



# **City Auctions 2nd Follow-Up Audit**

Issued by the  
Internal Audit Office  
February 28, 2011

**City of El Paso  
Internal Audit Office  
City Auctions 2<sup>nd</sup> Follow-Up Audit**

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***EXECUTIVE SUMMARY***

The Internal Audit Office conducted a 2<sup>nd</sup> Follow-Up Audit on the 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.	Identified as “Not Applicable” during 1 <sup>st</sup> Follow-Up
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.	Implemented
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.	Identified as “Not Applicable” during 1 <sup>st</sup> Follow-Up
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.	Identified as “Implemented” during 1 <sup>st</sup> Follow-Up
5	Current City Auction procedures, for both general surplus and vehicle auctions, deter sales and limit the City’s revenue potential.	Identified as “Implemented” during 1 <sup>st</sup> Follow-Up
6	There is a lack of procedures regarding items that are removed from abandoned and impounded vehicles to sell at the general surplus auctions.	Identified as “Management will Assume the Risk” during 1 <sup>st</sup> Follow-Up

Based on the results of this Follow-Up Audit, we have determined that (3) three of the six original findings are implemented, (2) two are no longer applicable, and (1) one management will assume the risk.

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

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***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 2<sup>nd</sup> Follow-Up Audit of City Auctions Audit Report dated May 15, 2009. The 1<sup>st</sup> Follow-Up Audit Report is dated May 6, 2010.

***AUDIT OBJECTIVES***

The audit objective was to determine whether Finding #2 and its recommendation concerning the lack of proper policies and procedures for the safeguarding and destruction of warehouse property had been adequately addressed.

***AUDIT SCOPE***

The 2<sup>nd</sup> Follow-Up Audit was limited to a review of the one (1) finding and related recommendation that was not implemented during the City Auctions 1<sup>st</sup> Follow-Up Audit of the original audit report titled "*City Auctions Audit Report*" dated May 15, 2009.

***AUDIT METHODOLOGY***

To achieve our audit objectives we:

- Conducted a review of the Property Control Area policies and procedures ;
- Conducted an analysis of the warehouse property to determine if surplus property items are properly processed and safeguarded.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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***ORIGINAL FINDINGS, ORIGINAL RECOMMENDATIONS, MANAGEMENT'S  
RESPONSE TO ORIGINAL FINDINGS, FIRST FOLLOW-UP OBSERVATION AND  
STATUS, 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.

**Original 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:

<b>Contract Section</b>	<b>Non-Compliance Procedural Issue</b>
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

**First Follow-Up 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.

**First Follow-Up Status**

Not Applicable

**Original 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 polices and procedures. These policies and procedures should be disseminated to all corresponding personnel as part of their on-going training.

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**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

**First Follow-Up 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.

**First Follow-Up Status**

In Progress

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**Current Observation**

- Policies and procedures have been updated and distributed to include:
  - Internal controls over the transfer of property.
  - Proper measures to prevent unauthorized removal, theft, disclosure of data, and destruction of property items.
- A review of surplus property items from the GovDeals Seller's Report "sheet" and the Property Control Warehouse "floor" was conducted to determine if surplus property items are processed and safeguarded properly. The following exceptions related to the documentation of these property items was identified:

GovDeals Seller's Report (Sheet to Floor Testing):

- Two out of seven (28.6%) Departmental Transfer of Property Forms were not properly completed.\*

Property Control Warehouse (Floor to Sheet Testing):

- 1 out of 26 (3.85%) Departmental Transfer of Property Forms were not properly completed.\*
- 1 out of 26 (3.85%) Departmental Transfer of Property Forms listed an item that was not properly tagged.\*

*\* The exceptions noted were minor in nature and deemed immaterial to the finding.*

**Current Status**

Implemented

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**Original 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

**First Follow-Up 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.

**First Follow-Up Status**

Not Applicable



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**Original 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

**First Follow-Up 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.

**First Follow-Up Status**

Implemented

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**Original 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

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**First Follow-Up 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.

**First Follow-Up Status**

Implemented

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**Original 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.

**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.

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***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 have concluded work on the audit objectives of the City Auctions 2<sup>nd</sup> Follow-Up Audit. This is a 2<sup>nd</sup> Follow-Up Audit conducted on the original audit report dated May 15, 2009. We have determined that satisfactory progress has been made to classify Finding #2 as implemented.

The results of this Follow-Up Audit indicate that three (3) of the original findings have been implemented, two (2) are no longer applicable, and one (1) management will assume the risk of not implementing corrective action. No additional follow up will be necessary.

*Signature on File*

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Edmundo S. Calderón, CIA, CGAP, MBA  
Chief Internal Auditor

*Signature on File*

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Miguel A. Ortega  
Auditor

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