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## Department of Administrative Services State Surplus Audit

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**Audit Period: January through April 2016**

**Results Summary:**

<b>Objective</b>	<b>Conclusion</b>
<b>Surplus Handling Process</b>	<b>Major Improvement Needed</b>
<b>Surplus Auctions</b>	<b>Major Improvement Needed</b>
<b>Surplus Sales Process</b>	<b>Improvement Needed</b>
<b>Refunding Process</b>	<b>Improvement Needed</b>

\* Please refer to Appendix A for classification of audit objective conclusions.



## Executive Summary

### Background

The Ohio Department of Administrative Services (DAS) is committed to providing quality centralized services, specialized support and innovative solutions to state agencies, boards and commissions as well as local governments and state universities. DAS helps procure goods and services, deliver information technology and mail, recruit and train personnel, promote equal access to the state workforce, lease and manage office space, process payroll, print publications and perform a variety of other services. To provide these services, DAS is organized into the divisions of Administrative Services, Equal Opportunity, General Services, and Human Resources as well as the Office of Collective Bargaining and Office of Information Technology.

To help government entities curb costs, State Surplus Services facilitates recycling of supplies within government. Nearly half of the surplus items are purchased by another government entity. The remaining items are sold at public auctions. Additionally, for the State Surplus program, the following organizations are eligible to purchase surplus property (1) state agencies; (2) state-supported or state-assisted institutions of higher education; (3) tax-supported agencies, municipal corporations or other political subdivisions of the state, private fire companies, or private, nonprofit emergency medical service organizations; (4) non-public elementary and secondary schools chartered by the State Board of Education; and (5) eligible nonprofit organizations. Vehicles are sold at 60% of NADA (National Automobile Dealers Association) retail value, while other property is generally priced well below original acquisition price. During the audit period, January through April 2016, DAS sold 1,196 lots for \$1,538,214.

During the audit, OIA identified opportunities for DAS to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DAS staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's State Surplus processes. This work was completed March through June 2016. The audit period was January through April 2016. The detailed objectives are as follows:

- Evaluate the design and effectiveness of controls over surplus handling processes.
- Evaluate the design and effectiveness of controls over surplus sales processes.
- Evaluate the design and effectiveness of controls over surplus auctions.
- Evaluate the design and effectiveness of controls over refunding processes.



## **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations and separate security record observations were considered as part of the audit objective conclusions.

### **Observation 1 – Inventory (Non-Vehicle) Tracking**

According to ORC § 125.13, whenever a state agency has excess or surplus supplies, it shall notify DAS. On forms provided by DAS, the state agency shall furnish a list of its excess and surplus supplies, including the location of the supplies and whether the supplies are currently in the agency's control.

It is DAS management's responsibility to ensure all non-vehicle warehouse inventory items are properly accounted for when received, stored, sold and disposed. However, DAS management does not track warehouse inventory items and there is no complete record of non-vehicle warehouse inventory. During the period January through April 2016, DAS sold 856 lots, each containing numerous inventory items, at auction for \$195,288. However, DAS management does not reconcile items received to items sold or otherwise disposed to ensure completeness of inventory items and to identify discrepancies.

Failure to completely and timely record and track warehouse inventory items increases the likelihood that items are lost, stolen or improperly disposed without detection. Additionally, a lack of complete inventory records lessens DAS management's ability to track sales history, identify and monitor trends, and possibly to maximize sales.

#### **Recommendation**

Develop and implement procedures for tracking and recording non-vehicle warehouse inventory, to include:

- An inventory tracking system to record items received in the warehouse;
- Tracking of items that are sold to eligible agencies and at auctions; and
- Tracking of disposed items.

The inventory tracking system should include sufficient detail to describe the item, quantity, agency origin, date received, condition, date sold or disposed, and sales price. In the long-term, research solutions for a new inventory management system.

Perform periodic reconciliations between items received and items sold or disposed. Investigate



and document discrepancies and adjustments. Develop and implement procedures to analyze inventory and sales data to identify trends and anomalies and to make business decisions. Periodically (at least annually) review and update procedures.

**Management Response**

DAS acknowledges this item is a risk that needs addressed. DAS plans to open a conversation with the OBM Financial Reporting and the DAS Asset Management groups to develop a common approach for tracking assets. Due to the fact that OBM does not require tracking of assets under \$1,000, State Surplus feels that it is necessary to have a conversation and set common expectations for agencies and State Surplus alike.

Once complete, State Surplus will examine functionalities to appropriately account for the receipt, sale, and disposal of surplus properties with consideration to the cost-benefit impact of such functionalities. State Surplus will also begin to require that disposal codes and asset tag numbers (if applicable) be included with/on the turn-in documents.

DAS anticipates having conversations with OBM Financial Reporting and DAS Asset Management by December 31st, 2016.

Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	State and Federal Surplus Program Manager	December 2016

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

**Classification of Audit Objective Conclusions**

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

**Classification of Audit Observations**

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee