

Office of the Auditor General

Follow-Up Report on Prior Audit Recommendations

State Surplus

Logistics and Operations Support Division
Office of Support Services
Department of Technology, Management, and Budget

April 2018

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

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Article IV, Section 53 of the Michigan Constitution



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Report Summary

Follow-Up Report

Report Number:
071-0139-14F

State Surplus

Released:
April 2018

*Logistics and Operations Support Division,
Office of Support Services, Department of
Technology, Management, and Budget
(DTMB)*

We conducted this follow-up to determine whether DTMB had taken appropriate corrective measures in response to the two material conditions noted in our December 2014 audit report.

Prior Audit Information	Follow-Up Results		
	Conclusion	Finding	Agency Preliminary Response
Finding #1 - Material condition Sufficient segregation of duties over the collection and recording of revenue needed. Agency agreed.	Not complied	Material condition still exists. See <u>Finding #1</u> .	Agrees
Finding #2 - Material condition Sufficient records needed to accurately account for the disposition of surplus items received from State agencies. Agency agreed.	Not complied	Material condition still exists. See <u>Finding #2</u> .	Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

April 24, 2018

Mr. David L. DeVries, Director
Department of Technology, Management, and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. DeVries:

This is our follow-up report on the two material conditions (Findings #1 and #2) and the two corresponding recommendations reported in the performance audit of State Surplus, Logistics and Operations Support Division, Office of Support Services, Department of Technology, Management, and Budget. That audit report was issued and distributed in December 2014. Additional copies are available on request or at audgen.michigan.gov.

Your agency provided preliminary responses to the follow-up recommendations included in this report. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during our follow-up. If you have any questions, please call me or Laura J. Hirst, CPA, Deputy Auditor General.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, slightly slanted style.

Doug Ringler
Auditor General

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INTRODUCTION, PURPOSE OF FOLLOW-UP, AND PROGRAM DESCRIPTION

INTRODUCTION

This report contains the results of our follow-up of the two material conditions* (Findings #1 and #2) and two corresponding recommendations reported in our performance audit* of State Surplus, Logistics and Operations Support Division, Office of Support Services, Department of Technology, Management, and Budget (DTMB), issued in December 2014.

PURPOSE OF FOLLOW-UP

To determine whether DTMB had taken appropriate corrective measures to address our corresponding recommendations.

PROGRAM DESCRIPTION

Section 18.1267 of the *Michigan Compiled Laws* authorizes DTMB to dispose of all State surplus personal property* (surplus). State Surplus manages the disposition of surplus, salvage, and worthless property, except for IT equipment.

Surplus is transferred to other State agencies, donated to nonprofit organizations, recycled, discarded, or sold to the general public. DTMB assists local governments, school districts, and community colleges in the sale of their respective surplus and receives a portion of sale proceeds to cover costs associated with the sale of those items. Also, DTMB has an agreement with the Transportation Security Administration (TSA) to sell voluntarily abandoned property from various airports within the State. The State retains all of the revenue generated from sales of transferred TSA property. In addition, DTMB assists the Michigan Department of State Police (MSP), the Department of Natural Resources (DNR), and local law enforcement agencies in the sale and disposal of their confiscated property.

DTMB accounts for State Surplus operations in the Office Services Revolving Fund. In fiscal year 2017, DTMB generated \$1.3 million in State Surplus revenue and \$1.2 million in expenses.

* See glossary at end of report for definition.

PRIOR AUDIT FINDINGS AND RECOMMENDATIONS; AGENCY PLAN TO COMPLY; AND FOLLOW-UP CONCLUSIONS, RECOMMENDATIONS, AND AGENCY RESPONSES

FINDING #1

Audit Finding Classification: Material condition.

Summary of the December 2014 Finding:

Some State Surplus staff who collected revenue for items sold at auction also had the ability to change or delete surplus items sold within the databases. One of the staff with this access was also responsible for completing the monthly billing reconciliation between items sold on the auction site and payments received for those items.

Recommendation Reported in December 2014:

We recommended that State Surplus maintain sufficient segregation of duties over the collection and recording of revenue.

AGENCY PLAN TO COMPLY*

On June 1, 2015, DTMB indicated that it planned to comply with the recommendation and would work to maintain sufficient segregation of duties over the collection and recording of revenue. DTMB stated that it would take the following steps to address the issue:

- Implement a database solution which includes an audit trail of employee activity regarding entering, changing, or deleting information in the database.
- Transition the monthly billing reconciliation of items sold on the auction Web site with payments received for those auctions from State Surplus to DTMB Financial Services.
- Revise procedures to reflect changes in duties of current staff, duties transitioned to Financial Services, and new database procedures by December 31, 2015.

FOLLOW-UP CONCLUSION

Not complied. Although DTMB established an audit trail in the database and transitioned the billing reconciliation process to DTMB Financial Services, these actions did not fully mitigate the original risk related to segregation of duties. Therefore, a material condition still exists.

Our follow-up noted:

- a. Some State Surplus staff who collected auction sales revenue continued to have the ability to edit or delete items in the database used to track items sold.

* See glossary at end of report for definition.

- b. Management did not review the newly established audit trails. Doing so in a timely manner would help to ensure that edits and deletions were appropriate and approved.
- c. State Surplus did not have a process in place to follow up on auction lots with a winning bid listed on the MiBid Internet auction site and a zero selling price recorded in the database. Although DTMB Financial Services reconciles monthly auction sales information reported on MiBid and recorded in the database and provides State Surplus with the differences noted, State Surplus did not conduct any follow-up to resolve these differences.

We consider this finding to be a material condition because of the continued risk that some staff could misappropriate revenue.

**FOLLOW-UP
RECOMMENDATION**

We again recommend that State Surplus maintain sufficient segregation of duties over the collection and recording of revenue.

**FOLLOW-UP
AGENCY
RESPONSE**

DTMB provided us with the following response:

DTMB agrees with the OAG's Follow-Up Recommendation.

- a. *In March 2018, changes were made to the Surplus database to provide compensating controls for this item. The new database provides an audit trail tracking changes made by the users. In addition, we created a new position to further support the segregation of duties.*
- b. *The Surplus analyst runs reports from the database each month and audits all edits and deletions to verify changes made to the database were appropriate. The report is reviewed and signed by both the analyst and the Surplus supervisor. Our new audit procedure has been implemented and we are currently up to date.*
- c. *In March 2018, we implemented a procedure for relisting auctions. This procedure ensures that new lot numbers are recorded and entered into the notes when an auction is relisted. We also review the monthly MiBid reconciliations completed by Financial Services and validate any discrepancies as part of our monthly database audit.*

FINDING #2

Audit Finding Classification: Material condition.

Summary of the December 2014 Finding:

State Surplus could not locate or provide an accurate disposition of surplus items received from State agencies. State Surplus did not document the disposition of items selected from agency-submitted disposal request forms or MSP property release receipts.

Recommendation Reported in December 2014:

We recommended that State Surplus maintain sufficient records to accurately account for the disposition of surplus items received from State agencies.

AGENCY PLAN TO COMPLY

On June 1, 2015, DTMB indicated that it planned to comply with the recommendation and would work to maintain sufficient records to accurately account for the disposition of surplus items received from State agencies. DTMB stated that it would take the following steps to address the issue:

- Evaluate Statewide Integrated Governmental Management Applications* (SIGMA), and also other inventory tracking database solutions, to identify the most effective inventory management system.
- Track the disposal of all surplus assets with an estimated value of \$5,000 or more, in accordance with the State of Michigan Financial Management Guide.

FOLLOW-UP CONCLUSION

Not complied. A material condition still exists. State Surplus did not maintain sufficient records to support the disposition of surplus items. As a result, the potential exists for staff to misappropriate surplus property.

Our follow-up noted that State Surplus did not:

- a. Conduct required audits to ensure that all MSP and DNR confiscated or stolen property was accounted for.

State Surplus procedures require the completion of an annual audit for all confiscated property, including disposal information and a list of property still on hand and its location in the building. State Surplus completed audits during fiscal years 2016 and 2017 for only selected DNR items.

- b. Maintain documentation to:

- (1) Support the destruction of 225 MSP confiscated gift cards.

* See glossary at end of report for definition.

- (2) Identify the items sold in the State Surplus store sales or the final disposition of the items that did not sell.
- (3) Support specific communications instructing State agencies to dispose of items that did not sell in the online auction.
- (4) Support the receipt of surplus items by the DTMB depot through the Automated Asset Recovery Program (AARP).

AARP is used to retire IT assets from inventory or to place them in stock at the depot for future use. State Surplus sends all confiscated electronic devices capable of having memory to the depot for destruction.

- c. Ensure that the information recorded in the State Surplus database was accurate and complete.

We reviewed 28 judgmentally selected MiBid lot numbers and identified 11 unsold lots for which State Surplus did not document the relisted lot numbers in the database. We also identified 8 instances in which the MiBid sales price was different from the sales price recorded in the database with no explanation for the difference.

We consider this finding to be a material condition because of the value of the items handled by State Surplus and the potential risk to the State associated with the improper disposition of surplus items.

**FOLLOW-UP
RECOMMENDATION**

We again recommend that State Surplus maintain sufficient records to accurately account for the disposition of surplus items received from State agencies.

**FOLLOW-UP
AGENCY
RESPONSE**

DTMB provided us with the following response:

DTMB agrees with the OAG's Follow-Up Recommendation.

- a. *Effective March 16, 2018, procedures were updated and State Surplus began tracking MSP and DNR confiscated property through a database. We also implemented performing monthly reviews to ensure information is entered correctly into the database.*
- b. *Procedures have been changed to:*
 - (1) *Utilize a log requiring two signatures to ensure someone monitored the destruction. There is also a new field in the database to show that the gift card or credit card was destroyed, and that two people witnessed the destruction.*

(2) Ensure staff are following up on disposition of property via email rather than by phone.

(3) Include MSP case numbers on the AARP request. This will allow us the ability to reference specific property and when it was sent to Depot on an AARP.

Additionally, we are researching inventory tracking systems and will be developing inventory tracking policies associated with Surplus items not sold through the MiBid process.

c. Procedures were created for monthly reviews of State Surplus database reports that include any records that were edited or deleted. Audits will be completed monthly by the Surplus analyst and will be signed off by a supervisor.

FOLLOW-UP METHODOLOGY, PERIOD, AND AGENCY RESPONSES

METHODOLOGY

During our follow-up, we:

- Reviewed DTMB's corrective action plan.
- Interviewed State Surplus staff to determine the status of the corrective action plan.
- Reviewed DTMB Financial Services' monthly billing reconciliations procedures.
- Reviewed State Surplus staff updated position descriptions.
- Reviewed State Surplus procedures for receiving confiscated and stolen property.
- Obtained an understanding of the confiscated property annual audit process.
- Reviewed the audit trail of database deletions to determine the State Surplus staff who have access to perform the function.
- Judgmentally selected 4 monthly billing reconciliations and followed up on the items listed as sold on MiBid with a sales price of \$0 recorded in the State Surplus database and items with a difference between the MiBid sales price and the sales price recorded in the database.
- Reviewed a random sample of 26 disposal request forms from 3 judgmentally selected departments and traced them to the State Surplus database and the MiBid auction history.
- Reviewed 2 judgmentally selected DNR disposal request forms with items listed by State Surplus as "Stored - Vault" and verified that the items listed on the disposal requests are located in the State Surplus vault.
- Reviewed the MSP confiscated property listed as destroyed, sold in the State Surplus store, or sold on MiBid to verify that State Surplus is tracking the disposition of the items.
- Traced the lot numbers from the October 2016 MiBid billing to the State Surplus database to verify that all lot numbers were recorded.

PERIOD

Our follow-up generally covered October 1, 2015 through September 30, 2017.

AGENCY RESPONSES

Our follow-up report contains 2 recommendations. DTMB's preliminary response indicates that it agrees with both recommendations.

The agency preliminary response that follows each follow-up recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

GLOSSARY OF ABBREVIATIONS AND TERMS

AARP	Automated Asset Recovery Program.
agency plan to comply	The response required by Section 18.1462 of the <i>Michigan Compiled Laws</i> and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100). The audited agency is required to develop a plan to comply with Office of the Auditor General audit recommendations and to submit the plan within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.
DNR	Department of Natural Resources.
DTMB	Department of Technology, Management, and Budget.
IT	information technology.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MSP	Michigan Department of State Police.
OAG	Office of the Auditor General.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
personal property	Items other than real estate or buildings. Specific to State Surplus, personal property is all office supplies and furnishings, as well as law enforcement confiscated items and TSA abandoned property from various airports within the State.

**Statewide Integrated
Governmental
Management Applications
(SIGMA)**

The State's enterprise resource planning business process and software implementation that support budgeting, accounting, purchasing, human resource management, and other financial management activities.

surplus

surplus personal property.

TSA

Transportation Security Administration.



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