



City Auctions Follow-Up Audit Report

Issued by the
Internal Audit Office
May 6, 2010

**City of El Paso
Internal Audit Office
City Auctions Follow-Up Audit**

EXECUTIVE SUMMARY

The Internal Audit Office conducted a follow-up audit on City Auctions Audit Report dated May 15, 2009. Upon completion of the audit fieldwork, we have determined the status of the recommendation for each audit finding as outlined in the table below:

Finding No.	Description of Findings	Status
1.	On an overall basis, auction services are being provided by auctioneer in accordance with contract no. 2007-078. There were four procedural exceptions identified in which contract terms and requirements are no longer in practice and do not correspond to actual practice.	Not Applicable
2.	There is a lack of internal controls over the transfer of property from City Departments to the Property Control warehouse. In addition, once items are transferred, proper measures are not taken to destroy items and prevent unauthorized removal.	In Progress
3.	Police Property Room items that are transferred to the Property Control Warehouse are being selectively retained by the Property Control Section and are not being immediately sold at the general surplus auctions. The Internal Audit Office identified 107 items as being retained in the Property Control Officer's office.	Not Applicable
4.	Security guards are not assigned to work at the general surplus auctions. In addition, there is a lack of procedures for handling general surplus auctions.	Implemented
5.	Current City Auction procedures, for both general surplus and vehicle auctions, deter sales and limit the City's revenue potential.	Implemented
6.	There is a lack of procedures regarding items that are removed from abandoned and impounded vehicles to sell at the general surplus auctions.	Management will Assume the Risk

Based on the results of this follow-up audit, we have determined that (2) two of the six (6) original findings are implemented, (2) two are no longer applicable, (1) one management will assume the risk and (1) is in progress of being implemented.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

BACKGROUND

The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing, Standard 2500.A1*, requires a post audit follow-up on all audit recommendations made to ascertain that appropriate action is taken on reported audit findings. The Internal Audit Office has conducted a follow-up audit of City Auctions Audit Report dated May 15, 2009.

AUDIT OBJECTIVES

The audit objective was to determine the status of the recommendations detailed in the original audit report which contained six (6) findings requiring follow-up.

SCOPE AND METHODOLOGY

The follow-up audit was limited to a review of the findings and recommendations detailed in the original audit report, dated May 15, 2009. The audit period covered the operations of the Property Control Section within the Capital Assets Management Division from September 1, 2009 to the present. Audit fieldwork included interviewing key personnel, reviewing documents, and testing management processes to determine the status of each recommendation

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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***ORIGINAL FINDINGS, ORIGINAL RECOMMENDATIONS, MANAGEMENT’S RESPONSE
TO ORIGINAL FINDINGS, CURRENT OBSERVATION, AND STATUS***

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

Finding 1

Contract Compliance – Procedural Issues

On an overall basis, auction services are being provided by auctioneer in accordance with contract no. 2007-078. There were four procedural exceptions identified in which contract terms and requirements are no longer in practice and do not correspond to actual practice. The following non-compliance procedural issues were identified:

Contract Section	Non-Compliance Procedural Issue
Section B. III. states “The information will be provided to the City both on paper and diskettes.”	The Property Control Section has chosen not to obtain the auctioneer reports in an electronic format but may do so if needed.
Section B. IV. states “The auctioneer will be responsible for setting up the auction site prior to the auction. Duties will include display, marking, and tagging property.”	The auctioneer had previously performed this task, but is now being conducted by city staff. Currently auctioneer staff only assists during the day of the auction.
Section B. V. states “The day of the auction the auctioneer will be responsible for overseeing security.”	For vehicle auctions AD Wrecker employs an armed Police Officer to oversee security and for the general surplus auctions the Property Control Section utilizes individuals from other City Departments to help oversee security.
Section C. 8. states “invoices will be itemized, including serial number of unit...invoices will reflect the contract numbers...”	Invoices submitted by auctioneer do not include the serial number of unit and the contract number.

Recommendation

Consideration should be made to modify the contract to correspond to actual practice.

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Management's Response

Will amend contract to correspond to actual practice.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager

Implementation Date

9/30/09

Current Observation

Auctioneering Services contract no. 2007-078 is still in place however the City of El Paso no longer conducts General Surplus Auctions. The City of El Paso has an agreement with GovDeals dated May 15, 2009 which is an online auction used for all General Surplus items and City Vehicles.

- The last General Surplus Auction was held on March 21, 2009.
- The last payment made to Larry Otten Auctioneers was on June 30, 2009 for \$28.13.
- The last time a City vehicle was auctioned at the Abandoned Auto Auction was on December 12, 2009.
- The first item placed on GovDeals was on January 7, 2010 and sold on January 21, 2010.

Status

Not Applicable

Finding 2

Capital Assets Management – Property Control Warehouse

- There is a lack of internal controls over the transfer of property from City Departments to the Property Control warehouse. A review of items awaiting to be auctioned identified that:
 - Transfer forms are not reviewed for accuracy and completeness,
 - Items are not adequately inspected when received,
 - Items are not accurately tagged,
 - Items are “grouped,” making it difficult to trace individual items,
 - Not all items could be traced to a transfer form,
 - Not all items listed on transfer forms could be traced to the warehouse,
 - Property from Enterprise funds are not properly categorized and lotted.
- Proper measures are not being taken to prevent unauthorized:
 - Removal or theft,
 - Disclosure of data.
- There is a lack of proper policies or procedures for property destruction.

Recommendation

The Capital Assets Management Division, in conjunction with the Property Control Section, should develop and distribute the appropriate policies and procedures. These policies and procedures should be disseminated to all corresponding personnel as part of their on-going training.

Management’s Response

Will develop and distribute policies and procedures to ensure internal controls over:

1. The transfer and destruction of property,
2. Proper categorization of Enterprise fund property,
3. Safeguarding of property.

Will also explore the feasibility of installation of security cameras.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager and Carlos Flores, Property Control Officer

Implementation Date

9/1/2009

Current Observation

- Policies and Procedures have been documented and distributed regarding internal controls over the transfer of property from City Departments to the Property Control Warehouse.
- The Policies and Procedures Manual does not identify proper measures that should be taken to prevent unauthorized removal, theft, or disclosure of data.
- A Destruction Form has been created; however the Policies and Procedures Manual have not been updated to reflect this form.
- A process has begun by IT removing data from the computers but the process has not been updated in the Policies and Procedures Manual.
- A process has begun on escorting visitors while in the Property Control Warehouse and locking of doors but these processes have not been updated in the Policies and Procedures Manual.
- A review of surplus property items from the 2010 General Auction List and the Property Control Warehouse “inventory” was conducted to determine if surplus property items are processed and properly safeguarded. The following exceptions were identified:
 - 1) 2010 General Auction List:
 - Seven (7) of 23 (30%) Departmental Transfer of Property Forms were not properly completed.
 - One (1) of 23 (4%) transfer forms included items that could not be located in the warehouse.
 - One (1) of 23 (4%) transfer forms included items that could not be located in the warehouse or GovDeals.
 - 2) Property Control Warehouse “inventory”:
 - 17 of 30 (57%) Departmental Transfer of Property Forms were not properly completed.
 - Five (5) of 30 (17%) transfer forms did not list items that were located in the lot.
 - Seven (7) of 30 (23%) transfer forms listed items that could not be located in the lot.

Status

In Progress

Finding 3

Police Property Room Transfers

Police Property Room items that are transferred to the Property Control Warehouse are being selectively retained by the Property Control Section and are not being immediately sold at the general surplus auctions. One hundred and seven (107) items were identified as being retained in the Property Control Section.

- Fifty-three (53) out of the 107 (50%) items were received prior to the 9/20/2008 general surplus auction and not auctioned off. We identified twenty-five items received as early as 9/07/2006.
- Date of transfer could not be determined for 54 out of 107 (50%) items.
- Five (5) out of 107 (5%) items were not lotted and sold. One of the items, a camcorder, was destroyed with no proof of disposal.

Recommendation

The Capital Assets Management Division, in conjunction with the Property Control Section, should develop and distribute the appropriate policies and procedures. These policies and procedures should be disseminated to all corresponding personnel as part of their on-going training.

Management's Response

As part of the overall revision, new policies and procedures will be developed specifically to address items transferred from the Police Property Room.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager and Carlos Flores, Property Control Officer

Implementation Date

9/1/2009

Current Observation

The Police Property Room no longer transfers items to the Property Control Warehouse. The last items were transferred from the Police Property Room to the Property Control Warehouse on August 5, 2009. These items were returned back to the Police Property Room on March 10, 2010.

Status

Not Applicable

Finding 4

General Surplus Auctions

- Security guards are not assigned to work at the general surplus auctions.
- There are no procedures in place for:
 - The handling of auctions,
 - Items that are sold and paid for, but not picked up.

Recommendation

The Capital Assets Management Division should reconsider the procedures in place for general surplus auctions to identify ways to maximize the City's revenue potential while limiting its risk exposure to an acceptable level.

Management's Response

Due to budget constraints, the hiring of security guards may not be an option, will explore if feasible. Will amend current policy and procedures to address auctions to include items that are paid for and not picked up.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager and Carlos Flores, Property Control Officer

Implementation Date

9/1/2009

Current Observation

- City of El Paso no longer conducts General Surplus Auctions. The City of El Paso has an agreement with GovDeals dated May 15, 2009 which is an online auction used for all General Surplus items and City Vehicles. Therefore, the use of security guards is no longer applicable.
- GovDeals provides the City of El Paso "Online Sales – Terms and Conditions" and a "Sellers Agreement" which include procedures regarding handling of auctions and items that are sold and paid for, but not picked up.

Status

Implemented

Finding 5

Processes and Procedures for City Auctions

Current City Auction procedures, for both general surplus and vehicle auctions, deter sales and limit the City's revenue potential.

- Minimum prices are not established for high valued general surplus items or vehicles.
- Checks are not allowed as a form of payment.
- Bidders are required to pay for bids the same day of the auction.
- Split payments (using different payment methods) have been disallowed.
- Time worked at the auctions by City employees is done on an overtime basis.

Recommendation

The Capital Assets Management Division should reconsider the procedures in place for both general surplus and vehicle auctions to identify ways to maximize the City's revenue potential while limiting its risk exposure to an acceptable level.

Management's Response

- Will verify with the City Attorney's Office if setting a minimum price is allowable for high value general surplus items or vehicles.
- Due to the risk involved in accepting checks, will verify with the Auctioneer if they are set up to accept a check as an electronic transfer. This will ensure the funds are available and the City does not assume the risk of a bad check.
- In order to complete the transaction, bidders are required to pay the same day of the auction. We will coordinate with the Internal Audit Office to identify other options.
- Split payments will continue to be disallowed due to the Auctioneer not being able to accurately account for split payments.
- Due to size of staff (3 full time employees), the auctions are done on an overtime basis on Saturday's. Will look into allowing staff to work one ½ day during the week to minimize overtime.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager

Implementation Date

9/1/2009

Current Observation

- Opening amounts are used when placing assets for sale on GovDeals. Section 10.0 *Opening Amount Guidelines*, and is listed in the GovDeals Procedures. The Table lists the estimated value or target price, a suggested opening amount, and a suggested bid increment.
- GovDeals handles all payments from bidders. GovDeals pays the City of El Paso each Wednesday through a wire transfer for the items paid and picked up. The following types of payments are allowed:
 - U.S. Currency
 - Certified Cashiers Check
 - Money Order
 - Company Check (with Bank Letter guaranteeing funds – **mandatory**)
- Payment in full is due no later than five (5) business days from the time and date of the Buyer's Certificate.
- Split payments are not allowed when making a payment for an item on GovDeals.
- City of El Paso no longer conducts General Surplus Auctions and is no longer incurring overtime pay or work for these auctions.

Status

Implemented

Finding 6

Abandoned and Impounded Vehicle Contents Sold at Auction

When removing items from abandoned and impounded vehicles to sell at the General Surplus Auction:

- There is no general listing of what items should be removed; the Property Control Officer makes the decision as to what gets removed, destroyed, or left.
- Adequate records are not maintained of property removed and sold in order to determine which vehicle the items were removed from.
- There is no documentation of sensitive items that are removed and destroyed, such as identification cards and credit cards.
- Contents removed from vehicles are not verified if stolen prior to being sold.

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Recommendation

Capital Assets Management Division, in conjunction with the Property Control Section, should develop and distribute the appropriate Policies and Procedures regarding items that are removed from abandoned and impounded vehicles.

Management's Response

Capital Assets will coordinate with the Police Department to develop procedures for the transfer of items removed from abandoned and impounded vehicles. Sensitive items will be turned over by Property Control Staff to the Police Department for destruction.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager and Carlos Flores, Property Control Officer

Implementation Date

10/30/2009

Current Observation

The Police Department and Property Control Department no longer remove items from the abandoned and impounded vehicles. This began after the City Auction Audit report was issued in May 2009. The Police Department only removes weapons or drugs found in the vehicles. The vehicles are sold as is, with all items inside the vehicle.

Status

Management will assume the risk of not implementing corrective actions.

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this follow-up audit, we found that two (2) of the original findings have been implemented, two (2) are no longer applicable, one (1) management will assume the risk of not implementing corrective action, and one (1) is in progress of being implemented. Therefore, a second follow-up audit will be necessary to ensure that the remaining one (1) finding and associated recommendation is implemented.

We wish to thank the management and staff of the Capital Assets Management Department for their assistance and numerous courtesies extended during the completion of this follow-up audit.

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