

MUNICIPAL AUDITING REPORT

CITY OF ROANOKE

Surplus Sales

December 4, 2013

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Chartered 1974*

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BACKGROUND

The Fleet Management Division provides for the vehicular equipment needs of City departments. Division responsibilities include:

- Repair and maintenance of City of Roanoke vehicles/equipment
- Procurement, storage and distribution of fuels
- Parts procurement
- Assistance to Risk Management on accident and insurance costs
- Development of the annual capital vehicle/equipment replacement listing
- Support for other city departments during snow, ice and other emergencies
- Disposal of retired vehicles, other equipment, and vehicles seized by the Police Department

The Division operates under the direction of the Fleet Manager. Personnel utilize the FASTER Fleet Management information system to track vehicle maintenance, manage repair orders and establish preventative maintenance schedules. The system supports on-line, real time access to vehicle records.

Surplus Equipment

City Council established guidelines for the disposal of City surplus tangible property by resolution [36539-111703] on November 17, 2003. Departmental staff should utilize the following protocol when disposing of surplus property:

1. Reallocate to City departments
2. Attempt to sell vehicles and other items of significant value on the internet or by other means
3. Give usable surplus tangible personal property, not disposed as above, to Roanoke City Public Schools (RCPS) subject to RCPS accepting the property
4. Send property to the landfill or other proper disposal facility, or such property may be recycled or given to an entity that may be able to use it

A separate City Council action is required to use any other method of disposal.

Sale of Surplus Vehicles

Per Fleet Management, decals and public safety equipment, i.e. radios and cameras, are removed from retired vehicles, which are then washed and stored in a separate salvage lot at the Public Works Service Center. Fleet may reallocate retired automobiles to other City Department if the surplus equipment is in better condition than currently assigned vehicles. In these cases, the replaced vehicle is moved to surplus.

Fleet Management utilizes three [3] primary methods of asset disposal:

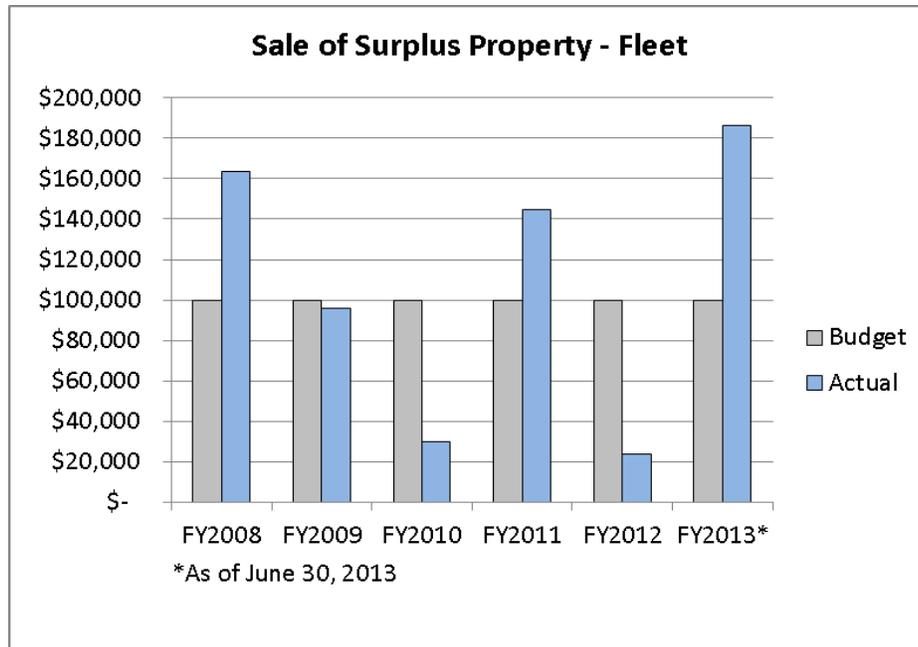
- On-line Auctions – Fleet Management primarily sells operable surplus and confiscated vehicles through an on-line auction company. Bidders are required to set-up a user profile on the site and provide credit card information to the vendor. Staff sets up an auction for each vehicle, which

includes photographs and information on the year, make, model, and condition. Fleet Management is able to monitor auctions online. When auctions close, assets should be awarded to the highest bidder. Prior to September 2010, purchasers paid Fleet Management directly either prior to or at the time of vehicle pick-up. From September 2010 through July 2012, the purchaser remitted payment via website and the auction company remitted funds to the Fleet Management Division via check. Currently, the auction company submits funds to the City Treasurer's Office via electronic funds transfer.

- Local Auctions – A local auction company was used during 2009 and 2010 on three [3] separate occasions; several City vehicles were sold at each event.
- Salvage – Assets, which have no remaining useful life, are sold to a scrap yard on a price per pound basis.
- Direct Sales to Other Governments or Nonprofit Agency – These sales are infrequent in nature and authorized in advance by the City Manager.

In addition, Fleet Management sells scrap metal, for example old stoplights and signage, to a salvage vendor who pays a per pound rate based on current commodity prices.

Receipts from the sale of surplus property are recorded as revenue of the Fleet Fund. Following are the budgeted versus actual receipts from Fiscal Year 2008 through Fiscal Year 2013:



Source: AC512 Report, 14th Period

Sale of surplus property revenues ranged from a low of \$23,568 in FY2012 to a high of \$186,586 in FY2013. During the course of the audit, we noted that FY2012 surplus sale revenues were erroneously recorded to General Fund miscellaneous revenue as the result of an invoicing error.

OBJECTIVES

To verify that all retired assets were appropriately recorded, auctioned, and resulting proceeds were deposited with city.

SCOPE

The scope varied depending on the area under review, available supporting documentation, and attainable vendor records.

SCOPE LIMITATION: To the best of our ability, we researched and collected previously unidentified revenues. However, due to the lack of internal controls and supporting documentation, Municipal Auditing cannot attest that all receipts due to the City were received and/or deposited.

METHODOLOGY

We utilized the following methodology:

1. Interviewed Fleet Management personnel and gained an understanding of surplus sale, annual vehicle inventory, and vehicle replacement processes.
2. Gained an understanding of the FASTER Fleet Management information system and extracted asset information.
3. Confirmed the following receipts were deposited into the City's bank account:
 - On-line auction receipts – remitted by vendor [September 2010 through December 2012]
 - On-line auction receipts – remitted by individuals [January 2010 through August 2010]
 - Local auction receipts [January 2009 through June 2010]
 - Salvage receipts [January 2010 through February 2013]
 - Scrap metal receipts [January 2009 through February 2013]
 - Intergovernmental and non-profit receipts [January 2010 through December 2012]
4. Determined whether the following receipts were deposited timely:
 - On-line auction receipts – remitted by vendor [September 2010 through December 2012]
 - On-line auction receipts – remitted by individuals [January 2010 through December 2012]
 - Local auction receipts [January 2010 through June 2010]
 - Salvage receipts [January 2010 through December 2012]
 - Scrap metal receipts [January 2010 through December 2012]
 - Intergovernmental and non-profit receipts [January 2010 through December 2012]
5. Confirmed staff authorized to utilize the City of Roanoke on-line auction account were still employed and had a valid need for system access.

6. Confirmed Fleet Management conducted a vehicle inventory during Fiscal Year 2013.
7. Confirmed the FASTER and Advantage Fixed Asset systems were reconciled during Fiscal Year 2013.
8. Verified that sold vehicles were no longer titled to the City of Roanoke.
9. Verified that sold, City-owned vehicles were coded as disposed in FASTER.
10. Confirmed proof of sale for vehicles marked as disposed in FASTER.
11. Performed a physical inventory of surplus vehicles awaiting sale.

RESULTS

We noted several opportunities for strengthening the design and function of internal controls over the surplus sale process. Additionally, we noted issues with cash collections, timeliness of sales, and Virginia Department of Motor Vehicle reporting.

OBSERVATION 1

Policies and Procedures

Documented policies related to the disposal of surplus assets were very limited, with no standard operating procedures in place. Written policies and procedures are a crucial element in establishing an effective system of internal controls. Policies reflect management's statement of what should be done to effect control while procedures provide employees with clear direction that improves performance and accountability.

We recommend Fleet Management update and establish formal, written policies and procedures to include:

- Initial processing of surplus vehicles [i.e. sticker and equipment removals]
- Vehicle tracking prior to sale
- Sale of equipment via auction, to other governmental agencies, or for salvage
- Sale of scrap metals
- Release of sold vehicles
- Handling of sale proceeds and monitoring of sale activity
- Designation of parts vehicles
- Authorizations related to vehicle titles
- Records retention policies

Rules and regulations as set forth by the Virginia Department of Motor Vehicles [DMV], Library of Virginia, and the City of Roanoke should be encompassed in the final document. We encourage staff

to coordinate with Police Department personnel to establish procedures for the tracking, sale, and reconciliation of receipts related to forfeiture and impound vehicles. It is important that policies and procedures be periodically updated and that Fleet Management employees be provided training once finalized. Refresher training should be provided as procedures change or on an as-needed basis.

OBSERVATION 2

Supporting Documentation

Detailed, intact documentation provides assurance that transactions are valid, complete, timely and accurate. It also provides the foundation for high-level data, which could be utilized for management review. Additionally, evidence of City actions could be important if transaction disputes arise. Lack of, or incomplete documentation increases the risk that fraud, errors, or abuse could occur and go unnoticed.

Fleet Management provided either limited or no supporting documentation for the following types of transactions:

- Online Auctions – The only data available was on the auction website itself. There were no records in Fleet related to incomplete auctions, relisted assets, title transfers, or payments remitted.
- Local Auctions – No documentation was identified related to local auctions, including vendor contract, agreement on City percentage of sale, vehicles taken, auction dates, vendor proof of insurance, title transfers, or payments remitted.
- Intergovernmental Sales – There was no information on file related to transfer dates or payments received. Additionally, we identified one intergovernmental sale for which there were no records on file.
- Salvage and Scrap Metal Sales – The Administrative Assistant Supervisor had no records related to these sales and associated receipt of funds. Another staff member had retained copies of a portion of these checks/receipts for environmental reporting purposes.
- Retired Vehicles – Fleet does not track information related to vehicle retirements including, but not limited to, retirement date, asset condition, and odometer reading. Without this information, it is difficult to determine how long a vehicle is on the lot prior to sale and whether it has been driven after retirement.
- FASTER – No information related to vehicle retirements and/or sales was retained in FASTER including retirement date, sale date, sale amount, purchaser, or delivery date.

- Vehicle Delivery – Fleet Management could not provide information related to when sold vehicles were released; to whom they were released; which City employee handled the transaction; or the amount and disposition of money collected at the time of transfer [prior to collection by Public Surplus].

Per Library of Virginia, Schedule 16-005169, records related to the sale, transfer or disposal of surplus, excess or nonrepairable vehicles should be retained three [3] years after the disposal of the vehicle. Additionally, General Schedule No. 02-010144, states that records related to monies owed to the locality, including receipts records, must be retained three [3] years after the end of the state fiscal year.

We recommend creating a checklist to document that all required steps related to vehicle disposal have been completed including:

- a. Verifying buyer identification at pick-up
- b. Maintaining copies of titles, checks [if applicable], receipts, auction records, and other pertinent information
- c. Contacting the DMV to report title transfer
- d. Entering sale information in FASTER
- e. Entering City-Wide Billing Invoice
- f. Depositing funds received

The checklist and supporting documentation should be retained in accordance with Library of Virginia records management requirements.

OBSERVATION 3

Receipts Not Deposited

We worked with staff from various auction and salvage companies to obtain information on payments issued to the City. Vendor time constraints, the variety of accounting methods utilized by vendors, and lack of supporting documentation by Fleet prevented a complete identification of all undeposited funds. We determined that a *minimum* of \$25,044 in surplus sale, salvage, and scrap metal payments were not deposited into the City's bank account. Additionally, associated accounts receivable invoices were not recorded on the City-Wide Billing system to recognize these funds as being due. As a result, the City neither received the funds nor were the corresponding revenues recognized on the general ledger. Municipal Auditing was able to recover the \$25,044 and the revenue was recorded during Fiscal Year 2013.

The following table summarizes information related to uncashed checks:

Receipt Type	Check Dates	# Checks Issued	\$ Checks Issued	# Checks Deposited	\$ Checks Deposited	# Difference	\$ Difference
Online Auction*	9/2010 – 12/2012	7	\$ 167,912	6	\$ 167,162	1	\$ 750
Local Auction	1/2009 – 6/2010	29	\$ 23,465	28	\$ 23,170	1	\$ 295
Salvage	1/2010 – 2/2013	20	\$ 10,216	3	\$ 1,524	17	\$ 8,692
Scrap Metal	1/2009 – 2/2013	88	\$ 19,062	18	\$ 3,755	70	\$ 15,307
Total		144	\$ 220,655	55	\$ 195,611	89	\$ 25,044

*Payments remitted by on-line auction vendor

Deposits were the responsibility of the Fleet Administrative Assistant Supervisor. In February 2013, we met with this employee regarding uncashed checks discovered as of that date. He did not have any supporting documentation related to these receipts or any explanation as to what happened to the payments.

During a March 2013 visit to Fleet Management, Municipal Auditing found five [5] of the 89 checks, totaling \$1,309, in a filing cabinet; check dates ranged from March to September 2012. We were unable to determine the disposition of the remaining 84 missing checks.

There were no compensating internal controls in place, such as periodic reconciliations of vendor receipts to deposits, which would have identified uncashed checks. Additionally, there were no standard procedures in place for regular reviews of surplus sale, salvage, or scrap metal revenues by management.

Per City of Roanoke Administrative Procedures 3.3, Cash Receipts and Collection Reports, it is the duty of each department to deposit with the City Treasurer all funds collected by noon of the business day following collection. Additionally, City Code, Sec. 2-172, requires that every officer or employee of the City who collects or receives money for the account of the city...not billed in another billing system shall enter an invoice in the accounts receivable system by the end of each day.

The poor management of both receipts and the recording of receivables considerably increases the risk that fraud or theft could occur. Per the *Corporate Fraud Handbook*, "Poor collection and recording procedures can make it easy for an employee to skim sales or receivables". The risk of this type of behavior is amplified when a single person has control over the entire accounting transaction [e.g. authorization, recording, and custody of assets].

We recommend that a member of Fleet staff, not involved with collection of funds, periodically reconcile information from salvage and auction vendors to City deposits and that a member of management review this reconciliation for anomalies. Additionally, employee awareness of City policies related to receipt of funds should be refreshed; and, if necessary, standard operating procedures should be developed at the departmental level to address processes for the collection of funds specific to the division.

OBSERVATION 4

Held Deposits

Timely deposits ensure that the City receives the full time-value of all collections and is able to maximize cash available for investment. Approximately \$212,509 in collections between January 2010 and December 2012 were not deposited timely:

Receipt Type	# Checks	\$ Checks	Average Days b/w Check Date and Deposit Date (3)
Online Auction (1)	6	\$ 167,162	53 days
Online Auction (2)	11	\$ 18,655	109 days
Local Auction	15	\$ 14,475	13 days
Scrap Metal	5	\$ 1,217	68 days
Intergovernmental	2	\$ 11,000	21 days
Total	39	\$ 212,509	53 days

- (1) Payments remitted by on-line auction vendor
- (2) Payments remitted by individual purchasers
- (3) Average days includes mail time, if applicable

The whereabouts of these checks between collection and deposit were unknown. According to *Evaluating Internal Controls; A Local Government Manager's Guide*, security must be maintained over a government's assets (e.g. cash, inventories, equipment) to minimize the danger of loss or misuse. Physical security of assets involves two factors. Assets must be protected against the danger of loss or theft [for example, cash and checks should be deposited promptly] and additionally guarded against environmental dangers.

Checks received by Fleet Management should be restrictively endorsed "For Deposit Only – City of Roanoke" and be deposited with the City Treasurer by noon of the following business day. If stored overnight, funds should be placed in a secure, protected location.

OBSERVATION 5

Timely Disposition of Vehicles

Surplus vehicles are stored on a secured, fenced lot at the Public Work Service Center. Vehicles continuously enter the surplus lot throughout the year. In March 2013, we undertook a physical inventory of these vehicles. There were 40 vehicles, one [1] large trailer, one [1] storage tank, one [1] cart, and 11 scooters/bikes on the lot. Thirty-six [36] of the vehicles had assigned shop numbers indicating they were not related to seizure/impound. During the observation, we noted vehicle inspection stickers dating back to 2009, indicating a number of vehicles had been on the lot for at least three [3] years. Some vehicles appeared to be deteriorating from exposure. Due to lack of supporting documentation, we were not able to determine when vehicles originally entered the lot.

Fleet Management utilized parts from surplus vehicles in order to reduce repair costs. After discussion and observation, we were unable to determine exactly which vehicles were being used in this manner. There were no documented policies and procedures and the vehicles utilized were not marked.

If surplus vehicles are held for an extended period, their resale value is negatively affected due to falling market values and potential exposure damage. Additionally, the potentially unlimited use of surplus vehicles for valuable parts could also reduce their resale value.

We recommend establishing a maximum hold period for surplus vehicles so that inventory does not build up to unmanageable levels and to minimize lost value due to deterioration. If a vehicle is held due to forfeiture, parts, or other circumstances, relevant information should be documented on FASTER. Surplus should be periodically inventoried to assure vehicles are not exceeding the maximum hold period. Additionally, Fleet should consider designating specific vehicles as parts cars and establishing a separate, designated and marked area for these vehicles.

OBSERVATION 6

Vehicle Titles

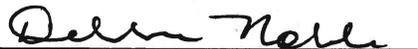
We reviewed Virginia Department of Motor Vehicles records for 91 sold/salvaged vehicles and found that 39, or 42.8%, were still titled to the City. Fleet Management was not notifying the DMV when vehicles were disposed, which created inaccuracies in their records related to City assets. Inaccurate reporting to a third-party entity increases the risk that fraud, errors, or abuse could occur and go unnoticed.

Per the Code of Virginia, §46.2-604, when a Virginia-registered motor vehicle is sold, or its ownership otherwise transferred, the seller or transferor shall notify the Department of the sale or transfer by completing the appropriate portion of the registration card. Personnel with the Virginia Department of Motor Vehicles confirmed this responsibility. We recommend that this be included as a step in a vehicle disposal checklist.

ACKNOWLEDGEMENTS

We noted some minor exceptions in our test work that were communicated to management under separate letter.

We want to express our gratitude for the cooperation and assistance provided by several local vendors. In addition, we want to thank the employees of Fleet Management, the Treasurer's Office, Commissioner of the Revenue's Office, Police Department, and Department of Billings and Collections for their cooperation and assistance during the audit.


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Summary of Fleet Management Responses to Audit Findings

Observation 1 – Policies and Procedures

A Surplus Policy that includes a series of Standard Operating Procedures has been developed and was implemented on September 10, 2013. These procedures include vehicle/equipment return practices, surplus website usage, Fire equipment sales, Police asset forfeiture sales, and scrap metal/vehicle salvage disposition.

A tracking system has been developed to record and monitor the status of all surplus items. Controls have been established to require management approval at key points throughout the disposal process. A monthly inventory procedure has been developed to ensure that the status of unsold surplus vehicles is monitored.

Observation 2 – Supporting Documentation

The entire surplus process has been categorized into three steps: preparation, sales activities and closeout. There is a corresponding written checklist of actions and staff responsibilities for each step. Required documentation has been identified for every element of the process and these documents are scanned and stored in the fleet management information system.

Observation 3 – Receipts Not Deposited

Observation 4 – Held Deposits

Procedures to promptly deposit and document payments for surplus items have been implemented. Physical checks are collected by one staff member and delivered to the Treasurer's office by another before noon of the next business day. Electronic payments are entered into the City's accounts receivable system when the surplus item is released to the buyer and verified when payment is received from the auction vendor. All of these activities are verified by management through the tracking system and by a review of documentation at the completion of each sale as well as by a periodic confirmation through a revenue comparison with City financial reports. A secure location to store checks that are not possible to immediately deposit is available and in use.

Observation 5 – Timely Disposition of Vehicles -

The surplus holding area at the Public Works Service Center has been cleaned up and organized. Vehicles designated for parts salvage have been segregated and clearly identified. The tracking system and monthly inventory have been implemented to ensure that surplus assets will be disposed of in a manner that is in the best possible financial interest of the City. A defined maximum hold period for surplus vehicles has not been initiated due to the fact that these sales are often sensitive to market conditions. Instead, the use of the tracking system will enable Fleet management to ensure that all prepared items are continually offered for sale without being forced to arbitrarily release assets at below-market prices. A procedure has also been developed to guide decisions as to when items are not likely to sell and should be salvaged.

Observation 6 – Vehicle Titles

Appropriate DMV notification of title transfers is a part of the closeout checklist described above. Documentation is scanned and permanently stored in the fleet management information system.