



**A Report to the  
Audit Committee**

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# Audit of Surplus Property Distribution

October 5, 2023

Metropolitan  
Nashville  
Office of  
Internal Audit

# Audit of Surplus Property Distribution

## EXECUTIVE SUMMARY

October 5, 2023



### Why We Did This Audit

The audit was conducted due to surplus property distribution being an important operation that generates revenue and promotes the efficient use of excess property for the Metropolitan Nashville Government.

### What We Recommend

- Perform periodic inventories of surplus property.
- Conduct a cost-benefit analysis for the acquisition of an inventory management system.
- Ensure the timely return of surplus property to departments when needed.
- Take advantage of local marketing assistance from GovDeals.

## BACKGROUND

Surplus Property Distribution is a division of the General Services Department and is the Metropolitan Nashville Government's central point and authority for the management of surplus, seized, confiscated, abandoned, and unclaimed property deemed to be excess. The operation includes managing the collection, inventory, auction, or redistribution of surplus property. Total sales and number of closed auctions for the 2021 and 2022 calendar years can be seen in Exhibit 1 below.

### Exhibit 1: Surplus Property Sales by Calendar Year

Year	Net Sales from Auctions	Closed Auctions
2021	\$1,445,088	7,254
2022	\$1,380,421	5,754

Source: GovDeals Monthly Reports

## OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Surplus property is distributed at an optimal sales price.
- Assets are safeguarded by tracking and monitoring until distribution.
- The Surplus Property program is effectively advertised.

The scope of this audit included all activity from February 1, 2021, through January 31, 2023.

## WHAT WE FOUND

Surplus Property Distribution has knowledgeable, well-trained staff. Surplus property is methodically collected, inventoried, auctioned, and redistributed.

However, inventory management is a manual process that does not have documented inventory counts. Stale inventory dating back to October 2019 that needs to be returned to departments was identified. Additionally, Surplus Property Distribution has not advertised to customers outside of the Metropolitan Nashville Government.

## **GOVERNANCE**

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Surplus Property Distribution is a division of the General Services Department. Metropolitan Nashville Code of Ordinances, Section 2.24.250 authorizes the director of public property administration to sell surplus property and deposit proceeds into the general fund. A Memorandum of Understanding between the Finance Department and General Services Department authorizes the General Services Department to auction surplus property to the public or transfer to another Metropolitan Nashville Government department. Surplus Property Distribution is overseen by a manager who reports to the Director of General Services.

## **BACKGROUND**

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Metropolitan Nashville Government property that is no longer needed or has reached its useful life is considered surplus property. Surplus Property Distribution is the central point for the management, sale, and distribution of surplus property deemed excess by the Metropolitan Nashville Department. Surplus Property Distribution will also sell seized items from the Metropolitan Nashville Police Department or unclaimed Police evidence. Typical items sold by Surplus Property Distribution include office furniture, office supplies, computer equipment, and vehicles. However, more unique items such as jewelry, watches, power tools, musical instruments, and video games will be sold from police seizures or unclaimed property.

Once a department identifies surplus property, a department representative completes an online Surplus Property Request form to notify Surplus Property Distribution of the property. Surplus Property Distribution collects, tags, and enters the property into the inventory record. A description is written, and the item is prepared for distribution. Surplus Property Distribution encourages the re-use of property within Metropolitan Nashville Government departments. Property is sold through an online auction process when no internal need is identified. Surplus Property is auctioned online through GovDeals.

GovDeals is an online auction site specifically created for, and dedicated to, government and educational agencies and their surplus distribution. The service is provided at no cost to the Metropolitan Nashville Government. All fees are paid by the winning bidder on each item. GovDeals is currently used by 14,000 sellers and has over a million registered users. Monthly Metropolitan Nashville Government sales and number of auctions can be seen in Exhibit 2 below.

**Exhibit 2: Auction Sales from GovDeals, February 2021 to January 2023**

Period	Net Sales	Auctions	Average Net Sales Price per Auction
February 2021	\$ 71,937	466	\$154
March 2021	\$ 123,635	708	\$175
April 2021	\$ 34,265	802	\$43
May 2021	\$ 168,447	735	\$229
June 2021	\$ 210,275	799	\$263
July 2021	\$ 139,539	583	\$239
August 2021	\$ 71,818	95	\$756
September 2021	\$ 133,005	669	\$199
October 2021	\$ 194,417	643	\$302
November 2021	\$ 153,067	701	\$218
December 2021	\$ 144,683	544	\$266
January 2022	\$ 51,533	511	\$101
February 2022	\$ 30,371	440	\$69
March 2022	\$ 124,574	644	\$193
April 2022	\$ 78,937	620	\$127
May 2022	\$ 257,405	583	\$442
June 2022	\$ 236,379	509	\$464
July 2022	\$ 77,201	462	\$167
August 2022	\$ 54,949	488	\$113
September 2022	\$ 70,225	407	\$173
October 2022	\$ 122,077	442	\$276
November 2022	\$ 233,732	396	\$590
December 2022	\$ 43,040	252	\$171
January 2023	\$ 281,951	435	\$648
<b>Total</b>	<b>\$ 3,107,462</b>	<b>12,934</b>	<b>\$240</b>

Source: GovDeals Monthly Reports

## OBJECTIVES AND CONCLUSIONS

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### 1. *Is Surplus Property being sold at an optimal sales price?*

**Yes.** A random sample of 47 auctions during the audit period were reviewed to ensure Surplus Property Distribution is obtaining the best price for surplus property. The review found that an effective process is in place for collecting surplus property from departments, managing the inventory of surplus property, and auctioning the property through a third-party vendor. The sold price for all 47 auctions was compared to similar sale prices and auctions and were found to be reasonable.

### 2. *Are assets safeguarded by tracking and monitoring until distribution?*

**Generally, yes.** Physical security for Surplus Property Distribution was reviewed. Surplus property is protected with camera coverage, keycard access, and physical gates and locks. A surprise cycle inventory count was performed, and all items were in inventory or had a documented release form from the customer. A gap analysis was conducted, and all inventory tracking numbers were sequential for the audit period with no gaps found.

While effective, the perpetual inventory management system is manual and cumbersome, and no periodic inventories are conducted. (See Observation A and B.)

Additionally, there are times when surplus property is transferred to Surplus Property Distribution but must be returned. Surplus property needing to be returned since 2019 were in the inventory records. (See Observation C.)

### 3. *Is the Surplus Property Distribution program effectively advertised?*

**Generally, yes.** Surplus Property Distribution advertises internally on the Metropolitan Nashville Government's intranet site and through internal e-mails. The third-party auction vendor, GovDeals, has a presence on all social media platforms and will occasionally showcase items from Nashville.

A review of the services provided by GovDeals found that they will assist with local advertising through press releases in local papers, banners in high traffic areas, and other efforts. The services offered are not being used by Surplus Property Distribution. (See Observation D.)

## AUDIT OBSERVATIONS

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Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (COSO)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

### ***Observation A – Periodic Inventories***

Surplus Property Distribution uses a perpetual inventory management system and does not conduct any periodic inventories or cycle counts. Periodic inventories are a valuable control when using a perpetual inventory system. Benefits could include error verification and cyclical auditing.

Inventory is managed manually in Microsoft Excel which can be manipulated intentionally or by human error. Periodic inventory counts will help rectify any discrepancies in the inventory records. Additionally, conducting periodic cycle counts will provide assurance the inventory system is functioning correctly by periodically verifying a sample of current surplus property on-hand.

Surplus Property Distribution has not relied on periodic inventory counts as surplus property generally has a high turnover ratio and is sold quickly. At the time of the audit, approximately 2,600 items were being maintained by Surplus Property Distribution. Spot inventory counts have been performed on stale inventory, but those counts have not been documented.

Failure to conduct periodic inventories increases the risk of fraud or human errors going unnoticed.

#### *Criteria:*

- *COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.*

#### *Assessed Risk Rating:*

**High**

#### *Recommendation for management of Surplus Property Distribution to:*

Perform a periodic inventory of surplus property. This could be accomplished by performing a full inventory periodically, smaller cycle counts throughout the year, or performing periodic inventory counts when inventory sits for a certain period and becomes stale.

### ***Observation B – Leveraging Technology for Inventory Management***

While effective, the inventory management system is manual and cumbersome. Surplus property is manually stamped, tagged, and input into Microsoft Excel spreadsheets. Tags are all handwritten, and Excel is manually updated as the surplus inventory moves through the process of being collected, stored, auctioned, and distributed. Approximately 15,718 items moved through this manual process during the audit period and were either auctioned or redistributed.

Manual processes increase the risk of inefficiency and errors. An inventory management system could decrease the risk of an inefficient inventory process and allow employees to be more productive in other valuable areas.

*Criteria:*

- COSO, Control Activities—Principle 9—The organization identifies and assesses changes that could significantly impact the system of internal control.
- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- COSO, Control Activities—Principle 11—The organization selects and develops general control activities over technology to support the achievement of objectives.

*Assessed Risk Rating:*

**Medium**

*Recommendation for management of Surplus Property Distribution to:*

Perform a cost-benefit analysis related to the implementation of an inventory management system.

***Observation C – Stale Inventory***

A review of all 2,620 surplus property items in active inventory on May 15, 2023, found surplus property dating back to 2019 that needed to be returned to a department. Property must be returned to departments for various reasons. Typically, these instances will be for seized items needing to be returned to the Metropolitan Nashville Police Department or electronic devices needing to be erased of sensitive information. A total of 31 items were seizures waiting to be returned to the Metropolitan Nashville Police Department, and 9 items were electronic devices waiting to be erased of sensitive information. The oldest items dated back to October 2019.

Holding items in inventory increases the risk of misappropriation or misplacement. Keeping electronic devices longer than necessary could decrease the value and result in lower sales prices.

*Criteria:*

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

*Assessed Risk Rating:*

**Medium**

*Recommendation for management of Surplus Property Distribution to:*

1. Develop and implement procedures to ensure timely return of all surplus property to applicable departments.
2. Coordinate with the applicable departments to return all items currently sitting in inventory awaiting return.

### ***Observation D – Surplus Property Program Advertising***

Advertising to the local Metropolitan Nashville customer base could be enhanced. A review of the services provided by GovDeals found they will assist with local advertising through press releases in local papers, banners in high traffic areas, and other efforts. Surplus Property Distribution will advertise internally to departments on the intranet and through e-mails. However, Surplus Property Distribution relies on the existing registered users with GovDeals for bidding and had no external advertising efforts during the audit period.

Surplus Property Distribution should consider taking advantage of those local marketing services provided by GovDeals to decrease the risk of missing out on local bidders. Increased competition in auctions could lead to higher sales prices.

#### *Criteria:*

- *COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.*

#### *Assessed Risk Rating:*

**Low**

#### *Recommendation for management of Surplus Property Distribution to:*

Develop an advertising plan either internally or utilizing the GovDeals opportunities.



## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## **METHODOLOGY**

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To accomplish our audit objectives, we performed the following steps:

- Reviewed applicable laws and regulations.
- Interviewed key personnel within the Surplus Property Distribution.
- Evaluated internal controls currently in place.
- Considered risk of fraud, waste, and abuse.

## **AUDIT TEAM**

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Jim Carson, CIA, CFE, In-Charge Auditor

Seth Hatfield, CPA, CIA, CFE, CCFO, Quality Assurance

Lauren Riley, CPA, CIA, CFE, ACDA, CMFO, Metropolitan Auditor

## APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches and we encourage them to do so when providing their response to our recommendations.

	Recommendations	Concurrence and Action Plan	Proposed Completion Date
<i>Recommendations for management of Surplus Property Distribution to:</i>			
<b>H</b>	<b>A.1</b> Perform a periodic inventory of surplus property. This could be accomplished by performing a full inventory periodically, smaller cycle counts throughout the year, or performing periodic inventory counts when inventory sits for a certain period and becomes stale.	<b>Accept.</b> The action plan consists of performing a physical inventory of 50 randomly selected warehouse and vehicle lot items.	Physical inventories will be completed quarterly beginning, <b>February 15, 2024.</b>
<b>M</b>	<b>B.1</b> Perform a cost-benefit analysis related to the implementation of an inventory management system.	<b>Accept.</b> The action plan consists of identifying staff of Metro ITS that has knowledge of other Metro departments utilizing effective inventory systems. Meet with ITS to discuss compatibility and cost projection.	Compatibility and cost analysis of a new inventory system to be completed by <b>June 30, 2024.</b>
<b>M</b>	<b>C.1</b> Develop and implement procedures to ensure timely return of all surplus property to applicable departments.	<b>Accept.</b> The action plan consists of creating a written procedure to identify warehoused items that need to be returned to originating department and take appropriate steps to complete the process.	Procedure will be developed and submitted to management within <b>60 days</b> of this final report. Upon management approval, it will be implemented within <b>30 days.</b>
<b>M</b>	<b>C.2</b> Coordinate with the applicable departments to return all items currently sitting in inventory awaiting return.	<b>Accept.</b> The action plan consists of contacting the Asset Coordinator from the originating department to pick up or arrange delivery by eBid staff, of items to be returned.	<b>90 days</b> from this final report. Items to be returned will be picked up or delivered within 90 days or receipt of item/s.

**APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN**

	<b>Recommendations</b>	<b>Concurrence and Action Plan</b>	<b>Proposed Completion Date</b>
<b>L</b>	<b>D.1</b> Develop an advertising plan either internally or utilizing the GovDeals opportunities.	<b>Accept.</b> The action plan is currently in process. eBid staff met with GovDeals September 19, 2023, to discuss implementing local advertising for eBid. “Geo Fencing” is a new GovDeals feature that will advertise auction items locally in Nashville and surrounding cities. This service will be in addition to continued use of national advertising and other specialty item programs. Banners and new business cards have also been ordered from GovDeals and eBid is awaiting delivery.	Per GovDeals, Geo Fencing advertising should be rolled out to production by <b>01/31/2024</b> .  Per GovDeals, banners and business cards should be complete and delivered by <b>01/31/2024</b> .

## APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
<b>HIGH</b>	Large financial impact >\$25,000  Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
<b>MEDIUM</b>	Moderate financial impact \$25,000 to \$10,000	Partial controls  Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	Potential for negative public trust perception
<b>LOW/ Emerging Issues</b>	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective  Implementing / enhancing controls could prevent future problems	Generally complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
<b>Efficiency Opportunity</b>	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			