

Cash Handling Review

Surplus Sales – Westwood Facility

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1. Introduction

The Office of the City Auditor (OCA) performs cash handling reviews to determine whether cash resources are handled in a manner consistent with established City requirements and whether they are adequately safeguarded against loss. They also assess the adequacy and effectiveness of internal controls within cash-handling locations. Cash handling reviews consist of an objective review and evaluation of the cash-handling practices and procedures relating to the receiving, transporting, storing, depositing, recording and safeguarding of City money (including cash, cheques, credit cards and debit cards).

The OCA selected five cash-handling projects for review in 2005. Projects were selected based on a number of criteria including estimated revenue; volume of transactions processed; cash-handling risk; date of previous audit undertaken in the area, if any; and history of problems or where control improvements were identified. The Surplus, Freight, & Customs operation within Materials Management of the Finance Branch has annual revenues of approximately \$2,000,000 and was selected for review based on these criteria.

2. Background

Surplus assets include heavy equipment, abandoned vehicles, City vehicles, scrap metal, office furniture and equipment, computer equipment and other miscellaneous items. Surplus equipment, which includes heavy trucks, tractors, golf carts, tractor mowers and other miscellaneous equipment, is offered for sale through semi-annual public tenders. City vehicles are sold at auction, scrap metal is sold to a scrap metal company, and abandoned vehicles are either sold at auction or to a scrap vehicle dealer. Office furniture, computers and other assets are usually sold at auction.

Proceeds from the disposal of all surplus assets are deposited into the City's bank and deposit information is forwarded to departmental accounting for posting into the City's accounting system (SAP).

3. Objectives

Normally, the objective of a cash handling review is to assess the level of compliance with established City policies & procedures over cash handling and to evaluate the adequacy and effectiveness of controls over cash handling with the intent of minimizing loss of revenue resulting from theft or error. However, during its initial site visit at the Surplus, Freight, & Customs operation, the OCA observed an opportunity to improve the controls over the tender process of surplus equipment sales. As a result, the OCA

decided to audit the tender process for surplus equipment sales as well as the cash handling procedures.

4. Methodology and Scope

The OCA used the following methodologies in conducting this review:

- Interviewed key employees, including employees from Mobile Equipment Services (MES), Surplus, Freight, & Customs, and Departmental Accounting,
- Examined supporting documentation,
- Observed a bank deposit of proceeds received from a surplus equipment sale, and
- Observed the activities associated with a surplus equipment sale by tender held from October 12 to 14, 2005.

The scope of the OCA's review covered controls over cash handling in general and the tender process used for semi-annual surplus equipment tenders.

5. Observations and Recommendations

5.1. *Surplus Equipment Sales – Tender Process*

Mobile Equipment Services (MES) uses a maintenance management software program to select equipment for retirement. The maintenance software program's criteria include equipment age, mileage, and operating costs (including fuel). The program selects approximately 1,200 equipment units for potential retirement each year. The equipment retirement listing generated by the program is further examined using criteria not incorporated into the program, such as major overhaul information, transferring the equipment to light duty, etc. These further reviews and considerations reduce the potential retirement list from approximately 1,200 units to approximately 300 units. The 300 units are then physically inspected and a final listing of equipment units to be retired is reviewed and approved. MES sends the final listing of equipment selected for retirement to the Surplus, Freight, & Customs Specialist.

The Surplus, Freight, & Customs Specialist displays the equipment for inspection by potential buyers. This employee also performs minor equipment repairs, such as fixing flat tires and charging batteries to ensure that the equipment is in operating condition during prospective buyers' inspections. This same employee also manages the entire bidding process, including:

- Designing and producing the tender documents,
- Distributing the tender documents to prospective equipment buyers,
- Advertising public tenders in the local newspaper,
- Contacting prospective buyers via e-mail providing advance notice,
- Collecting sealed bids submitted from prospective buyers,
- Safeguarding sealed bids over the three-day public tender period,
- Opening the sealed bids after the tender closes,

- Selecting the winning bidders,
- Preparing a summary list of the winning bidders for approval by MES,
- Contacting the winning bidders after receiving approval from MES,
- Accepting cheque proceeds from the winning bidder,
- Depositing cheques into the City's bank account, and
- Notifying departmental accounting of the deposit.

The Surplus, Freight, & Customs Specialist manages the entire bidding process. To improve the segregation of duties, and minimise the risks of collusion or other forms of loss, the OCA believes that the changes recommended in this report will improve controls by transferring responsibility for selected portions of the bidding process to employees that are removed from the Surplus, Freight, & Customs Specialist.

Recommendation #1	Management Response and Action Plan
<p>The OCA recommends that the Warehouse/Supply Management Coordinator ensure that prospective buyers are instructed to submit their sealed bids directly to an independent office that is also responsible for opening the bids and preparing a summarized list of bid winners for review and approval by MES.</p>	<p>Accepted Comments: Instructions will be issued to prospective bidders to submit their sealed bids to Materials Management Paterson Office, attention of a Senior Materials management Specialist (SMMS). The SMMS will open the sealed bids and prepare a summarized list of bids indicating which bidder submitted the best bid. In the case of vehicles and equipment this will be forwarded to MES Director of Fleet services for review and approval. For other items the summarized list of bids will be forwarded to the Senior Accountant, Corporate Services for review and approval. Planned Implementation: February, 2006 Responsible Party: Warehouse/Supply Management Coordinator</p>
<p>The OCA recommends that the Warehouse/Supply Management Coordinator ensure that the final approved listing of bid winners is sent to the Surplus, Freight, & Customs Specialist to contact the winning bidder and collect their cheque and to the Senior Accountant, Corporate Services to ensure that the deposit amounts received from the winning bidders match the summarized list of bid winners.</p>	<p>Accepted Comments: Once approval has been obtained as noted in recommendation No. 1 the Surplus, Freight, & Customs Specialist will be notified to conclude the sale. Planned Implementation: February, 2006 Responsible Party: Warehouse/Supply Management Coordinator</p>

5.2. Surplus Equipment Procedures

The payments received from the successful bidders are primarily in the form of cheques; however minimal amounts of cash are received. The OCA noted that in 2004, \$8,345 cash was deposited, representing 0.35% of total surplus sales of \$2,413,158. From January 2005 to September 2005, \$1,466 cash was deposited representing 0.10% of total surplus sales of \$1,594,423.

The OCA physically observed the surplus equipment sale which occurred from October 12 to 14, 2005. We reviewed the supporting documentation from sale beginning through to the receipt, deposit, and recording of the sale proceeds into the City's accounting system. The OCA observed that all of the proceeds resulting from the sale were properly accounted for and reported.

The OCA observed that the written procedures for disposals of surplus equipment and other functions performed by the Surplus, Freight, & Customs Specialist are outdated. The process changes resulting from management's response to recommendations #1 and #2 in this report necessitate that these procedures be updated to reflect the improved process.

Recommendation #3	Management Response and Action Plan
The OCA recommends that the written procedures covering disposals of surplus equipment be amended in order to reflect the process changes as a result of implementing above-mentioned Recommendations #1 and #2; including modifying outdated procedures for other functions performed by the Surplus, Freight, & Customs Specialist.	Accepted Comments: Written operating procedures will be updated to reflect recommendations No's 1 & 2 and current operating practices. Planned Implementation: June, 2006 Responsible Party: Warehouse/Supply Management Coordinator

6. Conclusion

Because the Surplus, Freight, & Customs Specialist does not handle significant cash in relation to total surplus sales, the scope of the review was extended to assess controls over the tender process for the semi-annual surplus equipment auction. The OCA's recommendations will strengthen controls over cash handling and the tender process.

Management has accepted the recommendations and the OCA believes that their action plans and planned implementation dates are reasonable.

The OCA thanks the staff and management of the Materials Management Division for their cooperation and support during this audit.