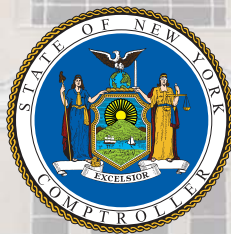




New York City Department of Citywide Administrative Services

Sale and Disposal of Surplus Assets

2008-N-17



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of State Government Accountability

February 10, 2010

Martha K. Hirst
Commissioner
New York City Department of Citywide Administrative Services
One Centre Street, 17th Floor
New York, NY 10007

Dear Ms. Hirst:

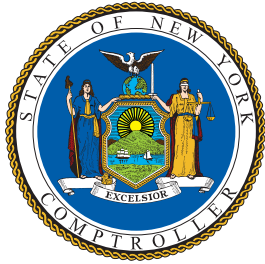
The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the Sale and Disposal of Surplus Assets. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

Audit Objective

Our objective was to determine whether the New York City Department of Citywide Administrative Services (Department) properly accounts for and maximizes the revenue from its sale and disposal of surplus assets.

Audit Results - Summary

We found that the Department properly accounted for the revenue received in the sales transactions we tested. However, we also determined that, if the Department made certain improvements in its practices, it could increase the amount of revenue it earns from the sale and disposal of surplus assets and better ensure that certain assets are properly valued when they are disposed of.

The Department is responsible for the disposal of surplus assets (i.e., assets that are no longer needed or usable) held by New York City agencies. Surplus vehicles are sold at public auctions, certain other items are sold to contractors at set prices, various miscellaneous items are advertised for sale and sold through competitive sealed bids, and items with no value are discarded or destroyed. During the 28-month period ended October 31, 2008, the Department reported a total of about \$22.1 million in revenue from the sale of surplus assets, including \$17 million from auctioned vehicles, almost \$2 million from scrap metal sold by the pound, and about \$3.1 million from the sale of other items.

We determined that the Department could likely generate additional revenue if it sold surplus assets on the Internet, as the New York State Office of General Services (OGS) does with surplus State assets. We estimate that this additional revenue could total as much as \$600,000 a year. The Department is currently prohibited by State law from using the Internet to sell surplus assets, while OGS is permitted to do so. We recommend Department officials seek similar permission.

We also found that, in some cases, the Department could realize more revenue from the sale of surplus vehicles if it sold the vehicles for scrap. For example, we identified 122 SUVs and other large passenger vehicles that were auctioned for \$300 or less, and estimated that the Department could have received a total of \$8,900 more for these vehicles if it had sold them for scrap instead. We recommend the Department set a minimum auction price for each vehicle that is equal to the amount that could be realized if the vehicle were sold for scrap, and sell the vehicle for scrap if that minimum price is not bid at the auction.

We found that the Department does not ensure that the reported weight of surplus assets sold for scrap is accurate. Surplus assets containing metal may be sold for scrap, for a certain amount per pound, under a Department disposal contract. The items are to be weighed by the vendor purchasing the metal. The contract contains certain provisions for ensuring the accuracy of this reported weight. However, we found that these provisions are not always enforced. As a result, there is no assurance the Department is being paid the full amount due under the contract.

We also found that, when City agencies report that their surplus assets have no value, the Department generally accepts their assessments without question. It usually does not require documentation supporting their assessments, such as photographs of the assets or details about the items' age and condition, and does not examine the assets to verify the assessments. As a result, there is a risk some of these assets have value and the Department is missing opportunities to realize additional revenue from their sale.

Our report contains eight recommendations to aid the Department in maximizing its revenues from the sale of surplus assets, as well as to help improve its administrative procedures. Department officials generally agreed with our recommendations and indicated that they are in the process of addressing some and further analyzing others to determine their cost-benefit to implement.

This report, dated February 10, 2010, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Introduction

Background

The primary responsibility of the New York City Department of Citywide Administrative Services (Department) is to ensure that New York City agencies have the critical resources and support they need to provide the best possible services to the public. To assist City agencies, the Department purchases, inspects, and distributes supplies and equipment; provides overall facilities management, including security, maintenance, and construction services; locates space for City agencies; purchases gas, electricity, and other energy for City agencies; recruits and hires City employees; and administers licensing services for the public.

In addition, in accordance with the New York City Charter, the Department is responsible for the sale and disposal of surplus assets held by City agencies (i.e., assets that are no longer needed or are unusable). Before disposing of such assets, the Department determines whether any City agencies can use the assets, and if they can, it transfers the assets to those agencies. If no agencies can use the assets, and the assets have value, the Department sells the assets. If the assets have no value, the Department authorizes the agencies to discard or destroy the assets.

The Department has established written procedures for City agencies to follow when they identify surplus assets. In particular, the agencies' designated salvage officers are to send the prescribed relinquishment forms to the Department listing these surplus assets. The Department then determines how the assets are to be disposed of, and instructs the agencies accordingly.

For example, surplus vehicles are to be listed on the Department's website for public notice and sold at bi-weekly public auctions. Computer equipment is generally disposed of through a computer-removal contract, with the contractor paying a fixed amount for each item received. Scrap metal is also disposed of through a contract, with the contractor paying a certain amount per pound for the metal. Other items are to be advertised for sale in the City Record and then sold through competitive sealed bids.

During the 28-month period ending on October 31, 2008, the Department reported a total of about \$22.1 million in revenue from the sale of surplus assets. This revenue consisted of about \$17 million from the sale of vehicles at public auctions, nearly \$2 million from the sale of scrap metal to its contractor, and about \$3.1 million from the sale of other items.

**Audit
Scope and
Methodology**

We audited to determine whether the Department properly accounts for and maximizes the revenue from its sale and disposal of surplus assets. Our audit scope covered the 28-month period from July 1, 2006 through October 31, 2008. To accomplish our objectives, we interviewed Department officials and reviewed relevant laws, rules, policies, and records. In particular, we reviewed the Rules of the City of New York; the City Comptroller's Directives; the 2008 New York City Technology Plan; and relevant Department policies, procedures and contracts. We also reviewed relevant correspondence between the Department and City agencies, and documentation relating to the sales of items advertised in the City Record.

In addition, we selected a sample of surplus assets and reviewed the Department's records relating to the disposal of these assets. We randomly selected 15 of the 4,047 relinquishment forms submitted to the Department between July 1, 2006 and October 31, 2008. These 15 forms were submitted by nine different City agencies and listed a total of 308 surplus items. We included all 308 items in our sample. The items consisted of vehicles, computers, office equipment, x-ray machines, and various other types of equipment. We also judgmentally selected 6 of the 50 sealed bid sales held by the Department between July 1, 2006 and October 31, 2008 and included all the items from the six sales in our sample (there were multiple items in some of the sales). Included among these items were boats, water meters, a four-ton ventilation system, and miscellaneous other items.

To determine whether revenue was being maximized from the sale of surplus vehicles, we compared the revenue from certain sales to the revenue that could have been realized if the vehicles had been sold as scrap metal. To estimate the amount of scrap metal in these vehicles, we relied upon the vehicle weights reported on reputable used vehicle Internet sites (i.e., Kelley Blue Book and Carfax). To determine whether the revenue from vehicle auction sales was fully accounted for and deposited, we compared 19 Department cash receipts records to the bank deposit slips for 10 random auctioned vehicles included in our sample of surplus assets.

We also contacted the New York State Office of General Services to obtain statistics about its Internet sales of State surplus assets and viewed State surplus assets offered for sale on the Internet. We also met with an official in the New York City Comptroller's Office of Contract Administration to understand that agency's role in the sales of items advertised in the City Record. In December 2008, we observed such a sale and attended an auction of surplus vehicles.

We conducted our 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 findings and conclusions based on our audit objectives.

As is our practice, we notify agency officials at the outset of each audit that we will be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. Agency officials normally use the representation letter to assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. They further affirm either that the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. However, officials at the New York City Mayor’s Office of Operations have informed us that, as a matter of policy, mayoral agency officials do not provide representation letters in connection with our audits. As a result, we lack assurance from Department officials that all relevant information was provided to us during the audit.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State’s accounting system; preparing the State’s financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed pursuant to the State Comptroller’s authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

Reporting Requirements

A draft copy of this report was provided to Department officials for their review and comment. We considered their comments in preparing this audit report and have included them in their entirety at the end of it. Our rejoinder to the Department’s comments is included thereafter in our State Comptroller’s Comments. Department officials generally agreed with our report’s recommendations.

Within 90 days after the final release of this report, we request that the Commissioner of the New York City Department of Citywide Administrative Services report to the State Comptroller advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

**Contributors
to the Report**

Major contributors to this report include Frank Houston, Albert Kee, Gene Brenenson, Robert Tabi, Legendre Ambrose, Dana Bitterman, and Dana Newhouse.

Audit Findings and Recommendations

Revenue from the Sale of Surplus Assets

We determined that the Department could likely generate additional revenue if it sold surplus assets on the Internet. We also found that, in some cases, the Department could realize more revenue from the sale of surplus vehicles if it sold the vehicles for scrap.

Selling Surplus Assets on the Internet

The New York State Office of General Services (OGS) administers the disposal of the State surplus assets. Similar to the Department, it has public auctions to sell surplus vehicles. In addition, OGS uses eBay to sell surplus furniture, computers, office equipment, chalkboards, file cabinets and many other items. It sets a minimum bid amount and allows several days for bids to come in on-line. Between fiscal years 2005 and 2008, OGS reported that it earned an average of \$850,000 a year from these sales.

We believe it would be advantageous for the Department to follow the example of OGS and use Internet auction sites to dispose of surplus assets. The use of eBay could expand the customer base for the sale of the City's surplus assets and thereby generate additional revenue for the City.

For example, the Department has significant quantities of surplus assets that it permits agencies to simply destroy. If these items were offered for sale on the Internet, the Department could generate a return on items that normally generate no revenue. In October 2008 alone, City agencies requested and received approval from the Department to destroy more than 20,000 items including fax machines, printers, monitors, projectors, and many others. As an illustration, if the Department were allowed to sell those items on eBay, and sold just 25 percent of the items for a net price of \$10 each, the City would have generated an additional \$50,000 in revenue that month, which equates to an additional \$600,000 a year, if October 2008 was a typical month.

The Department is currently unable to use the Internet to sell surplus assets, because it is prohibited by the State Technology Law from doing so. This prohibition does not apply to OGS, because the State Finance Law specifically allows the OGS to use the Internet for this purpose. We recommend the Department seek legislation that would allow it to sell surplus assets on the Internet.

In response to our draft report, Department officials agreed that legislation specifically authorizing internet-only sales could allow them to more effectively dispose of surplus assets on the Internet. However, they questioned the above analysis illustrating potential revenues that could be derived through Internet sales. Department officials believe a more prudent approach would be to selectively test the market for certain items to assess the degree to which there may be interest through Internet sales.

Selling Surplus Vehicles for Scrap

The Department disposes of surplus vehicles through auctions held every other Wednesday at the Brooklyn Navy Yard. The vehicles are listed on the Department's website, and the public is invited to inspect the vehicles and participate in the auctions. The vehicles auctioned by the Department include motorcycles, sedans, SUVs, trucks, and specialty vehicles (such as sanitation trucks). We determined that, in some instances, the heavier vehicles could have been sold for a higher price if they had been scrapped instead of being auctioned.

For example, we identified 160 SUVs and other large passenger vehicles that were auctioned off at relatively low prices (\$300 or less) during our 28-month audit period. To determine whether the Department could have obtained a higher price for these vehicles through its scrap metal disposal contract, in which items are sold for a certain amount per pound, we estimated the amount of scrap metal in each vehicle, basing our estimates on the vehicle weights reported in reputable Internet used car sites (to account for the non-metal parts of the vehicles, we reduced the reported weights by 5 percent). We found that, for 122 of the 160 vehicles, the Department could have obtained a higher price through its scrap metal disposal contract, and would have received a total of \$8,900 more for the 122 vehicles if they had been disposed of in this manner.

Similarly, we observed an auction of surplus vehicles on December 10, 2008 and noted that five of the heavier vehicles were sold for very low prices (between \$100 and \$200). Using the same methodology, we estimated the amount of scrap metal in each of these vehicles and determined that the Department could have obtained a higher price for all five vehicles through its scrap metal disposal contract, and would have received a total of \$708 more for the five vehicles, if they had been disposed of in this manner.

According to the Department's procedures for the disposal of surplus assets, surplus vehicles may be sold for scrap. However, the procedures do not address the possibility that a vehicle could be worth more as scrap if its auction price is below a certain level. We recommend that the Department set a minimum auction price for each vehicle that is equal to the amount that

could be realized if the vehicle were sold for scrap, and sell the vehicle for scrap if that minimum price is not bid at the auction.

Department officials responded to our draft report that they do set a minimum auction price for each surplus vehicle based on the current scrap contract pricing. However, we saw no evidence of this during our audit and Department procedures at the time of our audit did not mention it. The Department further stated that, due to space considerations, they may choose to sell a vehicle at less than the scrap value to free up auction yard space to sell more profitable vehicles.

Recommendations

1. Advocate for legislation that permits the Department to sell surplus assets on the Internet.
2. Set a minimum auction price for each surplus vehicle that is equal to the amount that could be realized if the vehicle were sold for scrap, and sell the vehicle for scrap if that minimum price is not bid when the vehicle is auctioned.

Accounting for Surplus Assets

We tested a sample of revenue collections from vehicle auctions and found that the revenue was deposited in the Department’s bank account, as required. However, we found the Department does not ensure that the reported weight of surplus assets sold for scrap is accurate. As a result, the Department has no assurance it is being paid the full amount due. In addition, when City agencies report that surplus assets have no value, the Department generally does not require documentation supporting the agency’s assessment and does not examine the assets to verify the assessment. As a result, there is a risk some of these assets have value and the Department is missing opportunities to realize additional revenue from their sale. We also note that the Department’s largely paper-driven recordkeeping system for surplus assets is not consistent with the intent of the 2008 New York City Technology Plan.

Revenue from the Sale of Surplus Vehicles

The buyers at the Department’s public auctions of surplus vehicles are required to pay at least 10 percent of their bid price at the auction and the balance by the end of the week. The payments are made to Department cashiers, and at the end of each day, the cashiers count their cash collections and prepare the collections for deposit. In addition, as each payment is received, the cashiers record the receipt on the Department’s automated Vehicle Transaction System.

A total of 44 surplus vehicles were listed on the relinquishment forms in our sample. According to the Department’s records, all 44 vehicles were sold in auctions at prices ranging from \$300 to \$8,000, and totaling \$68,200.

We selected 10 of the vehicles at random and reviewed the Department's corresponding cash receipts records to determine whether the \$16,850 from these sales was deposited into the Department's bank account, as required, and found that it was.

Surplus Assets Sold for Scrap

Surplus assets containing metal may be sold for scrap, for a certain amount per pound, under a Department disposal contract. The Department determines which surplus assets are to be sold for scrap, notifies the agencies, and the agencies arrange for the items to be picked up by the contractor.

According to the contract, the items are to be weighed by the contractor in the presence of a City representative on a scale that has been approved by the New York City Department of Consumer Affairs. However, we found that the Department does not ensure that the items are weighed in this manner.

For example, on one of the relinquishment forms we examined, an agency sought to dispose of 217 computers through the Department's scrap metal contract. The contractor paid the Department \$2,855 for the computers and submitted weight tickets to the Department supporting this payment. However, there was no documentation indicating that the items were weighed in the presence of a City representative. As a result, there was no assurance the reported weight was accurate.

Department officials stated that it is the relinquishing agency's responsibility to witness the weighing. The officials further stated that they do not have the manpower to witness all the weighings. We are not suggesting that the Department witness the weighings. However, we question whether the Department has done enough to make the relinquishing agencies aware of their responsibility in this area. To ensure that the agencies are aware of this responsibility, and are fulfilling it, we recommend the Department amend the scrap metal disposal contract to require the vendor to submit documentation showing that the weighing was witnessed by a City representative (e.g., a signed standard witness form).

During our 28-month audit period, the Department realized almost \$2 million in revenue under its scrap metal contract from a total of 53 sales. In the absence of documentation affirming the accuracy of the reported weight of the items in such sales, the Department has no assurance it is being paid the full amount due under the contract. It is therefore important that the Department obtain such documentation.

We also note that such documentation should be obtained when surplus items are sold by weight in the Department's sealed bid sales. In one of the

bid sales we examined, the Department offered to sell a large number of brass water meters by the pound. Under the terms of the sale, the winning bidder was to weigh the water meters in the presence of a City representative. However, there was no indication this was done. The winning bidder paid the Department \$45,207 for the water meters (\$1.30 a pound) and submitted weight tickets to the Department supporting this payment, but there was no documentation indicating that the items were weighed in the presence of a City representative.

Surplus Assets Reportedly Without Value

According to the Rules of the City of New York, surplus equipment with no sale value or use to the City may be destroyed or disposed of in the most advantageous manner. Generally, if an item is to be destroyed, the relinquishing agency does the actual disposal; the Department does not take possession of the items.

The 15 relinquishment forms in our sample listed a total of 308 surplus items, 46 of which were reportedly without value. These 46 items were listed on five relinquishment forms from four agencies and consisted of the following:

- 35 printers,
- five x-ray machines,
- two fax machines,
- a television set,
- a radio,
- a VCR, and
- a copier machine.

The four agencies requested permission to destroy these items, and the Department approved the requests. However, the agencies submitted no documentation supporting the items' lack of value (such as photographs of the items or information about the items' condition and age) and there was no indication the Department examined any of the items to confirm their lack of value.

Department officials stated that agencies sometimes submit photographs of assets they want to destroy, and they showed us such photographs, as well as condition reports, for vehicles that could not be sold because they had

been in accidents. However, such documentation generally is not required by the Department and was not provided for any the 46 items in our sample.

The Department does not keep track of the number of surplus items that are reportedly without value, even though the amount appears to be significant. For example, in October 2008, such items were included on almost half the relinquishment forms that were submitted to the Department. Agencies requested that more than 20,000 items be destroyed.

In the absence of documentation confirming that such items are of no value, the Department has no assurance the items truly are worthless. If some of the items do actually have value, the Department may be missing opportunities to realize additional revenue from the sale of the items. There is also a risk that items with value could be taken home or sold by agency employees.

Department officials stated that they do not have the manpower to go to the agencies and examine the items to confirm their lack of value. They also question whether it would be cost-effective to do so. We acknowledge the need for cost-effectiveness, but believe it would be beneficial to require the agencies to submit documentation supporting such items' lack of value and verify whether select high-risk items were, in fact, without value.

Automation of Records

City agencies record their surplus assets on prescribed relinquishment forms and submit the hardcopy forms to the Department. The Department enters any surplus vehicle information from the forms onto its automated Vehicle Transaction System. However, it does not maintain comprehensive computerized records for non-vehicles. In addition, when agencies request permission to destroy or scrap surplus assets, the Department generally sends the agencies hardcopy written authorization.

We question whether this largely paper-driven record keeping system is consistent with the 2008 New York City Technology Plan, which was announced by the Mayor in November 2007. The Plan calls for City agencies to use information technology to make City government more accessible, transparent and accountable; reduce the costs of storing paper records; and improve access to the information in their records.

We also note that the Department's system is not consistent with the City Comptroller's Directive 30, issued in 2005, which indicated that the Department would be implementing an on-line relinquishment system for certain surplus capital assets. Department officials acknowledge that the on-line system was never implemented.

If agencies submitted surplus asset information electronically, the Department could reduce the labor cost related to inputting vehicle information onto its Vehicle Transaction System. In addition, a computerized database of all surplus assets (both vehicles and other types of assets) would enable the Department to more easily analyze agency trends, maintain an electronic inventory, identify agencies that may be disposing of items too soon, move information faster and reduce the use of paper. Furthermore, with a computerized system, the Department would know the quantity of surplus assets it is responsible for; the Department currently cannot readily determine the number of surplus assets it handles.

We recommend the Department perform a formal cost-benefit analysis to determine whether additional automation would, in fact, be advisable.

Recommendations

3. Remind agency salvage officers of their responsibility for verifying the reported weight of items sold for scrap, and amend the scrap metal disposal contract to require the vendor to submit documentation showing that the weighing was witnessed by a City representative. Also, require such documentation from the winning bidder when items are sold by weight in sealed bid sales.
4. When relinquishment forms include items that are reportedly worthless, require the agencies to submit photographs or other documentation in support of the items' lack of value and verify whether select high-risk items are, in fact, worthless before authorizing their destruction.
5. Perform a formal cost-benefit analysis to determine whether additional automation would be advisable for the Department's surplus asset record keeping system.

Compliance with Requirements

We identified instances of non-compliance with certain surplus asset disposal requirements, as City agencies do not always obtain the Department's approval before disposing of their surplus assets and the Department does not always obtain the City Comptroller's approval before selling certain surplus assets. In addition, while the Department's procedures state that surplus assets should be disposed of as quickly as possible, the Department has not developed suggested time frames for the disposal process and does not monitor the timeliness of the process.

Department Approval

City agencies should not dispose of their surplus assets until they have been authorized by the Department to do so. The Department is best able to determine whether other agencies can use the assets, and if not, can identify the appropriate disposal method for each particular asset.

However, one of the agencies in our sample disposed of several surplus items before obtaining the Department's authorization to do so. As we noted previously regarding surplus assets sold for scrap, this agency sold 217 computers for scrap, using the Department's scrap metal disposal contract. The agency disposed of the computers over an eight-week period, between January 4 and February 28, 2007, but it did not seek authorization for the disposals until February 9, 2007, after it had already disposed of many of the computers, and did not receive authorization until February 20, 2007.

Department officials explained that this particular agency had received Department approval to dispose of other computers through the scrap metal disposal contract. When those surplus assets were disposed of, the computers in our sample were also included, even though the Department had not yet approved those specific items. Department officials stated that they have since reminded this agency that it needs to obtain Department approval prior to disposing of surplus assets. The officials also stated that they plan to have formal bi-annual meetings with agency salvage officers and will remind them at that time of the required surplus asset disposal procedures.

The City Comptroller's Approval

According to the Department's policies for the disposal of surplus assets at a sealed bid sale, the New York City Comptroller's prior approval must be obtained to sell an item when only one bid is received. However, we found that the Department does not always comply with this requirement, as follows:

- On December 2, 2008, we observed a sealed bid sale for four lots of surplus assets: used autoclaves; miscellaneous laboratory equipment; weather instruments; and waste water equipment. There was a \$487 bid for the weather instruments, a \$13,600 bid for the waste water equipment, and no bids for the other two lots. In addition, there was a party that submitted a formal "no bid" on the lots. (According to Department officials, some buyers submit formal "no bid" offers in order to remain on the potential buyer's list for consideration at future sales offerings.) The Department sold the two lots to the single bidders without obtaining approval from the City Comptroller.
- In one of the sealed bid sales in our sample, an almost four-ton cooling system was offered for sale. The Department received only one bid of \$1,000 for this item. In addition, three other buyers submitted formal "no bid" offers. The Department sold the item without obtaining approval from the City Comptroller.

Department officials stated that they consider a “no bid” offer to be a bid of \$0. Accordingly, in their opinion, in the examples we cite, more than one bid was received and the City Comptroller’s approval was not required for the sales. However, when we asked a manager in the City Comptroller’s Office of Contract Administration whether that Office would consider a “no-bid” offer to be an actual bid, the manager said the City Comptroller’s Office would not count such offers as bids. We therefore recommend that the Department reconsider whether it should count “no-bid” offers as actual bids.

In responding to our draft audit report, Department officials indicated that they have changed their procedures and “no-bid” offers are no longer considered as actual bids.

Disposal Time Frames

According to the Department’s procedures for the disposal of surplus assets, such assets should be disposed of as soon as possible after the relinquishing agency has determined that the assets are no longer needed. However, the Department has not developed suggested time frames for the disposal process and does not monitor the timeliness of the process. As a result, Department officials have no way of knowing whether the assets are being disposed of in a timely manner.

We analyzed the timeliness of the disposal process and identified opportunities for improvement. For example, while most surplus vehicles were sold within a month, some took more than three months to sell. Specifically, according to the information on the Vehicle Transaction System, during our 28-month audit period, the average time between the delivery of the vehicle to the Department and its sale was 29 days, with about 44 percent of the vehicles being sold in two weeks or less. However, it took 90 or more days to sell about 6 percent of the vehicles. In addition, in our sample of six sealed bid sales, it took the Department an average of 112 days to dispose of the items, and in our sample of relinquishment forms, it took the Department an average of 18 days to approve the agencies’ requests to destroy items with no value.

Department officials stated that their goal is to maximize revenue and the reuse of surplus assets. However, we note that delays in the disposal of surplus assets could result in extra storage space costs or competing space needs at the relinquishing agencies and the Department. We recommend the Department develop suggested time frames for the disposal process, monitor actual processing times against the suggested times, and take corrective action to reduce the delays when the actual times are significantly longer than the suggested times.

- Recommendations**
6. Remind agency salvage officers that they must receive the Department's approval before disposing of surplus assets.
 7. Reconsider whether "no-bid" offers should continue to be counted as actual bids in sealed bid sales.
 8. Develop suggested time frames for the disposal of surplus assets, monitor actual disposal times against the suggested times, and take corrective action to reduce the delays when the actual times are significantly longer than the suggested times.

Agency Comments



**DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES
OFFICE OF THE COMMISSIONER**

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Martha K. Hirst
Commissioner

December 23, 2009

Citywide Personnel
Services

Facilities
Management &
Construction

Municipal Supply
Services

Real Estate Services

Citywide Equal
Employment
Opportunity

Citywide
Occupational Safety
& Health

Transportation
Services

The City Record

CityStore

Mr. Frank J. Houston
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, NY 10038

Re: Audit of the New York City Department
of Citywide Administrative Services – Sale
and Disposal of Surplus Assets
(2008-N-17)

Dear Mr. Houston:

We welcome the opportunity to respond to the Audit of the New York City Department of Citywide Administrative Services – Division of Municipal Supply Services Sale and Disposal of Surplus Assets (2008-N-17).

We are pleased that the Audit “found that the Department properly accounted for the revenue received” in all of the sales transactions examined by the auditors. The Audit raises several interesting issues, some of which the Department of Citywide Administrative Services (DCAS) had previously identified and is in the process of addressing. There are other recommendations that we believe need further analysis to determine their cost-benefit to implement.

Overview

The Office of Surplus Activities (OSA) is staffed by 10 full time personnel and generated more than \$12.8 million of revenue in Fiscal 2009 through the sale of surplus goods. These personnel are supplemented, at times, by staff from other areas of the Division of Municipal Supply Services (DMSS) to run the Auto Auction, and receive and tabulate surplus property bids.

Periodically, OSA bids-out contracts for surplus goods sales, not only to generate revenue, but also to gauge market interest in various types of surplus goods in varying conditions of repair. Therefore, contrary to an underlying misconception reflected in this report that the City is disposing of valuable materials, goods that are approved by OSA for disposal are those that have received no market interest or are items that clearly have no value, such as broken keyboards, worn-out/broken furniture, and broken VCRs/electronics.

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* See State Comptroller’s Comments on page 29.

The report's key misconception that this "trash" disposed of by the City must have significant value is not based upon any analysis identifying saleable components of this waste stream.

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Since New York City no longer has the large number of scrap dealers that it once had, OSA needed to proactively solicit scrap vendors from outside the City in order to increase competition and, therefore, profits to the City. Even so, the last solicitation for scrap metal sales only received five bids. The downside to this expanded bidders pool is that the winning bidder is currently based in Suffolk County, which has increased the timeframe for the pick-up of scrap metal materials, including scrap vehicles. This location also makes the observation of truck weights difficult and time-consuming in the absence of an available local scale.

Below we address the Report's specific issues and recommendations in more detail.

- *Selling Surplus Assets on the Internet*

When assessing the viability of an internet sales program, one must consider that there are substantial administrative expenses (personnel, goods storage, accounting, etc.) associated with doing this on a large scale. The Auditors' contention that, if DCAS utilized internet bidding [e.g., eBay] for the sale of 20,000 items each month, "and sold just 25 percent of the items for a net price of \$10 each, the City would have generated an additional \$50,000 in revenue that month, which equates to an additional \$600,000 a year . . ." is only a cursory look. This estimate is based on a "back-of-the-envelope" analysis and does not consider the significant implementation costs that would include the resources required to post bids for 20,000 items each month; store, pack and ship those items; handle customer complaints, etc. All of this would be done based upon the assumption that goods that had received no market interest heretofore would now generate substantial monies through internet sales.

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We believe that a more prudent approach would be to selectively test the market for certain items to assess the degree to which there may be market interest through internet sales. We should note that, since it is not possible to redirect any of the existing 10 personnel without affecting revenues, even a limited pilot would require additional resources.

1. Audit Recommendation: Advocate for legislation that permits the Department to sell surplus assets on the Internet.

DCAS Response: DCAS agrees that legislation specifically authorizing internet-only sales could allow it to more effectively dispose of surplus assets on the Internet. The New York State Electronic Signatures and Records Act only permits the City to sell surplus assets on the Internet if it also provides the public with the ability to participate in these auctions in a non-electronic manner. DCAS will advocate for changing this statute in order to enable it to more easily explore the potential for realizing additional revenues through internet sales.

- *Selling Surplus Vehicles for Scrap*

The Auto Auction generally occurs every other Wednesday. This time gap enables us to provide three (3) workdays (including the auction day) for winning bidders to claim their vehicles, and five (5) workdays thereafter for agencies to deliver new surplus vehicles to the auction, validate

* See State Comptroller's Comments on page 29.

paperwork, and generally prepare for the next auction. This schedule also permits OSA to advertise the vehicles being auctioned beginning on the second Monday for the Auto Auction on the following Wednesday.

No vehicle is ever sent to the auction with the expectation that the vehicle will not generate more than its value in scrap. Contrary to the auditors' contention, OSA does set a minimum auction price for each surplus vehicle. However, due to space limitations at the auction yard, OSA's ability to hold vehicles for scrap pickup is limited, in order to maximize the number of vehicles that can be accommodated for the ensuing auction.

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2. Audit Recommendation: Set a minimum auction price for each surplus vehicle that is equal to the amount that could be realized if the vehicle were sold for scrap, and sell the vehicle for scrap if that minimum price is not bid when the vehicle is auctioned.

DCAS Response: OSA will continue to set a minimum price for sale based on the current scrap contract pricing. If the minimum bid price is not realized on auction sale day, the Auction Manager will determine if such vehicle should be held for re-bid in a future sale or disposed of via the scrap contract. If, however, the number of vehicles awaiting scrap pickup begins to affect overall revenues [due to space considerations and the inability to schedule different and more profitable vehicles], OSA may choose to dispose of the scrap vehicle at less than the current scrap value in order to free up auction yard space and achieve higher revenues though the sale of other more profitable vehicles.

- *Surplus Assets Sold for Scrap*

3. Audit Recommendation: Remind agency Salvage Officers of their responsibility for verifying the reported weight of items sold for scrap, and amend the scrap metal disposal contract to require the vendor to submit documentation showing that the weighing was witnessed by a City representative. Also, require such documentation from the winning bidder when items are sold by weight in sealed bid sales.

DCAS Response: OSA will remind agency Salvage Officers of this requirement. OSA has also revised the Scrap Metal Contract Tracking Form to include a section that requires the signature of the designated agency personnel witnessing the weighing of scrap metal. We will also make agency representatives aware of the availability of a Department of Consumer Affairs scale located in Brooklyn, and the possible availability of private scales [cost borne by contractor] within the five (5) boroughs to facilitate agency witnessing of weighing.

- *Surplus Assets Reportedly Without Value*

4. Audit Recommendation: When relinquishment forms include items that are reportedly worthless, require the agencies to submit photographs or other documentation in support of the items' lack of value and verify whether select high-risk items are, in fact, worthless before authorizing their destruction.

DCAS Response: Most of the items that are approved for disposal have either previously received no market interest or are clearly worthless based on age and/or obsolescence. OSA does

* See State Comptroller's Comments on page 29.

request photographs and/or other documentation when it is questionable as to whether items have value. In instances where relinquishments lack such documentation, and depending upon item type and volume, agencies are contacted and the appropriate Salvage Officer is asked to submit photographs and/or other documentation to substantiate value assessment. When warranted, OSA will inspect items to make a determination of value.

- 5. Audit Recommendation:** Perform a formal cost-benefit analysis to determine whether additional automation would be advisable for the Department's surplus asset recordkeeping system.

DCAS Response: This recommendation addresses whether it would be cost-effective to create a Citywide computerized waste stream inventory. At this time, DCAS does not have the internal resources to conduct a formal cost-benefit analysis of a computerized waste stream inventory; however, we will continue to work with the Mayor's Office to identify potential advantages and opportunities to further automate our current process.

- *Department Approval*

- 6. Audit Recommendation:** Remind Agency Salvage Officers that they must receive the Department's approval before disposing of surplus assets.

DCAS Response: Preliminarily, we believe that the single instance identified by the auditors was an anomaly. We have already discussed that occurrence with the relevant Agency.

Nonetheless, we do plan to hold periodic, scheduled meetings with Agency Salvage Officers where we will emphasize this point. OSA also issues the Agency User Guidelines for the Disposal of Surplus Property to Agency Salvage Officers that details proper surplus property relinquishment/disposal procedures. These procedures do include the requirement that agencies must secure authorization (Disposal Orders) from OSA before disposing of assets. These procedures are also posted online at DMSS' intranet site.

- *The City Comptroller's Approval*

- 7. Audit Recommendation:** Reconsider whether "no-bid" offers should continue to be counted as actual bids in sealed bid sales.

DCAS Response: OSA's standard operating procedure has been changed and "no-bid" offers are no longer considered as actual bids in sealed bid sales.

- *Disposal Time Frames*

- 8. Audit Recommendation:** Develop suggested time frames for the disposal of surplus assets, monitor actual disposal times against the suggested times, and take corrective action to reduce the delays when the actual times are significantly longer than the suggested times.

DCAS Response: At the start of this Audit, we shared our internal management reports for this operation with the Auditors. These reports reflect the metrics that we deem to be most

important, and lay out OSA's performance in these areas. As the Audit Report correctly states, our primary goals are to reuse assets and to maximize revenues.

The Auditors have asked why some vehicles take longer to be auctioned than others. The answer is that there are multiple factors that influence these timeframes. The operational needs of relinquishing agencies affect the rate at which vehicles are relinquished, which determines how quickly they can be auctioned, given the space constraints that are in place at the auction yard. Further, to maximize revenue, and to the extent it is possible, each auction must include a mix of cars, trucks, and other equipment to meet buyer needs and promote competition in bidding. For example, if a group of 100 heavy trucks were to be relinquished, these would be auctioned a few at a time in order to maximize revenues. The availability of a large quantity of similar vehicles at a single auction would likely devalue these vehicles and produce lower bids. Also, if we filled an entire auction solely with heavy trucks to meet time-based targets, a person who attended that auction to purchase a sedan would not purchase one of these trucks instead. In fact, such an action might dissuade some buyers from attending future auctions, based on the mistaken belief that we do not also have sedans to offer.

We see this issue as a matter of setting appropriate priorities. If there is a good reason to auction one vehicle rather than another that has been pending longer, we believe that we should do so to maximize revenues rather than work to meet an arbitrary deadline. We believe that the corrective actions suggested by the auditors would be implemented at the expense of DCAS' primary goals as stated above and would not effectively serve the public interest.

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We would like to thank the auditors for their efforts in attempting to improve these operations.

Sincerely,



Martha K. Hirst

c: L. Block
D. Brosen
C. Lane
I. Lees
D. Lepore
R. Riccelli
V. Ross
G. Davis III, Mayor's Office of Operations

* See State Comptroller's Comments on page 29.

State Comptroller's Comments

1. The purpose of our illustrative analysis was to raise the point that, instead of destroying these surplus assets, there may be some revenue generated by selling them on the Internet. We also recognize that there are associated costs with Internet sales and agree with the Department's prudent approach in addressing this issue.
2. During our audit, we saw no evidence that the Department set a minimum auction price for each surplus vehicle based on the current scrap contract pricing; and Department procedures at the time of our audit did not mention it.
3. Our recommendation to develop suggested time frames for the disposal of surplus assets is not only for vehicles, but also for sealed-bid sales items and for items to be destroyed. The Department's comment that some vehicles may take longer to auction than others in order to maximize revenues may have merit, but unique situations like this do not preclude the Department from establishing suggested time frames for the disposal of surplus assets. We believe that our recommendation would not negatively affect the Department's goal of maximizing revenues, but rather would reduce storage costs.