

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT - INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

A Follow-up Audit to the Review of Santa Clara County's Personal Property Disposal Process by Macias Gini & O'Connell, LLP



Assignment 10321-A
October 29, 2015

Conclusion

This is a follow-up audit to the *Review of Santa Clara County's Personal Property Disposal Process* by Macias Gini & O'Connell, LLP (*Property Disposal Review*). It is anticipated that this report will be submitted to the Board of Supervisor's Finance and Government Operations Committee in spring 2016.

Attachment A describes the implementation status as of Oct 29, 2015. At that time, the Procurement Department¹ has made progress in implementing the 32 recommendations made in the *Property Disposal Review*. Notable accomplishments to date included:

- staffing improvements,
- warehouse space updates,
- walk in sales elimination,
- fixed Asset Transfer and Retirement Forms usage,
- benchmarking study completion,
- county wide policy initiation, and
- new vendor contracts.

As of October 29, 2015, the areas remaining to be addressed mainly relate to operationalization of planned improvements at the Procurement Department, other County departments and contractors. Table One is a summary.

The Procurement Department's attached response indicates that significant progress was made between October 2015 and March 2016. Therefore, the Internal Audit Division plans to perform an additional follow-up audit on these recommendations in Fiscal Year 2016-17.

Table One Recommendation Status Summary				
Implemented	Partially Implemented	Not Implemented	Will Not be Implemented	Total
9	17	5	1	32

Objective

The audit objective was to evaluate the implementation status of the recommendations made in the *Property Disposal Review* issued May 21, 2013.

¹ County property disposal is the responsibility of the Procurement Department.

- Scope** The audit concluded Oct 29, 2015, and was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The scope included follow-up on all 32 recommendations made in the initial audit.
- Methodology** A follow-up audit evaluates the progress made on recommendations. It includes determining whether the implementation is properly substantiated. During a follow-up audit, IAD does not change the initial findings or recommendations. This follow-up report was reviewed by management and written responses are attached.
- Background** The Institute of Internal Auditors' professional standards and the Internal Audit Division's procedures, as approved by the Board of Supervisors, require follow-up on recommendations. As such, follow-up audits are included in the FY16 work plan. This audit was performed to meet these requirements.

Signature on file

Rebecca Haggerty 
Internal Audit Manager
October 29, 2015

Attachments:

Appendix A, STATUS OF AUDIT RECOMMENDATIONS

Controller-Treasurer Department Management Response

Procurement Department Management Response

Review of Santa Clara County's Personal Property Disposal Process by Macias Gini & O'Connell, LLP

APPENDIX A
STATUS OF RECOMMENDATIONS
As of October 29, 2015

This Appendix summarizes the status of recommendations made during the 2013 *Review of Santa Clara County's Personal Property Disposal Process by Macias Gini & O'Connell*. It identifies those recommendations that are implemented, partially implemented, not implemented, no longer applicable, or will not be implemented.

Recommendation Number	Recommendation	Implementation Status	Comments
1	The Procurement Department should require all sales or disposal contracts to be competitively sourced, even if on a public auction site.	Partially Implemented	Two contracts for sales and disposal activities are finalized; however, the scrap metal contract is still being negotiated.
2	The Procurement Department should develop and maintain contracts with vendors who pick up disposed property.	Partially Implemented	Two contracts for sales and disposal activities are finalized; however, the scrap metal contract is still being negotiated.
3	The Procurement Department should consolidate scrap metal disposal/metal recycling into one County contract.	Not Implemented	The Procurement Department is attempting to create one contract but it is not finalized.
4	The Office of the Sheriff should transfer disposal of trial evidence, with the exception of stolen evidence, cash, guns, and dangerous or controlled substances, to the County Property Disposal Warehouse.	Not Implemented	The disposal of non-lethal evidence is under discussion with the Office of the Sheriff, County Counsel and the Procurement Department.
5	The Procurement Department should update the County intranet site to include surplus items available for internal County use and communicate this availability to the County end-users.	Partially Implemented	The intranet site is in process of being developed by the Procurement Department.
6	The Procurement Department should evaluate and consider eliminating walk-in sales.	Implemented	Walk-in sales have been eliminated.

Recommendation Number	Recommendation	Implementation Status	Comments
7	The Procurement Department should require itemization of all items sold at the Property Disposal Warehouse.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft includes itemization of items sold at the Property Disposal Warehouse. The recommendation remains partially implemented until final issuance of the policy.
8	The Procurement Department should reconcile checks submitted by the Property Disposal Warehouse with ECS Refining quarterly reports, and assure all checks from ECS Refining are submitted to it. This will assure compliance with the California Government Code 25504.	Partially Implemented	California Government Code 25504 requires that proceeds of any personal property belonging to the County be paid into the County treasury for the use of the County. The two new contracts with ECS Refining and First Capital Auction require the contractors to make all payments via ACH/wire transfer to the Procurement Department. A third contract for scrap metal is not yet finalized. Therefore this recommendation remains partially implemented until the scrap metal contract is finalized.
9	The Procurement Department should implement a basic system for inventory management at the Property Disposal Warehouse.	Partially Implemented	The Property Disposal Warehouse is developing an inventory management system. The recommendation is partially implemented until completion of the system.
10	The Property Disposal Warehouse should reformat the Excel file of the monthly transaction report that it sends to the Procurement Department's accounting staff.	Not Implemented	The Procurement Department plans on reformatting current Excel files and forms for the reconciliation process but has not yet done so.

Recommendation Number	Recommendation	Implementation Status	Comments
11	The Roads and Airport Department should use the Facilities and Fleet Department's process of sending Fixed Asset Transfer forms to the Controller-Treasurer Department as soon as vehicles are transferred for disposal.	Implemented	The Roads and Airport Department is now following the updated process, sending these forms to the Controller-Treasurer Department when vehicles are transferred for disposal.
12	The Controller-Treasurer Department should investigate an SAP workflow-driven process to automate the Fixed Asset Transfer and Fixed Asset Retirement Form processes.	Not Implemented	The Controller-Treasurer Department plans to initiate and complete an automation project, but has not yet done so, as its technical staff are busy implementing or updating other countywide accounting systems.
13	The Procurement Department should work with County Counsel and the Controller-Treasurer Department to understand and validate how proceeds from vehicle sales, including sales from enterprise-funded departments, meet the criteria in Government Code 25504.	Partially Implemented	California Government Code 25504 requires that proceeds of any personal property belonging to the County be paid into the County treasury for the use by the County. A countywide policy and procedure has been drafted and is being reviewed. The draft requires all sales revenue to be deposited electronically to the General Fund, with exceptions for Fleet Department, Roads and Airports Department, and special districts. The draft should also address departments funded through other enterprise or internal service funds, for example Valley Medical Center. The recommendation remains partially implemented until final issuance of the countywide policy.

Recommendation Number	Recommendation	Implementation Status	Comments
14	The Property Disposal Warehouse, Facilities and Fleet Department, and Valley Medical Center should update or create procedures for property disposal.	Partially Implemented	The Facilities and Fleet Department has completed its desk manual that includes procedures on property disposal. The Property Disposal Warehouse and Valley Medical Center anticipate completion of desk manuals addressing this by December 2015.
15	The Procurement Department should investigate the extent that property disposal or cash received by other County departments was not fully reported or recorded.	Implemented	An investigation was concluded with all amounts received by County departments were found to be recorded.
16	The Procurement Department should conduct a benchmarking study to compare current property disposal practices with leading practices in other cities, counties, and private sector organizations.	Implemented	A benchmark study was completed and results of study were reviewed by the Procurement Department for best practices.

Included in the 2013 *Review of Santa Clara County's Personal Property Disposal Process* by Macias Gini & O'Connell was a chart of recommendations made in a performance review conducted in 2008 by the County of Santa Clara Director of Procurement. The 2008 recommendations were included in the follow up audit and are listed below.

Recommendation Number	Recommendation	Implementation Status	Comments
2008.1	Property Disposal should take a more active role in the auction sales process for vehicles. The Procurement Department Director has the responsibility to sell County surplus property. This practice allows the County to have a check and balance, or uniformity regarding what is sold as County surplus property.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft policy includes an active role in vehicle sales for the Property Disposal Department. The recommendation remains partially implemented until final issuance of the countywide policy.
2008.2	All auction responsibilities should be reviewed with the Procurement Department taking a lead role for vehicles transported for auction.	Partially Implemented	The countywide policy and procedure draft includes the Procurement Department's responsibility for vehicles transported for auction. This recommendation remains partially implemented until final issuance of the countywide policy.
2008.3	All revenues gained from the sales of County property should be returned to the County General Fund for County reuse. Departments now dependent on sales revenue to offset budget requirements should be required to fully budget for their operational needs instead of planning on revenue that may or may not meet or exceed expectations. The exception to this rule may be Roads and Airport Department because of separate funding sources.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft requires all sales revenue electronically deposited to the General Fund, with exceptions to Fleet Department, Roads and Airport Department, and special districts. The draft should also address departments funded through other enterprise or internal service funds, for example Valley Medical Center. Recommendation remains partially implemented until final issuance of the countywide policy.

Recommendation Number	Recommendation	Implementation Status	Comments
2008.4	Checks from vehicle auctions are either delivered directly to Property Disposal or at times they are sent to the Facilities and Fleet Department. The Facilities and Fleet Department stated that they receive all the checks. It was not clear what the Facilities and Fleet Department did with checks as all of them end up at Procurement Department for processing. This issue needs to be resolved, with all checks going to the Procurement Department for distribution as required.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft requires all sales revenue to be deposited electronically via ACH/wire transfer and handled by the Procurement Department. The recommendation remains partially implemented until final issuance of the countywide policy.
2008.5	All auction and sales agreements should be re-bid to ensure maximum sales revenue. Transparency of the process and the necessary contract agreement terms and conditions protect the County.	Partially Implemented	Two contracts were competitively bid and finalized; however, the scrap metal contract is still being negotiated.
2008.6	The Procurement Department should negotiate a scrap metal agreement that covers all county departments and sites requiring storage containers. The agreement should include the disposal and sale of wrecked vehicles not suitable for auction sale.	Not Implemented	The scrap metal contract still being negotiated.
2008.7	Eliminate use of the "Fixed Asset Transfer Form". Instead, require only the "Fixed Asset Retirement Form" for items that have a fixed asset identification number.	Will Not be Implemented	Elimination of the form is not necessary. The Fixed Asset Retirement Form is required for retirement and disposal of assets; the Fixed Asset Transfer Form is required when assets are transferred between departments.
2008.8	Departments sending surplus fixed assets that have a fixed asset number to the Property Disposal facility should complete the correct form. This will eliminate duplicate efforts and save time.	Implemented	The correct forms are now utilized.

Recommendation Number	Recommendation	Implementation Status	Comments
2008.9	A communication plan regarding the use of the "Fixed Asset Transfer Form" should be completed to put this process in place.	Implemented	Instructions on the purpose and use of this form are clearly stated in the Controller-Treasurer's Fixed Asset Policy. This policy has been in place for at least ten years.
2008.10	The Fixed Asset Retirement Form can be filled out and printed online. The forms are to accompany surplus items turned into Property Disposal.	Implemented	Instructions on the purpose and use of this form are clearly stated in the Controller-Treasurer's Fixed Asset Policy. This policy has been in place for at least ten years.
2008.11	All sales receipts should include a complete listing of items sold; payment will be made at the time of sale, before the items are removed from County property.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft includes itemization of items sold at the Property Disposal Warehouse. The recommendation remains partially implemented until final issuance of the countywide policy.
2008.12	A Program Manager should routinely oversee activities at the Property Disposal facility and all bid and auction sales activities. Records and performance measures should routinely be reviewed and discussed with the Senior Warehouse Materials Handler.	Partially Implemented	A Program Manager has been assigned to oversee activities at the facility and all bid and auction sales activities. However, records and performance measures have not yet been developed.
2008.13	A Program Manager should ensure that a buyer is available to support all bidding and auction functions in support of surplus property activities.	Implemented	A Program Manager is now in charge of surplus property activities.

Recommendation Number	Recommendation	Implementation Status	Comments
2008.14	Space should be designated at the Property Disposal Facility for the storage of items that are to be kept for County reuse and are not to be sold. A list of such items should routinely be sent out to all County departments or made available on line at the Procurement Department web site.	Partially Implemented	The Property Disposal Warehouse has been organized and space is utilized for storage of items kept for County reuse. The Procurement Department is in the process of implementing an online site for County departments to view these items.
2008.15	Ensure that all sales transaction indicate specific items that are sold. Do not use "miscellaneous" as the description.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft includes itemization of items sold at the Property Disposal Warehouse. The recommendation remains partially implemented until final issuance of the countywide policy.
2008.16	While the Senior Warehouse Materials Handler is responsible for housekeeping, the Program Manager should review overall safety and housekeeping issues during visits to the facility.	Implemented	A Program Manager is responsible for housekeeping and safety in the warehouse.

County of Santa Clara

Finance Agency
Controller-Treasurer

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March 11, 2016

TO: Rebecca Haggerty, Internal Audit Manager

FROM: Alan Minato, Controller-Treasurer

SUBJECT: Management Response to:
A Follow-up Audit to the Review of Santa Clara County's Personal Property Disposal Process by Macias Gini & O'Connell, LLP

Recommendation 12 – Not Implemented

The Controller-Treasurer Department should investigate an SAP workflow-driven process to automate the Fixed Asset Transfer and Fixed Asset Retirement Form processes.

Controller-Treasurer Response – Recommendation 12

Agrees with status of Not Implemented.

The Controller-Treasurer Department has investigated this process and believes that it is possible to implement. However, it has not implemented the change due to major system upgrades being done and implementation of the Ariba procurement and pay system. The Controller-Treasurer Department will prioritize this change with other competing system enhancements.

Recommendation 2008.7 – Will Not Be Implemented

Eliminate use of the “Fixed Asset Transfer Form” (FATF). Instead, require only the “Fixed Asset Retirement Form” (FARF) for items that have a fixed asset identification number.

Controller-Treasurer Response – Recommendation 2008.7

Agrees with status of Will Not Be Implemented.

This finding is incorrect. The two forms serve different purpose. The Fixed Asset Retirement Form is required for retirement and disposal of assets; the Fixed Asset Transfer Form is required when assets are transferred between departments.

Recommendation 2008.9 - Implemented

A communication plan regarding the use of the “Fixed Asset Transfer Form” should be completed to put this process in place.

Controller-Treasurer Response – Recommendation 2008.9

Agrees with status of Implemented.

Instructions with purpose and use of this form is located on the Controller-Treasurer's Fixed Asset Policy. This form and its instructions are included in the Controller-Treasurer Department's Fixed Asset Policy, which has already been widely distributed to County departments and can be found on the Controller-Treasurer intranet site.

Recommendation 2008.10 – Implemented

The Fixed Asset Retirement Form can be filled out and printed online. The forms are to accompany surplus items turned into Property Disposal.

Controller-Treasurer Response – Recommendation 2008.10

Agrees with status of Implemented.

This form and its instructions have been included on the Controller-Treasurer Department's intranet site for many years.

Thank you to the Internal Audit Division for the work on this project. It is much appreciated.



County of Santa Clara

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Procurement Department

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Assignment 10321-A

March 30, 2016

To: Rebecca Haggerty, Internal Audit Manager

From: Jenti Vandertuig, Director of Procurement

Subject: Internal Audit Report: Follow Up on the Personal Property Disposal Process Review



The Procurement Department has provided a response to the Internal Audit Report – Follow Up on the Personal Property Disposal Process Review, Appendix A – Status of Recommendations as of October 29, 2015.

Utilizing the same report, the Procurement Department has provided a status update as of March 15, 2016 for each recommendation. Of the twenty-three (23) recommendations and implementation status identified in the report, the Procurement Department has taken the following actions with a detailed explanation as part of the report:

1. Fully implemented twenty (20) recommendations
2. Referred two (2) recommendations to the Controller-Treasurer Department for input to the Internal Auditor; and
3. One (1) recommendation will not be implemented as the department does not agree with the recommendation.

We thank the Internal Audit Department staff for their thorough review, recommendations, and follow up.

**APPENDIX A
STATUS OF RECOMMENDATIONS
As of October 29, 2015**

This Appendix summarizes the status of recommendations made during the 2013 *Review of Santa Clara County's Personal Property Disposal Process by Macias Gini & O'Connell*. It identifies those recommendations that are implemented, partially implemented, not implemented, no longer applicable, or will not be implemented.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Department Management response as of 3/15/2016
1	The Procurement Department should require all sales or disposal contracts to be competitively sourced, even if on a public auction site.	Partially Implemented	Two contracts for sales and disposal activities are finalized; however, the scrap metal contract is still being negotiated.	Agree. Status as of 3/15/16 – Fully implemented. The scrap metal contract was finalized on 12/8/15 and a copy of the executed contract has been forwarded to Internal Audit. All sales and disposal contracts on auction, ewaste and scrap metals have been solicited, negotiated and established by competitive solicitation process to address this audit recommendation.
2	The Procurement Department should develop and maintain contracts with vendors who pick up disposed property.	Partially Implemented	Two contracts for sales and disposal activities are finalized; however, the scrap metal contract is still being negotiated.	Agree. Status as of 3/15/16 - Fully implemented. Contracts with the property disposal vendors were in place since 12/8/15. Procurement will continue to maintain these contracts and ensure compliance with this audit recommendation.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Department Management response as of 3/15/2016
3	The Procurement Department should consolidate scrap metal disposal/metal recycling into one County contract.	Not Implemented	The Procurement Department is attempting to create one contract but it is not finalized.	Agree. Status as of 3/15/16 – Fully implemented. Procurement has consolidated the scrap metal disposal/metal recycling into one contract on 12/8/15.
4	The Office of the Sheriff should transfer disposal of trial evidence, with the exception of stolen evidence, cash, guns, and dangerous or controlled substances, to the County Property Disposal Warehouse.	Not Implemented	The disposal of non-lethal evidence is under discussion with the Office of the Sheriff, County Counsel and the Procurement Department.	Agree. Status as of 3/15/16 - Recommend to remove from implementation. While Procurement understands this audit concerns, it is important for the Sheriff Office to continue its compliance with County Ordinance A20-6 to ensure the integrity of trial evidence and maintain the chain of custody in all stages of the litigation. The Director of Procurement recommends delegation of authority to the Sheriff Office to dispose non-lethal trial evidence via an auctioned vendor selected through the RFP process.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Department Management response as of 3/15/2016
5	The Procurement Department should update the County intranet site to include surplus items available for internal County use and communicate this availability to the County end-users.	Partially Implemented	The intranet site is in process of being developed by the Procurement Department.	<p>Agree. Status as of 3/15/16 – Fully implemented. The Property Disposal Inventory list has been updated as of 2/1/16 and maintained at the following link.</p> <p>http://eportal.sccgov.org/sites/proc/propertydisposal/Pages/Property-Disposal.aspx</p>
6	The Procurement Department should evaluate and consider eliminating walk-in sales.	Implemented	Walk-in sales have been eliminated.	Agree.
7	The Procurement Department should require itemization of all items sold at the Property Disposal Warehouse.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft includes itemization of items sold at the Property Disposal Warehouse. The recommendation remains partially implemented until final issuance of the policy.	<p>Agree. Status as of 3/15/16 – Fully implemented. Procurement has revised the Property Disposal desk manual to require itemization/documentation on all surplus items sold/transferred via reuse, resale or recycle.</p>

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Department Management response as of 3/15/2016
8	The Procurement Department should reconcile checks submitted by the Property Disposal Warehouse with ECS Refining quarterly reports, and assure all checks from ECS Refining are submitted to it. This will assure compliance with the California Government Code 25504.	Partially Implemented	California Government Code 25504 requires that proceeds of any personal property belonging to the County be paid into the County treasury for the use of the County. The two new contracts with ECS Refining and First Capital Auction require the contractors to make all payments via ACH/wire transfer to the Procurement Department. A third contract for scrap metal is not yet finalized. Therefore this recommendation remains partially implemented until the scrap metal contract is finalized.	Agree. Status as of 3/15/16 – Fully implemented. Sales proceed were made by ACH/ wire transfer to Procurement’s Wells Fargo account as of February 2016. Property Disposal Warehouse does not receive any checks from ECS Refining or Alco Iron & Metal. Contractor sends bank confirmation, on the same day of bank transfer, and settlement report to Property Disposal Warehouse for reconciliation. After the transactions and payment were reconciled, Property Disposal Warehouse forwards the documentation to Procurement Administration to credit the fund back to the County general fund.
9	The Procurement Department should implement a basic system for inventory management at the Property Disposal Warehouse.	Partially Implemented	The Property Disposal Warehouse is developing an inventory management system. The recommendation is partially implemented until completion of the system.	Agree. Status as of 3/15/16 – Fully implemented. Property Disposal assigns the surplus items (Category 2) that turned in by the departments with an inventory number: last two digits of the month and day, with the numerical order that it was turned in (i.e. 0201-001 translate to February 1, first item turned in).

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Department Management response as of 3/15/2016
10	The Property Disposal Warehouse should reformat the Excel file of the monthly transaction report that it sends to the Procurement Department's accounting staff.	Not Implemented	The Procurement Department plans on reformatting current Excel files and forms for the reconciliation process but has not yet done so.	Agree. Status as of 3/15/16 – Fully implemented. Procurement has reformatted the current Excel files and forms for the reconciliation process. A copy of this reformatted Excel spreadsheet has been forwarded to Internal Audit on 2/25/16.
11	The Roads and Airport Department should use the Facilities and Fleet Department's process of sending Fixed Asset Transfer forms to the Controller-Treasurer Department as soon as vehicles are transferred for disposal.	Implemented	The Roads and Airport Department is now following the updated process, sending these forms to the Controller-Treasurer Department when vehicles are transferred for disposal.	Agree.
12	The Controller-Treasurer Department should investigate an SAP workflow-driven process to automate the Fixed Asset Transfer and Fixed Asset Retirement Form processes.	Not Implemented	The Controller-Treasurer Department plans to initiate and complete an automation project, but has not yet done so, as its technical staff are busy implementing or updating other countywide accounting systems.	Agree. This audit recommendation will not be implemented by Procurement. Directed to Controller-Treasurer Department for response.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Department Management response as of 3/15/2016
13	The Procurement Department should work with County Counsel and the Controller-Treasurer Department to understand and validate how proceeds from vehicle sales, including sales from enterprise-funded departments, meet the criteria in Government Code 25504.	Partially Implemented	California Government Code 25504 requires that proceeds of any personal property belonging to the County be paid into the County treasury for the use by the County. A countywide policy and procedure has been drafted and is being reviewed. The draft requires all sales revenue to be deposited electronically to the General Fund, with exceptions for Fleet Department, Roads and Airports Department, and special districts. The draft should also address departments funded through other enterprise or internal service funds, for example Valley Medical Center. The recommendation remains partially implemented until final issuance of the countywide policy.	Agree. Status as of 3/15/16 – Fully implemented. Procurement has revised the Surplus Property Disposal policy and procedures to incorporate this Audit recommendation on the handling of proceeds from auction, eWaste and scrap metal sales to the County general fund. The revised policy and procedures have been reviewed and posted to the Property Disposal website.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Department Management response as of 3/15/2016
14	The Property Disposal Warehouse, Facilities and Fleet Department, and Valley Medical Center should update or create procedures for property disposal.	Partially Implemented	The Facilities and Fleet Department has completed its desk manual that includes procedures on property disposal. The Property Disposal Warehouse and Valley Medical Center anticipate completion of desk manuals addressing this by December 2015.	Agree. Status as of 3/15/16 – Fully implemented. Procurement and Facilities and Fleet have respectively completed its department desk manual and procedures on property disposal. Valley Medical Center anticipates completion of its desk manual by May 2016.
15	The Procurement Department should investigate the extent that property disposal or cash received by other County departments was not fully reported or recorded.	Implemented	An investigation was concluded with all amounts received by County departments were found to be recorded.	Agree.
16	The Procurement Department should conduct a benchmarking study to compare current property disposal practices with leading practices in other cities, counties, and private sector organizations.	Implemented	A benchmark study was completed and results of study were reviewed by the Procurement Department for best practices.	Agree.

DRAFT

Included in the 2013 *Review of Santa Clara County's Personal Property Disposal Process* by Macias Gini & O'Connell was a chart of recommendations made in a performance review conducted in 2008 by the County of Santa Clara Director of Procurement. The 2008 recommendations were included in the follow up audit and are listed below.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Management response as of 3/15/16
2008.1	Property Disposal should take a more active role in the auction sales process for vehicles. The Procurement Department Director has the responsibility to sell County surplus property. This practice allows the County to have a check and balance, or uniformity regarding what is sold as County surplus property.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft policy includes an active role in vehicle sales for the Property Disposal Department. The recommendation remains partially implemented until final issuance of the countywide policy.	Agree. Status as of 3/15/16 – Fully implemented. Procurement has revised the Property Disposal policy and procedures to incorporate Internal Audit recommendation to take a more active role in the auction sales process for vehicles. PM II and/or Sr. Warehouse Material Handler will attend live auction for vehicles at least twice a year. Both attended the auction on site held 2/20/16 at First Capitol Auction to assure that uniformity is applied to the auction sales process. Pictures and video of the auction have been forwarded to Internal Audit.
2008.2	All auction responsibilities should be reviewed with the Procurement Department taking a lead role for vehicles transported for auction.	Partially Implemented	The countywide policy and procedure draft includes the Procurement Department's responsibility for vehicles transported for auction. This recommendation remains partially implemented until final issuance of the countywide policy.	Agree. Status as of 3/15/16 – Fully implemented. Procurement is taking a lead role in the auction sales after the vehicles left County premises.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Management response as of 3/15/16
2008.3	All revenues gained from the sales of County property should be returned to the County General Fund for County reuse. Departments now dependent on sales revenue to offset budget requirements should be required to fully budget for their operational needs instead of planning on revenue that may or may not meet or exceed expectations. The exception to this rule may be Roads and Airport Department because of separate funding sources.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft requires all sales revenue electronically deposited to the General Fund, with exceptions to Fleet Department, Roads and Airport Department, and special districts. The draft should also address departments funded through other enterprise or internal service funds, for example Valley Medical Center. Recommendation remains partially implemented until final issuance of the countywide policy.	Agree. Status as of 3/15/16 – Fully implemented to the extent that all revenues gained from sales of County property will be deposited electronically to Procurement’s bank account and credited back to the County General Fund for County use. Exception will not be taken - 90% of all sales revenue from the vehicle sales will be credited back to the originating County Entity’s vehicle replacement fund and 10% to Procurement.
2008.4	Checks from vehicle auctions are either delivered directly to Property Disposal or at times they are sent to the Facilities and Fleet Department. The Facilities and Fleet Department stated that they receive all the checks. It was not clear what the Facilities and Fleet Department did with checks as all of them end up at Procurement Department for processing. This issue needs to be resolved, with all checks going to the Procurement Department for distribution as required.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft requires all sales revenue to be deposited electronically via ACH/wire transfer and handled by the Procurement Department. The recommendation remains partially implemented until final issuance of the countywide policy.	Agree. Status as of 3/15/16 – Fully implemented. Procurement has revised the Property Disposal policy and procedures to require all sales revenue to be deposited electronically via ACH/wire transfer to Procurement Wells Fargo’s account for reconciliation. Fleet does not receive any checks from the auction vendor. A copy of the bank wire confirmation, settlement report, and internal transfer of sales revenue has been forwarded to Internal Audit.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Management response as of 3/15/16
2008.5	All auction and sales agreements should be re-bid to ensure maximum sales revenue. Transparency of the process and the necessary contract agreement terms and conditions protect the County.	Partially Implemented	Two contracts were competitively bid and finalized; however, the scrap metal contract is still being negotiated.	Agree. Status as of 3/15/16 – Fully implemented. Please see Procurement response on item 1 above.
2008.6	The Procurement Department should negotiate a scrap metal agreement that covers all county departments and sites requiring storage containers. The agreement should include the disposal and sale of wrecked vehicles not suitable for auction sale.	Not Implemented	The scrap metal contract still being negotiated.	Agree. Status as of 3/15/16 – Fully implemented. Please see Procurement response on item 2 above.
2008.7	Eliminate use of the “Fixed Asset Transfer Form”. Instead, require only the “Fixed Asset Retirement Form” for items that have a fixed asset identification number.	Will Not be Implemented	Elimination of the form is not necessary. The Fixed Asset Retirement Form is required for retirement and disposal of assets; the Fixed Asset Transfer Form is required when assets are transferred between departments.	Agree. This recommendation will not be implemented by Procurement. Directed to the Controller-Treasurer Department for response.
2008.8	Departments sending surplus fixed assets that have a fixed asset number to the Property Disposal facility should complete the correct form. This will eliminate duplicate efforts and save time.	Implemented	The correct forms are now utilized.	Agree.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Management response as of 3/15/16
2008.9	A communication plan regarding the use of the "Fixed Asset Transfer Form" should be completed to put this process in place.	Implemented	Instructions on the purpose and use of this form are clearly stated in the Controller-Treasurer's Fixed Asset Policy. This policy has been in place for at least ten years.	Agree.
2008.10	The Fixed Asset Retirement Form can be filled out and printed online. The forms are to accompany surplus items turned into Property Disposal.	Implemented	Instructions on the purpose and use of this form are clearly stated in the Controller-Treasurer's Fixed Asset Policy. This policy has been in place for at least ten years.	Agree.
2008.11	All sales receipts should include a complete listing of items sold; payment will be made at the time of sale, before the items are removed from County property.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft includes itemization of items sold at the Property Disposal Warehouse. The recommendation remains partially implemented until final issuance of the countywide policy.	Agree. Status as of 3/15/16 – Fully implemented. Procurement has revised the Property Disposal policy and procedures to incorporate the Internal Audit recommendation.

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Management response as of 3/15/16
2008.12	A Program Manager should routinely oversee activities at the Property Disposal facility and all bid and auction sales activities. Records and performance measures should routinely be reviewed and discussed with the Senior Warehouse Materials Handler.	Partially Implemented	A Program Manager has been assigned to oversee activities at the facility and all bid and auction sales activities. However, records and performance measures have not yet been developed.	Agree. Status as of 3/15/16 – Fully implemented. A Program Manager has been assigned to oversee activities at the facility and all bid and auction sales activities. The Property Disposal procedures have been revised to include performance measures and records review as recommended.
2008.13	A Program Manager should ensure that a buyer is available to support all bidding and auction functions in support of surplus property activities.	Implemented	A Program Manager is now in charge of surplus property activities.	Agree.
2008.14	Space should be designated at the Property Disposal Facility for the storage of items that are to be kept for County reuse and are not to be sold. A list of such items should routinely be sent out to all County departments or made available on line at the Procurement Department web site.	Partially Implemented	The Property Disposal Warehouse has been organized and space is utilized for storage of items kept for County reuse. The Procurement Department is in the process of implementing an online site for County departments to view these items.	Agree. Status as of 3/15/16 – Fully implemented. The Property Disposal Warehouse has cleaned up, reorganized and utilized for optimal reuse of surplus items. Currently, County users can access the Property disposal inventory spreadsheet online at the following link. http://eportal.sccgov.org/sites/proc/propertydisposal/Pages/Property-Disposal.aspx

Recommendation #	Recommendation	Implementation Status	Comments	Procurement Management response as of 3/15/16
2008.15	Ensure that all sales transaction indicate specific items that are sold. Do not use "miscellaneous" as the description.	Partially Implemented	A countywide policy and procedure has been drafted and is being reviewed. The draft includes itemization of items sold at the Property Disposal Warehouse. The recommendation remains partially implemented until final issuance of the countywide policy.	Agree. Status as of 3/15/16 – Fully implemented. Please see Procurement response on item 7 and 2008.11 above.
2008.16	While the Senior Warehouse Materials Handler is responsible for housekeeping, the Program Manager should review overall safety and housekeeping issues during visits to the facility.	Implemented	A Program Manager is responsible for housekeeping and safety in the warehouse.	Agree.

May 21, 2013

Mr. Vinod Sharma
Auditor-Controller/Finance Agency Director
County of Santa Clara
70 W. Hedding St., 9th Floor - East Wing
San Jose, CA 95110

Dear Mr. Sharma,

On January 29, 2013, our firm was hired by the County of Santa Clara to review the County's disposal process for personal property and to identify potential opportunities for improvement within County departments. We have completed our review, provided an earlier draft report for comment, and have attached our final report.

We would like to take this opportunity to thank the County employees, including staff from Procurement, Facilities and Fleet Department, Roads and Airports Department, Office of the Sheriff, Social Services Agency, and the Santa Clara Valley Medical Center that participated in this project. Their collective interest and cooperation is appreciated.

Sincerely,



Macias Gini & O'Connell, LLP

FINAL REPORT

Review of Santa Clara County's Personal Property Disposal Process

Executive Summary

Macias Gini & O'Connell, LLP (MGO) conducted a review of the County's disposal process for personal property to identify potential opportunities for improvement within County departments. We evaluated compliance with California Government Code and County Ordinance provisions for personal property disposal. MGO also reviewed key transaction data, identified potential areas for improvement, and assessed controls on information systems managing personal property disposal. In addition, we evaluated the likelihood and impact of any opportunity for improvement.

The scope of work included six County organizations, specifically:

1. Procurement Department
2. Fleet Management (within Facilities and Fleet Department)
3. Office of the Sheriff
4. Roads and Airport Department
5. Social Services Agency
6. Santa Clara Valley Medical Center.

MGO interviewed 25 current County employees and one former County employee. We also conducted detailed walk-throughs of the personal property disposal process for each organization. MGO also reviewed existing California laws, County ordinances and policies, process documentation, vendor reports, and transaction reports. We evaluated County compliance with existing California law, County ordinances, and County policies.

Our assessment determined 16 recommendations for the County to improve its personal property disposal practices. Key issues are:

- Compliance with California Government Codes governing property disposal.
- Reconciliation of electronic waste sale records between vendor and Property Disposal.
- Competitive sourcing of property sales.

County of Santa Clara – Personal Property Disposal Review

Additional recommendations fall into the areas of improved policies and procedures, better dissemination of sale information, increased County revenue, and increased internal control. In addition we note that only two of the sixteen recommendations from the 2008 property disposal review have been fully implemented.

Background

In August of 2008, the County of Santa Clara Director of Procurement finalized a performance review of the Personal and Surplus Property function to determine if existing policies and Government Codes were being adhered to, as well as to identify opportunities for operational improvements. The resulting report provided an opportunity to review the County Surplus Property operations and processes and to make recommendations. In early 2010, a follow up of the August 2008 Property Disposal assessment was conducted to determine the level of progress that has been achieved implementing recommendations from the report.

In January 2013, the County of Santa Clara engaged MGO to document the asset disposal procedures and processes performed, areas of non-compliance, if any, and recommendations for improvement. This report describes the results of our review.

Objective and Scope

The objective of this engagement is to conduct a review of the County's disposal process for surplus personal property¹ and to identify potential opportunities for improvement within County departments. The scope of the personal property disposal process review included:

- Evaluating compliance with California Government Code and County Ordinance provisions for personal property disposal, including the following County organizations:
 - Procurement Department
 - Fleet Management (within Facilities and Fleet Department)
 - Office of the Sheriff
 - Roads and Airport Department
 - Social Services Agency
 - Santa Clara Valley Medical Center.
- Assessing controls on information systems managing personal property disposal.
- Reviewing key transaction data.
- Identifying potential areas for improvement.
- Evaluating the likelihood and impact of any opportunity for improvement.

¹ Personal property, as defined here, is non-real estate items purchased by the County for County use. Personal property may or may not be capitalized as an asset. Examples of personal property include vehicles, furniture, computers, printers, filing cabinets, hospital beds, and standalone laboratory equipment.

County of Santa Clara – Personal Property Disposal Review

The work began on January 29, 2013 and concluded on April 24, 2013. The review covered Santa Clara County's property disposal practices for the period January 1, 2011 to December 31, 2012.

Methodology

We reviewed the relevant documentation describing the procedures, prior findings, County policies, and applicable County ordinances and California codes.

- California Government Code §25372 (property donations)
- California Government Code §§25500-25509 (personal property disposal)
- California Penal Code §1417.5, §1417.6, and §§1420-1422 (evidence property disposal)
- Santa Clara County Code of Ordinances, Title A, Division A15
 - Sec. A15-16. - Transfer of equipment, supplies between departments; furnishing of services by one department to another.
- Santa Clara County Code of Ordinances, Title A, Division A34
 - Sec. A34-80. - Contracts for services generally.
 - Sec. A34-88. - Report of personal property no longer needed.
 - Sec. A34-89. - Acquisition of salvage from Director of Procurement.
 - Sec. A34-90. - Disposal of personal property no longer needed.
- Santa Clara County Board of Supervisors Policy Manual
 - Section 3.52, Comprehensive Vehicle Policy (Adopted 6-22-10; Amended 10-25-11); (covers elements of vehicle disposal)
 - Section 5.6, Procurement Process (Revised 3-06-12); (covers elements of property disposal).
- Santa Clara County Office of the Controller-Treasurer Fixed Assets Policies and Procedures (March 2006; Updated April 15011)
- Personal and Surplus Property Disposal Desk Manual (Revised 8-12-08)
- County of Santa Clara Property Surplus website
(<http://www.sccgov.org/sites/proc/PropertySurplus/Pages/default.aspx>)
- Prior (2008 and 2010) property disposal assessment reports commissioned by the County, including recommendations and follow-up reports, covering personal property disposal.

We conducted site visits of County departments and interviewed staff responsible for personal property disposal to 1), understand current personal property disposal financial management and business processes, and 2) to assess the extent of uniform implementation of these processes. Below we show individuals interviewed by MGO, their organizations, and the recommendations associated with those organizations.

County of Santa Clara – Personal Property Disposal Review

Figure 1.0: Interviews Performed with County of Santa Clara Personnel

Employee Name	Position	Department	Associated Recommendations
Darryl Smith	Senior Warehouse Material Handler	Procurement	1, 2, 3, 5, 6, 7, 8, 9, 10, 13, 14, 15, 16
Kristine Au	Program Manager II	Procurement	
Maria Melgoza	Senior Management Analyst	Procurement	
Rita Hamilton	Former Director and Consultant	Procurement	
Dennis Brooks	Fleet Manager	Facilities and Fleet	14
Bernice Smith	Administrative Support Officer	Facilities and Fleet	14
Chris Lynn	Materials Manager	Valley Medical Center	
Donald Urquhart	Stock Clerk Specialist	Valley Medical Center	
Jasbir Chahal	Information Systems Manager II	Valley Medical Center	
Rick Andrews	Facilities Manager	Valley Medical Center	
David Wirick	Senior Biomedical Technician	Valley Medical Center	
Dawna Mencimer	Administrative Services Officer	Roads and Airports	11
Gene Hewitt	Administrative Operations Manager	Roads and Airports	
Madhur Bagla	Fiscal Officer	Roads and Airports	
Rene Balance	Senior Accountant	Roads and Airports	
Aldwin Valbuena	Accountant Auditor Appraiser	Roads and Airports	
Brian Durbin	Evidence Technician	Office of the Sheriff	4
Frank Zacharisen	Lieutenant	Office of the Sheriff	
Juan Gallardo	Information Systems Manager III	Office of the Sheriff	
Elizabeth Lipira	Administrative Support Officer III	Social Services Agency	14 (CO policy portion)
Barbara Henderson	Central Services Manager	Social Services Agency	
Kimberly Faraday	Management Analysis Program Manager I	Social Services Agency	
Trish Phan	Accountant Assistant	Finance Agency	12
Annie Tom	Senior Accountant	Finance Agency	
Rebecca Haggerty	Accounting Manager	Finance Agency	
Alan Minato	Division Manager	Finance Agency	

We also reviewed calendar year 2010 (second half), 2011, and 2012 property disposal transaction records, including records from:

- Property Disposal Warehouse (transfers, sales, donations, and reports submitted to Procurement)
- Procurement (Accounting)
- ECS Refining (auction sale) reports
- Fixed Asset Retirement records (from SAP)
- Donations to non-profits
- Other County agencies interviewed.

Finally, we reviewed the information systems used by Property Disposal to track incoming and outgoing items. We noted that property disposal has no dedicated IT systems (and hence no

County of Santa Clara – Personal Property Disposal Review

associated electronic controls). The Senior Material Handler relies on Microsoft Outlook (controlled by County network sign-in) for tracking receipts and sales.

Key Results

Applicability

Below we note the primary types of personal property disposed by County entities, the facilitator of the sale, the recipient/ use of sale funds, and the applicable governing codes. This matrix is primarily intended as reference for Procurement to understand which areas (i.e., the first two rows) are under its authority.²

Property Type	Description	Facilitator of Sale	Recipient/ Use of Sale Funds	Applicable Codes
County Personal Property	Personal property originally purchased by the county for county use, and no longer needed or usable.	County Purchasing Agent	Pay the proceeds into the county treasury for the use of the county	Government Code (GC) §25504
Trial Evidence (with exceptions below)	Exhibits of property other than property which is stolen or embezzled or property which consists of money or currency	County Purchasing Agent	Pay the proceeds into the county treasury for the use of the county	Penal Code (PC) §1417.5 (references GC commencing with §25500)
Trial Evidence (money)	Unclaimed money with unknown owners received in any criminal action or proceeding,	County Treasurer	County Treasurer/ General Fund, after appropriate waiting period and public notice per Penal Code	PC §§1420-1422
Trial Evidence (deadly, dangerous, or prohibited items)	Exhibits of dangerous or deadly weapons, narcotic or poisonous drugs, explosives, or any property of any kind or character whatsoever the possession of which is prohibited by law	(by order of the trial court, destroyed or otherwise disposed of under the conditions provided in the order...)	N/A (No proceeds)	PC §1417.6
Inmate Personal Property	Personal property left by a deceased inmate in county custody, or unclaimed by a former inmate	Property: Public Guardian; sale to the public at public auction	Proceeds thereof shall be paid over to the County Treasurer for deposit to the general fund of the County	County Ordinance §A20-44
		Currency or Coin: Sheriff	Deposited with the County Treasurer for deposit to the general fund of the County.	

² Note: We did not investigate the process details for non-Procurement-related property disposal.

County of Santa Clara – Personal Property Disposal Review

Property Type	Description	Facilitator of Sale	Recipient/ Use of Sale Funds	Applicable Codes
Asset Forfeiture Property	Property seized due it being suspected that the property was used in committing a crime or was obtained through criminal activity.	Agency seizing the property (e.g., Office of the Sheriff)	(After sale expenses) <ul style="list-style-type: none"> • 65 percent: Law enforcement entities that participated in the seizure • 10 percent: Prosecutorial agency • 24 percent: General Fund • One percent: Non-profit providing asset forfeiture education and training 	Health and Safety Code §§11469-11495
Public Guardian-Held Property	Property owned by residents under the conservatorship of the Public Guardian, and needed to pay conservatorship expenses.	Public Guardian (Public Administrator)	Trust account of individual under conservatorship	Probate Code §§2420-2468
	Property left by deceased county residents with no will or apparent heirs.	Public Guardian (Public Administrator)	(After direct expenses) State Controller Unclaimed Property Fund	Probate Code §§6800-6806 Code of Civil Procedures §§1310-1321

Compliance

We note that the County lacks full compliance with California Government Codes and County policies, specifically:

Document	Requirement	Associated Recommendation
California Government Code §25504	“The county purchasing agent may by direct sale or otherwise sell, lease, or dispose of any personal property belonging to the county not required for public use, subject to such regulations as may be provided by the board of supervisors. He shall pay the proceeds into the county treasury for the use of the county.”	3, 4, 8
California Government Code §25506	“Notices of sales shall be posted for not less than five business days preceding the day of sale in the courthouse of the county and in the office of the purchasing agent.”	14
California Penal Code §1417.5	Establishes that exhibits of [trial evidence] property other than property which is stolen or embezzled or property which consists of money or currency shall (with specified exceptions) be transferred to the [county purchasing agent] for sale to the public in the same manner provided by Government Code Sections §§25500-25509 for the sale of surplus personal property.	4

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Document	Requirement	Associated Recommendation
Santa Clara County Board of Supervisors Policy Manual; Section 3.52.1.5(C)(2)	Facilities and Fleet Department to “Develop technical instructions for and provide guidance to County departments concerning the acquisition, replacement, rental, utilization, and disposal of County vehicles;” ³	14
Santa Clara County Board of Supervisors’ Policy Manual; Section 5.6.5.1	Establishes competitive solicitation processes for non-professional services	1, 2
Santa Clara County Office of the Controller-Treasurer Fixed Assets Policies and Procedures; Section III.E.1	Establishes requirements for disposed assets to include an Affidavit of Deposit Form and a copy of a sales receipt as required documentation.	14

Overall, we determined 16 recommendations for the County to consider in improving its surplus personal property disposal process. In addition, we found only two of 16 recommendations from the 2008 Property Disposal Review to be fully implemented.

Recommendation 1: Procurement should require all sales or disposal contracts to be competitively sourced, even if on a public auction site.

Analysis: Our analysis of disposal records showed that only 27 percent (\$15.2 thousand of \$56.1 thousand) of calendar year 2011-2012 sales⁴ had records showing that these sales were competitively sourced. Competitively sourcing contracts and sales will maximize County revenue resulting from these sales, and allow the County to be compliant with the California Government Code⁵ and County policy⁶.

In the table below, we show calendar year 2011 and 2012 property disposal transactions listed in records as “Auction Sales”, and whether we could find any record of competitive sourcing.

³ This would cover preparation of vehicles for sale and required transport, and dovetail with Section 3.52.1.5 which acknowledges Procurement’s responsibility to dispose of County vehicles.

⁴ Excluding Fleet and sales to individual retail customers purchasing items at the property disposal warehouse (walk-in sales).

⁵ California Government Code §25506 states “Notices of sales shall be posted for not less than five business days preceding the day of sale in the courthouse of the county and in the office of the purchasing agent.”

In addition, Government Code §25507 states that the County Purchasing Agent “may purchase advertising space and may advertise the proposed sale or other disposition of the personal property in such newspapers, magazines, and other periodicals as in his judgment will best publicize the proposed sale or other disposition to those persons most likely to bid for or purchase the personal property.”

⁶ Santa Clara County Board of Supervisors’ Policy Manual; Section 5.6.5.1, Solicitation Process

County of Santa Clara – Personal Property Disposal Review

Buyer Name	Number of Transactions	Competitively Sourced?	Total Sales	Items
ECS Refining	25	Y	\$14,931.68	E-waste per County contract
Silicon Valley Compucycle	7	N	\$14,350.00	Scrap medical equipment
Automatic Response Systems	1	N	\$10,000.00	Allegheny shredder and cart tipper
Schnitzer Steel	21	N	\$8,900.35	Scrap metal
Medical Express Trading	2	N	\$6,800.00	Scrap medical equipment
INCAV	1	N	\$600.00	Scrap medical equipment
Katie McCalaster ^a	1	Y	\$264.47	Credenza, reception desk
E-Cycle LLC.	2	N	\$117.00	Scrap cell phones
Calicomp DBA Auction BDI	1	N	\$66.40	File cabinets, baskets, other metals
Rick Arena Liquidators	1	N	\$60.00	Chairs
TOTAL	62		\$56,089.90	

^a Via publicsurplus.com auction site

In addition, disposal records from calendar years 2011-2012 showed several sales of non-standard items (which could have been competitively sold) to individuals, as shown below:

Buyer Name	Number of Transactions	Total Sales	Items	Comments
Grace L. Maniquis	2	\$ 1,190.00	Tables, lights, scrap medical equipment, desks, cabinets	
John Schultz	9	\$ 625.46	Safe, analyzer, 2 saws, tank, other equipment	
Frank Pacheco	33	\$ 528.00	Boxes or pallets of scrap	All paid by money order
John Morgan	2	\$ 503.86	Cameras, scrap video equipment	Paid by cashier's check
TOTAL	46	\$2,847.32		

Recommendation 2: Procurement should develop and maintain contracts with vendors picking up disposed property.

Analysis: The County's only current disposal contract is with ECS Refining for electronic waste, which was bid by the County in 2010. Other buyers disposing of property, including those in the first table under Recommendation #1 and First Capital Auction (which auctions surplus vehicles) do not have contracts with the County. Having contracts in place will clarify County and vendor responsibilities and reduce the likelihood of potential disputes arising from issues not covered by contract terms.

County of Santa Clara – Personal Property Disposal Review

As part of the contract maintenance process, Procurement should have a representative present at vehicle auctions conducted on behalf of the County. In addition, the Property Disposal Warehouse should provide detailed reports of vehicle sales auction activity to the Facilities and Fleet Department.

Recommendation 3: Procurement should consolidate scrap metal disposal/ metal recycling into one County contract.

Analysis: Our interviews determined that the County currently has at least three different vendors picking up scrap metal. Having a single contract will allow the County to increase disposal revenue by leveraging the volume of its scrap metal. The table below shows which vendors pick up scrap metal from the locations interviewed.

Entity	Scrap Metal Buyer
Property Disposal Warehouse	Schnitzer Steel
Facilities and Fleet	Charron Metals
Roads and Airports	Charron Metals
Valley Medical Center	Pacific Coast Recyclers

Recommendation 4: The Office of the Sheriff should transfer disposal of trial evidence, with the exception of stolen evidence, cash, and guns and dangerous or controlled substances, to the County Property Disposal Warehouse.

Analysis: The Office of the Sheriff currently disposes of “non-lethal” trial evidence via a contract with a local auction house. Per California Penal Code §1417.5, Procurement should be handling disposal of these items and transferring the proceeds from the disposal to the County General Fund.

Recommendation 5: Procurement should update the County intranet site to include surplus items available for internal County use and communicate this update to County end-users.

Analysis: The Property Disposal Warehouse receives a large number of items that can be re-used by other County departments. Departments and the Warehouse Material Handler rely on emails and phone calls to convey what is available and which departments have needs. Posting items on the County intranet site will allow all departments access to view available items and save the County the expense of procuring new items.

For example, we noted that Valley Medical Center is undergoing an application installation that will result in a large number of 19 inch computer flat panel displays being available as surplus. In addition, much of the furniture dropped off at the property disposal warehouse is in reusable condition. An intranet posting would allow other departments ready access to this surplus availability.

Recommendation 6: Procurement should evaluate and consider eliminating walk-in sales.

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Analysis: Only 17 percent (\$11.9 thousand of \$68.0 thousand) of non-vehicle sales were sold to walk-in customers. This represents a small fraction of sales that require full-time on-site staff presence. Eliminating walk-in sales could allow the Senior Warehouse Material Handler to better focus on competitive sales. In addition, an analysis of California Government Codes⁷ and County Ordinances⁸ governing property disposal shows no requirement for walk-in sales.

Recommendation 7: Procurement should require itemization of all items sold at the Property Disposal Warehouse.

While the majority of items in Property Sales Reports are itemized, several buyer records, comprising \$22.3 thousand of \$68.0 thousand in non-vehicle sales, repeatedly do not have their purchases itemized. Consequently we could not determine the nature of these sales or the extent to which items were sold for appropriate value. In addition, one could not cross-reference sales to Fixed Asset Retirement Form records.

Furthermore, the current Desk Manual requires sale items to be itemized. We provide a table of these exception buyers for calendar years 2011-2012 below:

Buyer Name	Number of Transactions	Total Sales	Items on Sales Records
Silicon Valley Compucycle	7	\$14,350.00	Scrap medical equipment
Medical Express Trading	2	\$6,800.00	Scrap medical equipment
INCAV	1	\$600.00	Scrap medical equipment
Frank Pacheco (walk-in)	33	\$528.00	Boxes or pallets of scrap
Grand Total	62	\$22,278.00	

Recommendation 8: Procurement should reconcile checks submitted by the Property Disposal Warehouse with ECS Refining quarterly reports, and assure all checks from ECS Refining are submitted to Procurement. This will assure compliance with the California Government Code⁹.

Analysis: A comparison of checks provided to the County from July 1, 2010 to December 31, 2012, per ECS Refining quarterly reports, with actual checks submitted to Procurement and deposited in SAP shows that only 78 percent (\$15.1 thousand of \$19.2 thousand) of the payments made to the County were deposited through Property Disposal. We did not have sufficient information to determine where the remaining checks were deposited. The table below shows pickups and dollars provided by ECS Refining that were not submitted as deposits by Property Disposal.

ECS Refining indicated that they send all checks, with the exception of Roads and Airports and the Department of Education pickups, to Procurement.

⁷ Sections §§25500-25509

⁸ Sections A34-87 through A34-90

⁹ California Government Code §25504 states in part: "The county purchasing agent may by direct sale or otherwise sell, lease, or dispose of any personal property belonging to the county not required for public use, subject to such regulations as may be provided by the board of supervisors. He shall pay the proceeds into the county treasury for the use of the county."

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Pickup Location	Pickup Number	Pickup Date	Settlement Date	Revenue	Check No.	Sent Date	Check Amount
Procurement Dept./ Berger	PU069506	7/15/2010	7/30/2010	\$1,061.98	33254	8/19/2010	\$1,061.98
Procurement Dept./ Berger	PU070757	8/20/2010	8/25/2010	\$715.26	33756	8/30/2010	\$715.26
Procurement Dept./ Berger	PU073644	11/9/2010	1/12/2011	\$863.36	36734	1/21/2011	\$863.36
Valley Medical/ Enborg Lane	PU10408 AMS	6/1/2011	7/29/2011	\$244.52	43507	11/3/2011	\$1,554.18
Valley Medical/ Enborg Lane	PU10558 AMS	9/7/2011	10/26/2011	\$1,218.85	43507	11/3/2011	
Superior Court/ Daggett Dr.	PU085086	10/13/2011	10/18/2011	\$90.81	43507	11/3/2011	
Total:							\$4,194.78

In addition, several checks were received by Procurement from ECS Refining and deposited into SAP. These checks, however, were not on ECS Refining's reports as having been sent to Procurement.

Date of Sale	Description	Vendor	Amount	Check #
01/05/11	E-Surplus PU074376	ECS REFINING	\$1,383.88	36334
01/05/11	E-SURPLUS PU074577	ECS REFINING	\$113.42	36209
01/19/11	E-Surplus-PU075106,PU075107,PU075071	ECS REFINING	\$1,179.81	36691
Total:			\$2,677.81	

Recommendation 9: Procurement should implement a basic system for inventory management at the Property Disposal Warehouse.

Analysis: The Senior Material Handler at the Property Disposal Warehouse currently uses the calendar function in Microsoft Outlook to record items received, sold, or transferred on a daily basis. Item receipts, sales, and transfers are recorded as an "appointment" on the calendar for that day. This method (1) does not give any visibility to overall inventory available, and (2) is unavailable to anyone filling in for him during an absence.

Creating a basic database in a tool will allow for better visibility of available inventory. If it is available centrally, others filling in for the material handler function can also access this information.

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Recommendation 10: The Property Disposal Warehouse should reformat the Excel file of the monthly transaction report sent from the Property Disposal Warehouse to Procurement Accounting.

Analysis: The Property Disposal Warehouse currently sends Procurement each month a file of that month's surplus property sales. The file is unnecessarily formatted in a 9 MB size. As a result, Accounting does not archive such large file sizes. Reformatting the file can reduce the size to less than 30 KB and allow for easy archiving. In addition, the date in the file is expressed as a "current date" field, making it difficult to determine the actual submittal date.

Recommendation 11: Roads and Airport should leverage Facilities and Fleet's process of sending Fixed Asset Transfer Forms to the County Controller's office as soon as vehicles are transferred for disposal.

Analysis: Facilities and Fleet (FAF) has worked out a process with the Property Disposal Warehouse which allows FAF (as opposed to the Property Disposal Warehouse) to send Fixed Asset Transfer Forms to the County Controller immediately upon transfer of the vehicle from FAF. This expedites the vehicle showing in the correct Fixed Asset inventory location. Roads and Airports should adopt this procedure which would minimize the need to locate vehicles which are "on the books" at Roads and Airports, but have been transferred.

Recommendation 12: The Fixed Assets Department should investigate an SAP workflow-driven process to automate the Fixed Asset Transfer Form and Fixed Asset Retirement Form processes.

Analysis: Departments transferring assets to Procurement for disposal need to fill out a paper Fixed Asset Transfer Form (FATF). Once Procurement disposes of the asset, it sends a Fixed Asset Retirement Form (FARF) to the Fixed Assets unit in the Controller-Treasurer's Office. The process uses manual forms, is subject to delays if forms are not submitted promptly, and the Fixed Assets unit must re-enter the information in SAP.

By moving to an online workflow, the County can automate the form routing and approval, while still keeping ultimate approval of the transfer or retirement within the Fixed Assets unit. In addition, by using a drop-down menu in the workflow, Fixed Assets can more accurately track the reasons for transfer or retirement.

Recommendation 13: Procurement should work with County Counsel and the County Controller to understand and validate how proceeds from vehicle sales, including sales from enterprise-funded departments, meet the criteria in Government Code §25504.

Analysis: Government Code §25504 states that the County Purchasing Agent "shall pay the proceeds [of personal property sales] into the county treasury for the use of the county." Proceeds from non-vehicle sales are paid into the County General Fund. Procurement receives proceeds from Facilities and Fleet vehicle sales, deposits them into SAP, and transfers 90 percent of the proceeds to Facilities and Fleet's Internal

County of Santa Clara – Personal Property Disposal Review

Service Fund. The Roads Department, which is an enterprise-funded department, retains the proceeds from their vehicle sales.

The Director of Procurement has expressed concerns as to how the allocations of these sale proceeds meet the “county treasury for the use of the county” criteria in the Government Code. Validation of the current sale allocation processes would provide greater transparency and accountability for the funds received.

Recommendation 14: Property Disposal Warehouse, Facilities and Fleet, and Valley Medical Center should update or create procedures for property disposal.

Analysis: The current “Desk Manual” includes information that should fall under County Policies, as well as internal Procurement “Desk Manual” procedures. Facilities and Fleet also lack documented procedures¹⁰ to prepare vehicles for transfer to Procurement. In addition, Valley Medical Center, a large, quasi-independent entity, has not been consistent in disposing of large items (e.g., medical equipment) via Property Disposal.

Property Disposal: Create a County-level document¹¹ (e.g., policy) for other agencies’ reference when disposing of personal property. This document would include the portions of the current Desk Manual that are countywide policies or procedures.

Property Disposal: Update Desk Manual to be an internal Procurement document and:

- Specify five day notice of sale on bid items per Government Code §25506.
- Provide current contact numbers.
- Add reconciliation between checks received from ECS Refining and ECS Refining quarterly reports.
- Revise asset retirement instructions to meet *Santa Clara County Office of the Controller-Treasurer Fixed Assets Policies and Procedures*; Section III.E.1, which requires a copy of an Affidavit of Deposit Form and a copy of a sales receipt.
- Revise *Surplus Vehicle and Equipment Disposal Process* section to include only the Property Disposal portion of the fleet disposal process, including providing Fleet copies of any detailed sales reports received from the surplus vehicle auction company.

Valley Medical Center: Create an internal policy for property disposal, referencing Procurement’s overall ownership of the disposal process.

Facilities and Fleet: Create procedures for vehicle preparation and transfer/ handoff, including:

- Transfer of surplus vehicles to auction company.

¹⁰ Section 3.52.1.5(C)(2) of the *Santa Clara County Board of Supervisors Policy Manual* requires the Facilities and Fleet Department to “Develop technical instructions for and provide guidance to County departments concerning the acquisition, replacement, rental, utilization, and disposal of County vehicles;”

¹¹ This can be part of *Santa Clara County Board of Supervisors Policy Manual, Section 5.0 – Policies on Soliciting and Contracting* (Adopted 2-28-12)

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- Submitting Fixed Asset Transfer Forms to County Controller and Procurement.
- Other Facilities and Fleet-specific vehicle disposition activities.

Assure that procedures align with the Property Disposal County-level document.

Recommendation 15: Procurement should further investigate the extent that property disposed or cash received by other Santa Clara County departments was not fully reported or recorded.

Analysis: The quality of sales records and the differences between ECS Refining sales and cash received raises questions of the extent of potential misappropriation and its impact on the County. We recommend that Procurement further research the extent to which the flow of disposed goods and cash received for those goods is not in compliance with County policy. In addition to reconciling ECS Refining records, Procurement could use the following sources for detailed investigation:

- Fixed Asset disposal records (reconcile retired or sold fixed assets with items transferred to property disposal)
- SAP deposit records (search on “disposal”, “retired” and similar words)
- Property Disposal Outlook Calendar logs.

Recommendation 16: Procurement should conduct a benchmarking study to compare current property disposal practices with leading practices in other cities, counties, and private sector organizations.

Analysis: A rigorous benchmarking of other entities will help the County find, adapt, and implement outstanding practices in order to achieve superior performance. This process includes determining what to benchmark, identifying key performance variables to study, and determining which superior-performing entities to assess. Benchmarking areas should include:

- Disposal-related communications from Procurement to other county entities
- Property disposal bidding and sourcing practices
- Successful revenue-enhancing strategies
- Monitoring and compliance practices.

Other Issues

Our review found that many of the recommendations from the August 2008 performance review have yet to be implemented. Specifically, we could not find records of formal Notices of Sale, as required by California Government Code §25506, for many items sold.

The County had bid and signed a contract with ECS Refining for e-Waste pickup. For 73 percent of calendar year 2011-2012 sales classified as “Auction Sales”, however, we could not locate

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any bid documents or contracts. Below we show the current status of the recommendations from the 2008 Property Disposal Audit and the 2010 follow-on review.

We recommend that Procurement follow up and implement the open original report recommendations with an agreed upon timeline.

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Category	2008 Report Recommendation	2010 Report Status	Current Status
Vehicle Sales	1. Property Disposal should take a more active role in the auction sales process for vehicles. The Procurement Director has the responsibility to sell County surplus property. This practice allows the County to have a check and balance, or uniformity regarding what is sold as County surplus property.	Not Implemented	Partially implemented. Procurement does receive the auction checks, but is not actively involved in the auction process.
	2. All auction responsibilities should be reviewed and the Procurement Department takes the lead for the vehicles once they are transported to the auction.	(Not covered in report)	Not Implemented. In 2011, Fleet and Procurement updated responsibilities for handling Fixed Asset Transfer Forms, but this has not been incorporated into a formal procedure.
	3. All revenues gained from the sales of County property should be returned to the County General Fund for County reuse. Departments now dependent on sales revenue to offset budget requirements should be required to fully budget for their operational needs instead of planning on revenue that may or may not meet or exceed expectations. The exception to this rule may be Roads and Airport because of separate funding sources.	Not Implemented	Not implemented. Fleet continues to receive 90 percent of personal property sales. For the 2011-2012 calendar years, only 68 percent of the funds paid by ECS Refining to the County were provided to Property Disposal. The County had no detail regarding where each transaction payment was sent.
	4. Checks from vehicle auctions are either delivered directly to Property Disposal or at times they are sent to Fleet management. Fleet stated that they receive all the checks. It was not clear what Fleet did with checks as all of them end up at Procurement for processing. This issue needs to be resolved, with all checks going to the Procurement Department for distribution as required.	(Not covered in report)	Implemented. Checks from vehicle auctions are delivered to Property Disposal. Procurement deposits the checks and processes the subsequent funds transfer.
Surplus Property Process	5. All auction and sales agreements should be re-bid to ensure maximum sales revenue. Transparency of the process and the necessary contract agreement terms and conditions protect the County.	Not Implemented	Partially implemented. ECS Refining has RFP-driven contract for e-wastes. Only one other auction reference within last two years.

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Category	2008 Report Recommendation	2010 Report Status	Current Status
	6. Procurement should negotiate a scrap metal agreement that covers all County departments and sites requiring storage containers. The agreement should include the disposal and sale of wrecked vehicles not suitable for auction sale.	Not Implemented	Not implemented. Three different haulers for scrap metal among locations interviewed.
Documentation	7. Eliminate use of the “Fixed Asset Transfer Form” (FATF). Instead, require only the “Fixed Asset Retirement Form” (FARF) for items that have a fixed asset identification number.	Not Implemented	Partially implemented. Fixed asset transfers (e.g., vehicles) use the FATF. Other items (e.g., furniture) use the FARF as a transfer record. Note: We recommend keeping a two-step process for fixed assets to keep a clear asset custody trail.
	8. Departments sending surplus fixed assets that have a fixed asset number to the Property Disposal facility should complete the correct form. This will eliminate duplicative efforts and save time.	(Not covered in report)	Partially implemented. Departments prefer to use FATF for fixed assets to assure assets are no longer on their inventory list.
	9. A communication plan regarding the use of the “fixed Asset Transfer Form” should be completed to put this process in place.	(Not covered in report)	Partially implemented. Fleet sends FATF directly to Controller’s office to assure transfer is done. Roads should also implement. Procedure is not documented.
	10. The Fixed Asset Retirement Form can be filled out and printed on line. The forms are to accompany surplus items turned into Property Disposal.	(Not covered in report)	Partially Implemented. Facilities and Fleet, Roads, and VMC Facilities use online forms, and send printouts to Property Disposal.
	11. All sales receipts should include a complete listing of items sold; payment will be made at the time of sale, before the items are removed from County property.	(Not covered in report)	Partially Implemented. Most sales receipts are itemized. Some buyers repeatedly had little or no detail on sales forms.
Surplus Property Disposal Staff	12. The Program Manager II should routinely oversee activities at the facility and take the lead to oversee all bid and auction sales activities. Records and performance measures should routinely be reviewed and discussed with the Senior Warehouse Materials Handler.	(Not covered in report)	Not implemented.

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Category	2008 Report Recommendation	2010 Report Status	Current Status
	13. The Program Manager II should ensure that a buyer is available to support all bidding and auction functions in support of Surplus Property.	(Not covered in report)	Not implemented. No record of auctions within last two years.
Surplus Property Disposal Facility	14. Space should be designated at the Property Disposal Facility for the storage of items that are to be kept for County reuse and are not to be sold. A list of such items should routinely be sent out to all County Departments or made available on line at the Procurement Department web site.	"For the most part all recommendations in this area have been implemented."	Space designation: Implemented List if items available: Not Implemented
	15. Ensure that all sales transactions indicate specific items that are sold. Do not use "miscellaneous" as the description.		(Duplicate of #11)
	16. While the Senior Warehouse Materials Handler is responsible for housekeeping, the PMII should review overall safety and housekeeping issues during visits to the facility.		Implemented. Housekeeping was neat and tidy.