



Date: April 12, 2016

To: Bob Wingenroth, City Manager

From: ^{CA} Carol Holley, Internal Auditor

Subject: Asset Disposal Follow-up (Internal Audit Report No. 2016-1)

Background

At the request of the City Manager, an Asset Disposal Audit was conducted in December 2013. The objective of the audit was to determine whether controls were in place to provide reasonable assurance that the City of Surprise (City) complies with applicable policy, municipal code (Code) and/or statutory requirements in the disposal of surplus, unclaimed, or obsolete property and whether sufficient records were generated and retained to evidence such compliance.

Audit Objective, Scope, and Methodology

In February 2016, the Asset Disposal Follow-up audit was conducted. The objective of the follow-up audit was to report on the status of management action plans taken to address audit recommendations. The follow-up audit is substantially less in scope than the original audit.

Audit recommendations made by the Internal Auditor and agreed upon by the Finance Department were reviewed. Limited testing for the period of December 1, 2014 to January 31, 2016 was performed on records maintained in the Annual Master Surplus Personal Property Disposal file. Auction proceeds totaling over \$176,907 were deposited during the period. The work performed does not provide any guarantee or absolute assurance against material errors, loss, or fraud.

The Internal Auditor reviewed and analyzed management's evidence of implementation by interviewing staff responsible for addressing recommendations, reviewing the Surplus Personal Property Disposal operating procedure, querying surplus auction general ledger accounts, and reviewing supporting auction proceeds documentation.

Conclusion

Action plans were implemented to address five out of six (83%) recommendations. One recommendation remains open. The Finance Department has stated that staff will continue to work with the City Attorney's Office to clarify the intent and eliminate

ambiguity in the Code related to asset disposition. The attached **Appendix I** details the status and level of implementation for each of the recommendations.

Although progress has been made to develop and implement a citywide asset disposal procedure, the Finance Department is encouraged to implement measures to ensure compliance with the procedure. Testing performed by the Internal Auditor identified the need for additional training and monitoring of the process to ensure compliance and to reduce the potential risk of misappropriation, loss, or fraud related to the disposal of City surplus assets. The following table summarizes exceptions identified in disposal transactions reviewed during the audit:

Observation	Management Response
<ul style="list-style-type: none"> ➤ <i>Request for Authorization to Dispose of Obsolete Property (Disposal) forms without the required management signatures</i> 	<ul style="list-style-type: none"> ➤ <i>The breakdown in control has been identified and additional training will be conducted to ensure the breakdown does not happen again. The estimated completion date is December 31, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Proceeds for the Racketeer Influenced and Corrupt Organizations Act were deposited incorrectly into the General Fund</i> 	<ul style="list-style-type: none"> ➤ <i>Training will be conducted to ensure staff is properly trained on the policy. The estimated completion date is December 31, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Lack of documentation supporting public notice of asset disposal as required by Arizona Revised Statute (ARS)</i> 	<ul style="list-style-type: none"> ➤ <i>The policy will be updated to include supporting documentation of public notice in the asset file. The estimated completion date is December 31, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Public notice advertisements posted after the proceed date</i> 	<ul style="list-style-type: none"> ➤ <i>The Finance Department will continue to provide training, communicate and emphasize the importance of following the asset disposal policy. Training will be provided to Finance staff by May 1, 2016 and department training will be completed by September 1, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Public notice advertisements that did not agree in totality with the assets listed on the Disposal form</i> 	<ul style="list-style-type: none"> ➤ <i>Training will be conducted and additional steps will be added to the policy to ensure all supporting documentation agrees in totality. The estimated completion date is December 31, 2016.</i>

Observation	Management Response
<ul style="list-style-type: none"> ➤ <i>Lack of adequate controls to track the status of unsold assets sent to auction</i> 	<ul style="list-style-type: none"> ➤ <i>The Finance Department will develop controls and enhance policy to address the controls of unsold assets sent to auction. The estimated completion date is December 31, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Incomplete documentation maintained in the Annual Master Surplus Personal Property Disposal files to evidence compliance with the Code and ARS asset disposal requirements</i> 	<ul style="list-style-type: none"> ➤ <i>Training will be conducted and additional steps will be added to the policy to ensure documentation is complete and maintained in the asset disposal file. The estimated completion date is December 31, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Use of a department developed donation form that may not include adequate indemnity language to protect the City against potential liability associated with donated assets</i> 	<ul style="list-style-type: none"> ➤ <i>The donation form will be reviewed and the City Attorney will be consulted to ensure the form includes adequate language to protect the City. The estimated completion date is December 31, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Lack of adequate documentation demonstrating the sanitization of stored memory on electronic devices prior to forwarding the assets to auction</i> 	<ul style="list-style-type: none"> ➤ <i>The policy will be updated to include supporting documentation that demonstrates the sanitation of stored memory on electronic devices. Training will also be provided to ensure employees are aware and educated on these additional steps. The estimated completion date is December 31, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Lack of effective procedures to track and monitor surplus assets in the current decentralized environment</i> 	<ul style="list-style-type: none"> ➤ <i>The Finance Department will evaluate the current policy and procedures to identify the areas of weakness. New procedures will be developed based on the findings to ensure proper controls and eliminate the weakness. The estimated completion date is December 31, 2016.</i>
<ul style="list-style-type: none"> ➤ <i>Applicable staff was unaware of the newly established holding account for unclaimed personal property proceeds</i> 	<ul style="list-style-type: none"> ➤ <i>Training will be conducted to ensure all applicable staff is aware of the newly established holding account. The estimated completion date is December 31, 2016.</i>

In conclusion, the results of the follow-up audit demonstrated a need to continue the City's efforts in strengthening the internal controls over the asset disposal process.

Internal Audit extends its appreciation to the Finance Department, Police Department and Information Technology Department staff that assisted throughout the follow-up audit.

Attachment

CC: Lindsey Duncan, Finance Director
Robert Wingo, City Attorney



Appendix I Disposal Follow Up Audit Report February 2016

	Recommendation December 2013	Management Response December 2013	Management Response February 2016	Status
1.	<p>The Chief Financial Officer should ensure that the Purchasing Manager or the City Manager’s designee develop, document and communicate to affected staff comprehensive asset disposal policies and procedures. At a minimum, these policies and procedures should address:</p> <ul style="list-style-type: none"> a. Key parties and their responsibilities; b. Required authorizations to dispose of assets; c. Required steps to be taken and notifications to be made before asset disposition; d. Authorized locations for the storage of items awaiting disposal; e. Documents and reports that are to be generated and retained and by whom to include: <ul style="list-style-type: none"> i. Summary reports for tracking items awaiting disposal; ii. Summary reports of items disposed of along with the disposal method and 	<p>Management Response: Agree. The Finance Department will develop, document, and communicate a comprehensive asset disposal policy and procedures documents. We are in the process of recruiting for a Procurement Manager and will establish this task as a goal to be completed before the close of the current fiscal year.</p> <p>Responsible Party: Chief Financial Officer</p> <p>Completed By: June 30, 2014</p>	<p>The Finance Department completed a comprehensive asset disposal policy in November 2014. The Surplus Personal Property Disposal Policy is posted on the Finance page of the intranet, under docs and forms, policies tab. The policy addresses all items listed in Recommendation 1.</p>	Closed



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	<p style="text-align: center;">the amount of money received for the items if any;</p> <ul style="list-style-type: none"> f. The level and nature of documentation required to evidence each individual disposition. g. Required reconciliations to verify the proper safeguarding and disposal of surplus and unclaimed property; h. Dollar thresholds below which decisions can be made at the Department level to simply discard broken or non-serviceable items; i. Responsibilities that are delegated to departments. 			
2.	<p>The Chief Financial Officer should take steps to ensure that monies received from the sale of unclaimed property are held in a separate fund for at least six months as required by Code. Insight should be sought as to the underlying intent of the requirement and the appropriate</p>	<p>Management Response: Agree. A separate Fund has been established to hold the proceeds from the sale of unclaimed property for six months. As part of item four below, we will recommend that the Code be amended to allow funds held for six months to be transferred to the</p>	<p>A separate fund has been established to hold the proceeds from the sale of unclaimed property for six months. The Surplus Personal Property Disposal Policy addresses the disposition of the funds upon expiration of the six-month period. The policy states proceeds from</p>	Open



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	ultimate disposition of the funds upon the expiration of the six-month period.	<p>General Fund.</p> <p>Responsible Party: Chief Financial Officer</p> <p>Completed By: Completed</p>	unclaimed personal property must be deposited into a segregated account for six months before being moved into the General Fund.	
3.	The Chief Financial Officer should ensure that steps are taken to periodically assess the mechanism(s) that will be used to sell surplus and unclaimed property. These steps should include an assessment of what is most cost effective and in the best interest of the City given resource limitations.	<p>Management Response: Agree. The Finance Department will periodically assess the methods used to sell surplus and unclaimed property.</p> <p>Responsible Party: Chief Financial Officer</p> <p>Completed By: June 30, 2014</p>	A matrix was developed for efficient disposal and is included in the Surplus Personal Property Disposal Policy. One of the major changes was the City reducing the cost of advertising in more local and regional publications.	Closed
4.	The Chief Financial Officer should take steps to ensure that the Purchasing Manager work with the City Attorney's Office and other interested parties in reviewing the portions of the Code that address asset dispositions, with the intent of clarifying intent and eliminating ambiguity.	<p>Management Response: Agree.</p> <p>Responsible Party: Chief Financial Officer</p> <p>Completed By: March 31, 2014</p>	The Finance Department will work with the City Attorney to clarify the intent and eliminate ambiguity in the Code Sec 2-361 Disposition of surplus, unclaimed or obsolete property subsections (b) Notice and (c) Proceeds of sale. The Finance Department will provide City Attorney proposed changes by June 1, 2016.	Open



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	Recommendation December 2013	Management Response December 2013	Management Response February 2016	Status
5.	The Chief Financial Officer should take steps to ensure that the Purchasing Manager work with the City Attorney's Office to develop the process that will be used to donate unclaimed property to governmental, nonprofit or charitable organizations.	<p>Management Response: Agree.</p> <p>Responsible Party: Chief Financial Officer</p> <p>Completed By: March 31, 2014</p>	The Surplus Personal Property Policy outlines the procedure to follow when donating unclaimed property to nonprofit organizations.	Closed
6.	The Chief Financial Officer should initiate a discussion on whether a City warehouse is warranted and/or feasible at this point in time or sometime in the future.	<p>Management Response: Agree. Over the last several months, we have taken efforts to reduce the inventory of surplus property on hand across the City. At the present time, it does not appear that the volume of surplus property warrants a warehouse. However, as time goes on and the City organization grows, such warehouse may become feasible. The Procurement Manager will assess this feasibility on an annual basis.</p> <p>Responsible Party: Chief Financial Officer</p> <p>Completed By: Completed; and Ongoing.</p>	We have evaluated the volume of surplus property and, at this time, a warehouse is not warranted.	Closed