

TUSD's Auction Internal Controls

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Background

- We are currently under Cooperative Contract with City of Tucson to provide online surplus auction services. This contract renews annually on August 8th until it expires on August 7, 2021.
- **P1:** The only forms of payment that TUSD accepts are cashier check and money order. Although, PublicSurplus.com has the ability to accept credit cards.
- **P2:** TUSD accept checks in the amount of \$25 if the buyer needs TUSD personnel to operate a forklift to load the items to the buyer's vehicle.

Abbreviations and Key Definitions

- AM- Asset Management
- Form AM 1002- Property Loss/Disposal/Transfer Report- Form used to dispose of district assets.
- UA- University of Arizona
- Fund 506 (School Plant) - Accounts for monies received from the sale, lease, or condemnation of school property and used as specified in A.R.S. §15-1102.
- **P1-P10**- Are internal control problems that the internal auditor sees with the auction process.
- **RP1-RP10**- Are recommendations to address the corresponding internal control problems. (For example: RP1 attempts to correct P1)

What is the Reason for this Presentation?

- The Governing Board, Superintendent, General Counsel, and the Superintendent Leadership Team wants to gain the public trust by being COMPLETELY TRANSPARENT.
- **P3:** There was an incident where a district staff member allegedly took a “tip” for helping a customer. As a result, this customer may have received extra items not purchased.
- Introduce the Auction Process
- Identify Areas for Improvement
- Provide Recommendations
- Provide Decision-Makers with Different Alternatives

Revenue Earned Sep 2016 - November 2017

	Number of Sales	Amount of Revenue Earned
From Sale of Vehicles	32	\$113,875.51
Computers, Printers, and IT related items	42	\$25,528.17
All other items	82	\$17,474.22
Total		

Number of Sales - does not indicate how many items were sold. Items are usually put on a pallet to sell multiple items at once.

The income is deposited into Fund 506 (School Plant)

For the time period of Sep 2016- November 2017, PublicSurplus.com charged \$11,438.73 in fees but those fees are paid by the buyer.

Amphitheater also used Public Surplus

- The internal auditor identified a **BEST PRACTICE**: Amphitheater Public Schools has the following verbiage on PublicSurplus.com, this mitigates any risks associated with cash or check handling.
 - Equipment may be inspected during business hours 8:00 - 3:00 Monday thru Friday at the Amphitheater Warehouse 1001 W. Roger Road, Tucson, AZ 85705. **PUBLIC SURPLUS handles all payments on behalf of Amphitheater Public Schools. Payment may only be made online by credit card, or by wire transfer. NO CASH, CHECKS, OR MONEY ORDERS WILL BE ACCEPTED.** Full payment is due within FIVE (5) BUSINESS DAYS from the auction's close. Once a payment clears, PUBLIC SURPLUS will notify the agency and the Buyer via email that payment has cleared and the item may be picked-up. **The Property Custodian will not accept payment directly and will not release property until notified that payment has cleared.** Successful bidders should bring with them the e-mail from PUBLIC SURPLUS confirming their payment along with valid driver's license or other official photo identification. Acceptable payment options are credit card or wire transfer. Sales tax of 8.1% shall be added to the final sale of auction if applicable. All sales are final. Buyer understands and agrees that the Buyer is purchasing the described property as is, where is with no warranty either expressed or implied except as to title. Buyer has had the opportunity to inspect the property and accept ownership with all defects whether known or unknown, present or latent. **Amphitheater Unified School District makes no representations of present condition, prior use or suitability for future use.**

TUSD's Auction Process

A site notifies AM that there are items that the school no longer needs. (Documented on a form AM 1002)

The site sends the form to AM via email or interoffice mail. Then AM reviews the form for pertinent information.

P4: AM forwards the form to Property Control and Property Control reviews the form to see what should be picked up.

P5: Property Control picks up the assets and bring the assets to the Warehouse.

Large items such as printers and monitors are counted. Low value items like keyboards are not counted.

Continued

AM personnel moves the items to the auction side of the floor.

P6: AM personnel posts the assets to PublicSurplus.com for bidding

P7: Once the item is won the buyer has 5 days to pick up the item and hand AM a cashier's check or money order.

P8: Once the items are sold AM goes into iVision and indicates that the assets were disposed.

Examples of Problems

- **P9:** Computers sold before the hard drive was removed.
- Asset Management
 - 1) Creates the pallet of items to be sold
 - 2) Posts the items on PublicSurplus.com to be sold
 - 3) Receives the check/money order
 - 4) Gives the customer the assets.
- There are no separation of duties.

Examples of Problems

- **P10:** Sometimes items get added to a pallet after the bid process concluded because:
 - TUSD is waiting on the buyer to pick up the pallet and a member of AM did not know that the pallet was sold.
 - The warehouse is not organized in a way to keep new arrivals separate from sold items.
- Many times the buyer takes longer than the 5 Days that they are allowed to pick up items they won in the auction.

Are We Using and Sharing the Items already Purchased?

- **P11:** Many times sites may purchase items and there may be extras around the district not used.
- **P12:** Currently there is not any advertisement or coordination throughout the district, to share furniture.
- **P13:** An example, 22 HP monitors were purchased for Tucson High during the 2004-2005 school year and to this day TUSD never used them. Now AM is trying to determine what to do with these obsolete monitors that can't be thrown away because they contain mercury.

How Does TUSD Compare to Other Public Institutions That Conduct Auctions?

The University of Arizona Auction Process and Store Front cont.

- UA places furniture, IT Equipment, and miscellaneous assets that the school no longer needs into two categories: (1) Public Store Front (2) Auction Floor.
- Items that the Assistant Director of Procurement & Contracting feels could be sold to the public “As Is” is sold in the Store Front. The Store Front can typically get more money for those items than the items could generate through an auction.
- The Assistant Director of Procurement & Contracting stated that Store Front has been very successful for the University.

The University of Arizona Auction Process and Store Front cont.

- There is a staging area for all new arrivals for both the Store Front and Auction.
- All capital assets and computers are tagged upon arrival for accounting purposes.
- After pallets containing hard drives have received a “Lot Number” students go through the pallet to ensure all hard drives were removed.
- Highest concern: safeguarding protected research, student, and staff data. Therefore, all hard drives go through a hard drive swiper. If the hard drive is not usable after being swiped it is sent through a crusher.
- After winning the bid on Tuesday the buyer must pick the item up by Friday.

UA Auction Process and Store Front Cont.

- The Store Front is open Monday – Friday 8:00a – 3:30p to the public.
- The Store Front is open one Saturday a month as well.
- The auction is once a month.
- The potential buyers get to preview the items the Friday and Monday prior to the auction
- Nearly every item is sold during the auction. If the item isn't sold it is thrown in the trash or in the Scrap Metal Bin which also generates revenue.

Difficulties Faced by UA

- Cathode Ray Tube (CRT) monitors (monitors with the big back) can't be thrown away because they contain mercury. So, UA's Auction team has an agreement with an individual to dispose of those monitors for a cost of \$5 per monitor.

UA Auction/Store Front Staff Size

- There are:
 - 3 Office Staff.
 - 1 Store Keeper (Decides the price for goods sold in the store front).
 - 4 Material Handlers (Pick-up & unload goods from the university).
 - 2 part-time student handlers.
- This is an auxiliary unit and it is self funded. The unit must generate enough money to cover expenses.
- For any item that comes from one department: The UA Auction team keeps the first \$200 and provides the department with a percentage of the revenue that was above \$200.
- Store Front generates 15-20 sales/day which total about \$800/day.

Recommendations for Auction Process

- **RP1, RP3, RP6-8:** Create a opening statement on PublicSurplus.com similar to Amphi Schools stating that TUSD will only accept credit cards. (OR) Assign personnel in Bldg 1010 to accept cashier checks and provide the buyer with a receipt that authorizes AM to release the asset.
- **RP2:** Estimate the revenue generated from the forklift fee and determine if a small price increase can be added to all heavy pallets to eliminate the need for the \$25 fee.
- **RP4 & RP5:** AM should compare what Property Control was asked to pick up vs. what was dropped to the warehouse.
- **RP9:** TS create a unique marker (ie. Green sticker or marking) to affix to the retired asset, so that AM will know that the hard drive was removed, wiped, or crushed.
- **RP10:** Organize the floor into fenced sections: (New assets received, Used assets received, items ready for auction, items sold) to deter the addition or removal of items on auction pallets.
- **RP10:** Tag or shrink wrap each finished pallet.

School Safety Recommendations for TUSD's Auction

- Implement a more stringent “Acceptance of Gratuity” policy for all employees, prohibiting acceptance of gratuity under any circumstance.
- Remove district asset markings from all property prior to packing for auction.
- Train staff on expectations and policy.

Recommendations for Furniture

- **RP11-13:** Require Property Control to take pictures of all useable furniture that is currently in the warehouse.
- **RP11-13:** Require Property Control to take pictures of all incoming used furniture that is still useable.
- **RP11-13:** Create an online catalog of all used furniture that is available for free.
- **RP11-13:** Require office managers, principals, and procurement specialists to review the online catalog before purchasing the new items.
- **RP11-13:** Create Quarterly or Monthly emails from TS advertising furniture that is available for free in the online catalog.

Limitations of achieving goals

- Asset management currently has one person.
- Space is limited in the warehouse.

Alternatives for Decision Makers

- Status Quo – **Least Favorable**
- Get rid of the auction process (excluding vehicles).
- Create a Store Front to sell used school furniture to the public. (Similar to UA).
- Continue Using PublicSurplus.com and implement recommendations provided by Internal Auditor to improve operations. (**Internal Auditor's Recommendation**)