

Memorandum



DATE: February 24, 2006

TO: Honorable Mayor and Members of the City Council

SUBJECT: Follow-up report of the September 10, 2004, *Audit of the City Surplus Store; Business Development and Procurement Services (BDPS)*

We conducted this follow-up audit under the authority of Chapter IX of the City Charter and according to applicable government auditing standards. We included tests of records and reviews of program guidelines and procedures that we considered necessary in the circumstances. Our objective was to determine whether management had implemented the audit's recommendations or taken other acceptable actions to remedy the control weaknesses identified in the original audit report.

The original audit contained six findings with fifteen recommendations. Management implemented fourteen recommendations and is currently revising AD 6-1 to comply with the final recommendation.

1. **City Code is not in compliance with City Council actions. We recommended** the Director of BDPS follow-up on the request to the City Attorney to complete the required City Code changes and submit the changes to Council for approval. **(Implemented)**

On December 8, 2004, the City Code was changed in Section 2-37.4 of City Council Resolution 043483.

2. **Inventory and Transfer controls need improvement. We recommended** the Director of BDPS:

- Implement an inventory system that accounts for receipts, transfers and sales; **(Implemented)**
- Develop procedures to ensure that disposals (other than transfers and sales) are appropriately documented and approved by BDPS supervisory personnel; **(Implemented)**
- 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; **(Implemented)**

- Develop procedures addressing items transferred to the City Departments, a process for authorizing employees to select and remove items, a process for notifying City Departments of items transferred; and **(Implemented)**
- Update Administrative Directive 6-1, Control of City Property regarding transfers to/from the store and to prohibit personal use of City Property. **(Not Implemented)**

BDPS staff is in the process of updating and revising Administrative Directive 6-1 (Control of City Property). The current draft dated November 19, 2004 is not fully updated and with the recent approval of AD 4-5 (January 6, 2006) BDPS is now concentrating their effort on AD 6-1.

3. Values assigned to items transferred are not consistent with similar items sold or available in the Store. We recommended 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. **(Implemented)**
- Include estimated values in the inventory system. **(Implemented)**

The inventory system has been updated procedurally in the new guidelines and revised forms with a category for estimated values.

4. City Departments and the public are not adequately informed regarding available surplus items. We recommended the Director of BDPS:

- 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. **(Implemented)**
- Explore using other methods of marketing the Store to the public. **(Implemented)**

BDPS uses the City's intranet to post items that are available in the Surplus Store. They have also developed an information pamphlet detailing the services, hours, and items offered to City departments and the public.

5. The Change Fund for the Store is not properly approved, recorded and obtained. We recommended the Director of BDPS:

- Comply with Resource requirements and properly authorize the establishment of the change fund and determine the appropriate amount needed for the fund. **(Implemented)**
- Ensure that the \$475.85 cash amount is deposited to the bank account and revenues are appropriately recorded. **(Implemented)**
- Ensure that the resources needed to operate the Store efficiently and effectively are adequate and are in accordance with the City policies and procedures. **(Implemented)**
- 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. **(Implemented)**

On April 22, 2004, purchasing management set up a change fund in the amount of \$450.00.

6. Restriction on employees not eligible to purchase surplus items cannot be effectively enforced. We recommended 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. **(Implemented)**

A letter was sent to the City Attorney on July 22, 2004 requesting an opinion regarding the restriction. An opinion was not issued, however a meeting between the BDPS and the City Attorney's Office resulted in procedural changes being made to identify and acknowledge persons ineligible to make purchases at the surplus store.

We appreciate management's cooperation in this follow-up. If you have any questions, please contact me at 214-670-3223.

Paul T. Garner,
Assistant City Auditor

C: Mary K. Suhm, City Manager
David K. Cook, Chief Financial Officer
Mark Duebner, Director of BDPS