several forms and noted that:
 - Forms were not approved by responsible departmental personnel
 - Names of employees signing for items received were not always readable (employees were not required to print their names as well as their employee number before signing the form)
 - Forms do not capture information on the model number for the item (necessary for such things as assessing value of the item)
 - Serial number blocks on the forms were not completed
 - Forms do not have a block to list an assigned value
- Procedures are inadequate for ensuring the accounting of items removed from the Store by employees from other City Departments. Employees from various City Departments come to the Store, show their City identification, select surplus items, sign a Transfer Form and remove the items from the Store. Store employees do not receive advance notification or approval from City departments that employees are authorized to remove selected items. BDPS does not send copies of the Transfer Form to responsible departmental personnel to ensure that City Departments are properly notified.

We were unable to locate procedures relative to the use of items transferred from the Store except for the following statements included on the City's Intranet website regarding the City Store.

Items being transferred from the City Surplus Store must be used for official City of Dallas use. Personal use of City of Dallas surplus items is strictly prohibited.

We judgmentally contacted four City Departments to discuss procedures to account for items transferred from the Store. We noted that all City Departments contacted do not have written procedures regarding items

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removed from the Store. We judgmentally selected a total of 54 items transferred from the Store to four City Departments. We physically located 27 items. The remaining 27 items could not be found readily. There is no assurance of accountability for all items removed from the Store by employees from other City Departments.

BDPS has not developed adequate procedures to ensure that City Departments are notified regarding items transferred. Items shown as transfers may not be used appropriately by City Departments.

Effective internal controls include developing policies and procedures for inventorying, selecting, removing, documenting, accounting, reporting, etc. for surplus items. These policies and procedures should be approved and communicated to City Departments.

We recommend the Director of BDPS:

- Implement an inventory system that accounts for receipts, transfers and sales;
- Develop procedures to ensure that disposals (other than transfers and sales) are appropriately documented and approved by BDPS supervisory personnel;
- Revise the Transfer Form to reflect current use by the Store, completing serial and model number information, if applicable, and include blocks for employees to print their names as well as their employee numbers and other relevant information;
- Develop procedures addressing items transferred to City Departments, a process for authorizing employees to select and remove items, a process for notifying City Departments of items transferred; and
- Update Administrative Directive 6-1, *Control of City Property* regarding transfers to/from the Store and to prohibit personal use of City property.

Management's Response:

- a) Concur, the BDPS Director will assign the City Store Manager the task of reviewing the current method of inventory control as well as opportunities for cost effective improvements to address concerns raised in the audit. The recommendation will be provided to the responsible executive for further evaluation.

The current method of inventory control was intended to record the receipt and transfers of property for items deemed valuable (approx \$50 in value). In order to clearly understand the process, one must realize the size and scope of the property received from the Dallas Police Property room on a weekly basis. On a good day, the City Store will receive six or seven

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pallets of property with over three hundred separate inventory items listed. On the items listed, the majority is listed with bulk descriptions such as TOOLS, CLOTHING, MISC. ELECTRONICS, etc.

A fifty-dollar threshold was implemented when management determined that logging in every item received from the property room regardless of the value, was not cost effective. In most cases, the DPD Property room uses generic descriptions to classify low dollar items, for example, when a sealed box of confiscated clothing is transferred to the City Store, the description on the inventory record may read MISC. CLOTHING. It was BDPS management's conclusion that staff should dedicate the majority of their time researching the appropriate estimated value, tracking and ultimately the sale of the higher dollar items to maximize the return for the City. We agree that additional research is needed to determine the cost associated with implementing a more advanced inventory tracking system and we will have recommendations for improvement and cost estimates, if any, by the end of FY 03-04.

- b) Concur, the BDPS Director has assigned the Assistant Director to review all disposal requests from the City Store Manager prior to disposal. Additionally, a list of all items deemed "no value" would be maintained and forwarded to the City's Purchasing Agent on a quarterly basis for review.
- c) Concur, we are currently working on the revised Transfer Form addressing the concerns raised by the audit. Prior to implementing the new Transfer Form, we will consult with the City Auditor's office for any additional comments.
- d) Concur, BDPS has discussed this issue internally and has made contacts with internal user departments to discuss the following method of addressing this issue. We are finalizing a change in procedure that will be incorporated in the revised Administrative Directive 6-1.

The City currently uses the RESOURCE financial system for all financial transactions which includes the procurement of new items. RESOURCE has existing security measure established to ensure items being requisitioned are appropriate and necessary for the operation. BDPS is going to use the requisition process to procure items from the City Store. By requiring all City departments to complete the City requisition process, BDPS can utilize this infrastructure that was updated when the City's purchasing process was centralized in 2001. This new approach will provide increased accountability and a reportable audit structure with minimal inconvenience to City departments. Furthermore, to ensure all levels are notified of the property transferred within the City, a quarterly summary of items transferred, by department, will be distributed electronically to department directors for review.

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- e) Concur, BDPS is currently coordinating with the City Controllers Office to revise Administrative Directive 6-1 to include the revised Transfer Form as well as the revised method of requesting police confiscated or City surplus material utilizing the requisition method currently used for all City purchases. The Controllers Office is the responsible department for this administrative directive and BDPS will follow-up to ensure this revision is made within a reasonable time frame.

3. Values assigned to items transferred are not consistent with similar items sold or available in the Store.

Values assigned to surplus items that are transferred to City Departments appear to be overstated. Depending upon the condition of the item, the Store Manager uses historical data from previous auctions, research from the Internet and other sources such as catalogs, to assign values to the items. Jewelry items are appraised by an independent party.

For the period October 2002 through April 2004, BDPS personnel assigned a total of \$64,624 to surplus items transferred to 19 City Departments. We judgmentally selected the items shown in the next table to determine the reasonableness of the values assigned, and obtained retail prices for similar products from the Internet.

No.	Description of Item Transferred to Department	BDPS Estimated Value (Savings to the City)	Internet Retail Unit Price Price Range For New Item	Similar Item Sold/Offered to the Public (Per item)
1	10 Mapscos	\$300	\$33.95	\$1 - \$5
2	1 Sharp VCR	\$50	\$71	+++
3	1 Signature 2000 VHS VCR	\$100	\$40	\$5 - \$20
4	1 GE 19" Color TV	\$100	\$100	+++
5	1 Numark PDS Monitor Screen	\$200	\$177	\$20 - \$60
6	1 Sony Digital HandyCam Camera	\$800	\$743	\$5 - \$100
7	1 17" Color TV	\$200	\$100	+++
8	1 21" Sanyo TV	\$200	\$100	+++
9	3 HP Lazerjet 2100 printers	\$900	\$600 - \$650	\$40
10	3 Deskjets color printers, 3 HP lazerjet 2100 printers	\$1,500	\$85-\$343, \$600-\$650	\$20, \$40
11	1 Minolta Camera	\$480	\$200 - \$400	\$5 - \$100
12	1 Cannon Camera Q8200, with flash	\$200	\$280	\$5 - \$100
13	1 Sony Digital Camcorder	\$600	\$300 - \$899	\$15 - \$40
14	1 HP Photosmart 7350 printer	\$300	\$88 - \$194	\$15- \$20
15	1 Panasonic TV/VCR	\$200	\$199 - \$500	+++

+++ Similar item not displayed in the Store nor listed on the limited review of items sold.

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Values assigned to items transferred to City Departments appear inflated and are not consistent with the values assigned to items available to the public. The value of reported savings to the City may be overstated. Policies and procedures for valuing items should be consistent, approved and communicated to City Departments.

We recommend the Director of BDPS:

- Request City Departments to include on the Transfer Form the model number of the item (if applicable), as well as an estimated value.
- Include estimated values in the inventory system.

Management's Response:

- a) Concur, the revised Administrative Directive 6-1 will include this change in the department responsibility section of the document. The estimated value from the department will assist the City Store with establishing minimal pricing for disposal.
- b) Concur, for property transferred from City departments, the department estimated values will be included in the inventory system. Police confiscated property will not include estimated pricing since the Dallas Police Department does not assign value on their inventory transfer report.

4. City Departments and the public are not adequately informed regarding available surplus items.

Available items are not adequately coordinated to meet City Department needs or effectively communicated to the public. The Store Manager determines which items are considered usable by City Departments. These items are placed on the City's Intranet for viewing. Items not deemed usable by City Departments are placed in the Store to be sold to the public.

We noted that:

1. Items available at the Store are not properly coordinated with City Department needs. One of the Store's primary functions is to provide City Departments with items that may be appropriate for their daily operation. Currently, once property is determined to be surplus by the responsible Department Director, or is property confiscated and released by the Police Department, the surplus and confiscated items are delivered to the Store. BDPS has recently begun, on a trial basis, providing descriptions of

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“samples of surplus available items” via the City’s Intranet website. The following information is also provided on the Intranet site:

- Store Manager’s name and telephone number
- Store location
- Hours of Operation
 - Monday – Wednesday 8 a.m. to 5 p.m. (for department transfers only. Deliveries - Mondays and Tuesdays, transfers out on Wednesdays.)
 - Thursday from 7:30 a.m. to 6 p.m. (open to the public)
 - Friday Closed

The Intranet information on available items is very limited and the website is not updated on a regular basis. Images of items such as computers, printers, equipment, gauges, tools and other items are shown. On each listing, a digital picture is included along with a limited description of the group or specific item. To obtain more information on available items, employees are required to visit the Store. The Store Manager has also started an informal list based on needed items requested by City Departments. When a requested item becomes available, the item is provided to the first requesting City Department.

Currently, there is no mechanism to coordinate City Departmental needs with items available in the Store. Each department is required to determine whether available surplus items may satisfy their needs. BDPS role for procuring goods and services for the City has not extended its functions to coordinating departmental needs with items to be transferred and/or available in the Store. Thus, departmental transfers and cost avoidances may not be maximized. Planned efficiency as well as effectiveness may not be fully achieved.

2. There is no formal marketing strategy to advertise surplus items to the public. Items available to the public are those items transferred to the Store and are not considered appropriate for departmental use. Items such as CDs, DVDs, golf clubs, car radios, car speakers, clothing, shoes, jewelry, automotive parts and accessories, etc. are displayed at the Store. The public has access to inspect and purchase these items.

At first, the Store was open to the public three days a week (Monday, Tuesday and Wednesday). However, BDPS personnel stated that most items were sold on Monday. There was little or no activity on Tuesday and Wednesday. Starting in September 2003, the Store is open to the public only on Thursday.

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Initially, marketing the Store to the public was primarily through a special presentation on local television and feature articles in the Dallas Morning News and the Fort Worth Star Telegram. There has been no on-going marketing effort, except for Cablevision's public access channels, public service announcements and word of mouth.

BDPS cannot reasonably determine the level of advertising and promotion needed for the Store since there is no assurance that items will be available to the public when needed. Sales to the public may not be maximized and there may be a decline in repeat customers.

Marketing plans should be developed in accordance with the mission of the operation.

We recommend the Director of BDPS:

1. Develop a process to coordinate and identify City Departmental needs and match those needs with items to be transferred and/or available at the Store.
2. Explore using other methods of marketing the Store to the public (such as offering jewelry, equipment, etc. via on-line auctions, Cablevision).

Management's Response:

- a) Concur, the revised Administrative Directive 6-1 will address this recommendation.

Utilizing the requisition method to request items from the City Store provides departments the method to request items that they have seen on the City Intranet or by GroupWise email announcements. Additionally, we will work with the Communication and Information System Department to establish an online notice board where departments can post items they anticipate discarding prior to transferring them to the City Store. This will provide the City departments an opportunity to match potential needs with upcoming property transfers.

- b) Concur, while we feel we can improve on the marketing of the City Store, we must note that all available inventory placed in the City Store for public sale is sold in one day. We previously were open five days a week with little or no products to sell later in the week due to the limitations in property received from the Dallas Police Property room. We have established a schedule with the property room where we receive property each Monday for the upcoming sale on Thursday. This allows time for the necessary reconciliation, sorting, inventorying and pricing prior to the sale.

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We researched and began utilizing the online auction method (E-Bay) in May 2004. We used the auction method for specialized items that would be better suited for a national audience. BDPS has sent out email notices to departments identifying the current inventory but will make this a weekly notice to ensure departments are notified as soon as possible. Additionally, we will investigate the use of Cablevision as another source to market the City Store to the public.

5. The change fund for the Store is not properly approved, recorded and obtained.

Cash used for a change fund was not properly approved, recorded and obtained. We were provided a daily sales report for the period March 5-12, 2003. It showed that \$473 from cash sales was retained as the change fund for the Store. This amount was not recorded on RESOURCE. The cash has been used to provide change to customers. We physically counted \$475.85 in coins and currency. We did not determine the cause of the \$2.85 difference.

RESOURCE Information Guide, Section 3.15.1.2 states:

Change funds are established in departments with cashiering operations where change is provided to citizens as revenue is collected. The original amount at which a change fund is established should remain the same throughout the “life” of the fund unless the fund is increased/decreased. “Change” made from the fund is generally replenished through cash payments made by customers.

It should be noted that:

- Before the Store became operational, management did not adequately plan and appropriately provide the resources needed to operate the Store.
- The Store Manager did not have experience in cash handling and operating a retail Store.
- BDPS management did not provide needed oversight to ensure that City policies and procedures were followed.

Thus, revenues were understated, an asset was not properly recorded on RESOURCE and City’s policies and procedures were not followed.

The City’s procedures for properly establishing a change fund are specified in RESOURCE Information Guide:

- Section 3.15.1.4 states: Department Directors are responsible for establishing and enforcing internal control procedures for the security and maintenance of their Petty Cash/Change funds.

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- Section 3.15.3.3 requires the preparation of a payment voucher ... and the processing of the transaction through RESOURCE ... the balance sheet account will be assigned to the Change Fund for the amount established.
- Section 2.3.5 states: Collections must be deposited in the bank within 24 hours of receipt accompanied by the first 3 copies of the deposit warrant .

We recommend the Director of BDPS:

- a) Comply with RESOURCE requirements and properly authorize the establishment of the change fund and determine the appropriate amount needed for the fund.
- b) Ensure that the \$475.85 cash amount is deposited to the bank account and revenues are appropriately recorded.
- c) Ensure that the resources needed to operate the Store efficiently and effectively are adequate and are in accordance with City policies and procedures.
- d) Ensure that employees are properly trained and provided the management oversight to adequately perform their duties and that they comply with City policies and procedures.

Management's Response:

- a) Concur, BDPS completed the required documentation in April 2004 establishing the change fund necessary for the City Store operation.
- b) Concur, BDPS deposited the original cash fund and appropriately recorded the deposit as revenues.
- c) Concur, BDPS has reviewed the current staffing levels and will continue to schedule resources deemed appropriate for the City Store operation. Additionally, the City Store is a program of the Express Business Center and resources are scheduled between the areas to meet the peak demands.
- d) Concur, BDPS will review the current training available from the City and developed a training schedule for all City Store staff. If specialized training is deemed necessary, BDPS will ensure the appropriate level of proficiency is obtained and the City Store complies with all City policies and procedures.

OPPORTUNITIES FOR IMPROVEMENT

6. Restrictions on employees not eligible to purchase surplus items cannot be effectively enforced.

Sales to the public require additional monitoring and documentation to provide assurance that employees who are restricted do not make purchases. Dallas City Code, Section 2-37.9 Purchase by Certain Persons Prohibited states:

The following persons shall not, directly or indirectly, submit a bid for, purchase, or acquire ownership of, personal property sold pursuant to the provisions of this article.

- (1) City employees who work in the City Manager’s Office or in the department designated by the City Manager to enforce and administer this article.
- (2) The person who determines that the property is surplus, obsolete, worn out, or useless.

BDPS policies and procedures require that when items are sold to the public, the customer is required to complete a “Statement of Acknowledgement” form (Statement) to comply with City Code requirements. Included on the Statement are four questions requiring a Yes/No response to enable BDPS staff to determine whether each purchase complies with City Code.

The four questions on the form address direct bid or purchase. However, there is no process to determine purchases by relatives, friends, etc. Additionally, the process for inventorying transferred items does not reasonably ensure surplus property will be tracked until sold. Also, there is no assurance that BDPS personnel have the tools or time available to review the information provided on the completed Statements.

The declaration in the existing form does not deter relatives or persons connected to employees from purchasing items. As a result, the existing City Code can be easily circumvented by a restricted employee using a relative or connected person to make purchases. Also, the provided information cannot be easily verified since appropriate identification is not required. Methods used to comply with policies and procedures should be evaluated for effectiveness and efficiency.

We recommend the Director of BDPS consult with the City Attorney to determine whether City Code Section 2-37.9 restriction should be revised to include relatives or persons connected to employees from purchasing items at the Store.

OPPORTUNITIES FOR IMPROVEMENT

Management's Response:

Concur, a memo was sent to the City Attorney's Office on July 22, 2004, requesting an opinion regarding the current restriction and possible ways to enforce the current City Code Section 2-37.9.