

**TESTIMONY OF AUSTIN A. ANDERSEN
INTERIM INSPECTOR GENERAL
BEFORE THE COMMITTEE ON GOVERNMENT OPERATIONS**

**AUDIT OF THE OFFICE OF CONTRACTING AND PROCUREMENT'S
OPERATIONS AND AUCTION PROCESS**

SEPTEMBER 16, 2004

GOOD MORNING, CHAIRMAN ORANGE AND MEMBERS OF THE COMMITTEE, I WELCOME THE OPPORTUNITY TO SHARE WITH YOU THE RESULTS OF THE OFFICE OF THE INSPECTOR GENERAL'S (OIG) AUDIT OF THE OFFICE OF CONTRACTING AND PROCUREMENT'S (OCP) OPERATIONS AND AUCTION PROCESS THAT WAS RELEASED ON SEPTEMBER 1, 2004. SEATED WITH ME ARE WILLIAM J. DIVELLO, ASSISTANT INSPECTOR GENERAL FOR AUDITS, AND LADONIA WILKINS, AUDIT DIRECTOR. MY TESTIMONY WILL FOCUS SPECIFICALLY ON THE AUCTION PROCESS FOR FIRE APPARATUS AND THE EFFICIENCY OF THE PERSONAL PROPERTY DIVISION OPERATIONS. I WILL ALSO DESCRIBE THE AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY EMPLOYED BY THE OIG TO EVALUATE THE EFFICIENCY AND EFFECTIVENESS OF THE PERSONAL PROPERTY DIVISION.

BACKGROUND AND OBJECTIVES

FIRST, I WILL PROVIDE BACKGROUND INFORMATION TO HELP PLACE THIS AUDIT IN PERSPECTIVE, AND THEN I WILL OUTLINE THE AUDIT FINDING.

OCP HAS PRIMARY RESPONSIBILITY FOR DISPOSING OF GOVERNMENT-OWNED, EXCESS PERSONAL PROPERTY AND HAS ASSIGNED THAT RESPONSIBILITY TO THE PERSONAL PROPERTY DIVISION. WHEN A DISTRICT AGENCY DETERMINES THAT AN ITEM OF PERSONAL PROPERTY IS UNSERVICEABLE, DAMAGED BEYOND REASONABLE OR ECONOMICAL REPAIR, OBSOLETE, OR EXCESSIVE TO THE NEEDS OF THE AGENCY, THE PROPERTY IS SENT TO THE PERSONAL PROPERTY DIVISION FOR DISPOSAL IN ACCORDANCE WITH DISTRICT REGULATIONS. THE TYPES OF EXCESS PROPERTY WE ENCOUNTERED DURING OUR AUDIT INCLUDED FIRE TRUCKS, EMERGENCY MEDICAL SERVICES VEHICLES (AMBULANCES), AUTOMOBILES, USED SCHOOLBOOKS, HEAVY EQUIPMENT, COMPUTERS, AND SCRAP METAL.

OUR AUDIT OBJECTIVES WERE TO DETERMINE WHETHER OCP AUCTIONED PROPERTY IN AN EFFICIENT, EFFECTIVE, AND ECONOMICAL MANNER. WE ALSO SOUGHT TO DETERMINE WHETHER OCP: (1) COMPLIED WITH THE REQUIREMENTS OF APPLICABLE LAWS, RULES, REGULATIONS, POLICIES, AND PROCEDURES, AND (2) IMPLEMENTED INTERNAL CONTROLS TO PREVENT OR DETECT MATERIAL ERRORS AND IRREGULARITIES.

SCOPE AND METHODOLOGY

TO ACCOMPLISH OUR OBJECTIVES, WE HELD INTERVIEWS AND DISCUSSIONS WITH PERSONAL PROPERTY DIVISION MANAGEMENT AND ADMINISTRATIVE STAFF TO GAIN A GENERAL UNDERSTANDING

OF THE POLICIES AND PROCEDURES USED BY THE PERSONAL PROPERTY DIVISION IN THE AUCTION PROCESS OF DISTRICT PROPERTY. WE ALSO EXAMINED AND ANALYZED AUCTION RECORDS, ATTENDED AUCTIONS, AND CONDUCTED RESEARCH ON THE INTERNET.

AUDIT FINDING

THE AUDIT CONTAINED ONE FINDING THAT FOCUSED ON THE PERSONAL PROPERTY DIVISION'S MANAGEMENT OF EXCESS PROPERTY. WE FOUND THAT THE PERSONAL PROPERTY DIVISION DOES NOT ADEQUATELY ACCOUNT FOR EXCESS DISTRICT PROPERTY, DOES NOT TRANSMIT QUARTERLY REPORTS OF ITS OPERATIONS TO THE D.C. COUNCIL (AS REQUIRED BY LAW), AND NEEDS TO REEVALUATE STAFFING LEVELS FOR DISPOSAL OPERATIONS.

WE CONCLUDED THAT THE AUCTION PROCESS WAS NOT MANAGED EFFECTIVELY, WHICH LED TO THE AUCTION OF VALUABLE DISTRICT PROPERTY AT LESS THAN OPTIMUM PRICES, AND RESULTED IN THE LOSS OF NEEDED INCOME FOR THE DISTRICT. FOR EXAMPLE, THE PERSONAL PROPERTY DIVISION AUCTIONED ELEVEN FIRE TRUCKS DURING THE 27-MONTH PERIOD WE REVIEWED AND REALIZED \$3,125 FOR THE SALE OF THOSE TRUCKS. THE AVERAGE AUCTION PRICE FOR A FIRE TRUCK DURING THE AUDIT PERIOD WAS \$284. WE WERE ABLE TO FIND LIKE TRUCKS, AND IN TWO CASES, THE EXACT TRUCKS AUCTIONED, ON THE INTERNET. WE VERIFIED THAT THE

INTERNET AND USED DEALER LOT ASKING PRICES FOR 11 FIRE TRUCKS, FOR THE SAME TYPE, YEAR, AND MODEL OF TRUCKS TOTALED \$497,200. AS A RESULT OF INADEQUATE MANAGEMENT OVERSIGHT, FEW INTERNAL CONTROLS, AND INEFFICIENT OPERATIONS, THE DISTRICT HAS LOST IN EXCESS OF \$500,000 A YEAR.

IN ADDITION, WE DETERMINED THAT THE PERSONAL PROPERTY DIVISION'S COST OF OPERATIONS EXCEEDED REVENUE TO THE EXTENT THAT, OVER THE 27-MONTH PERIOD, IT COST THE DISTRICT \$1.50 TO DISPOSE OF \$1.00 WORTH OF EXCESS PERSONAL PROPERTY.

RECOMMENDATIONS

WE RECOMMENDED IMPROVEMENTS IN THE FOLLOWING AREAS:

- **WRITTEN PROCEDURES**

DOCUMENTED PROCEDURES ARE NEEDED TO ENSURE THAT ADEQUATE PERSONAL PROPERTY DIVISION RECORDS, DOCUMENTATION, AND INVENTORIES ARE MAINTAINED FOR PROPERTY UNDER THE PERSONAL PROPERTY DIVISION'S JURISDICTION;

- **QUARTERLY REPORTS**

OFFICE OF CONTRACTING AND PROCUREMENT MUST COMPLY WITH REQUIREMENTS FOR SUBMITTING QUARTERLY REPORTS TO THIS COUNCIL (AS REQUIRED BY LAW);

- **AUCTION PROCESS**

OFFICE OF CONTRACTING AND PROCUREMENT MUST MANAGE THE AUCTION PROCESS AND EMPLOY AUCTION TOOLS TO ENSURE THAT THE DISTRICT RECEIVES OPTIMUM AND REASONABLE PRICES FOR AUCTIONED FIRE AND EMERGENCY MEDICAL SERVICE APPARATUS;

- **PERSONNEL & TRAINING CERTIFICATION**

OFFICE OF CONTRACTING AND PROCUREMENT NEEDS TO ENSURE THAT THE PERSONAL PROPERTY DIVISION AUCTIONEER IS APPROPRIATELY TRAINED AND CERTIFIED TO CONDUCT AUCTIONS;
AND

- **OVERSIGHT**

OFFICE OF CONTRACTING AND PROCUREMENT NEEDS TO IMPROVE THE OVERALL MANAGEMENT OF THE PERSONAL PROPERTY DIVISION OPERATIONS TO ENSURE THAT THE PERSONAL PROPERTY DIVISION IS OPERATING AT THE OPTIMAL LEVEL OF EFFICIENCY.

IN OCP'S RESPONSE TO OUR DRAFT REPORT, THE CHIEF PROCUREMENT OFFICER INDICATED THAT OCP HAD INITIATED CORRECTIVE ACTIONS ON SOME OF OUR RECOMMENDATIONS AND PROVIDED TARGETS DATES FOR THE COMPLETION OF ACTIONS TO SATISFY ALL OF THE RECOMMENDATIONS. WE CONSIDER OCP'S RESPONSE AS A POSITIVE STEP TOWARDS IMPROVING THE PERSONAL PROPERTY DIVISION.

THANK YOU FOR PROVIDING ME THE OPPORTUNITY TO SHARE THE RESULTS OF OUR AUDIT WITH YOU. AT THIS TIME, MY COLLEAGUES AND I WILL BE HAPPY TO ANSWER YOUR QUESTIONS.