

**TESTIMONY OF DANIEL W. LUCAS, INSPECTOR GENERAL**

**BEFORE THE  
COUNCIL OF THE DISTRICT OF COLUMBIA  
COMMITTEE ON FACILITIES AND PROCUREMENT**

**PUBLIC OVERSIGHT HEARING ON THE  
OFFICE OF THE INSPECTOR GENERAL (OIG) REPORT:**

**“District-Wide Participation in the Surplus Property Program Could be  
Improved”**

**January 9, 2020**

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Good afternoon Chairperson White and Members of the Committee. I am Daniel W. Lucas, Inspector General for the District of Columbia. I am pleased to appear before the Committee to talk about the Office of the Inspector General’s recent report on the Office of Contracting and Procurement (OCP) Surplus Property Program, which was published July 22, 2019, and is currently available on our website. Joining me today is Edward Farley, Assistant Inspector General for Inspections and Evaluations. Mr. Farley led the team that conducted this inspection at OCP.

**Inspection Background**

As background, D.C. Code § 1-301.115a (a)(3)(e) (Supp. 2018) requires the Office of the Inspector General (OIG) to “conduct an operational audit of all procurement

activities” within the District. To meet this statutory mandate, in 2017 my Office contracted with an external firm to conduct a District-wide procurement risk assessment to help identify high-risk systemic issues, practices, and incongruent rules and regulations for subsequent oversight work related to the District’s procurement system.<sup>1</sup> The District’s Surplus Property Program was one of eight risks identified in the assessment; which noted: “OCP’s online property surplus disposal program is not consistently utilized across the District, which reduces potential revenue opportunities, and increases the chance for material obsolescence, and opportunities for fraud, waste, and abuse.” *Id.* at 2.

Given the opportunity to improve OCP’s surplus property disposal program, I elected to conduct a deep-dive into this risk area and identified this inspection in our *Fiscal Year 2018 Audit and Inspection Plan*.

## **Findings**

Our overall goal for this engagement was to collaborate with OCP to address the issues identified in the OIG’s *Procurement Practices Risk Assessment* and to improve the economy, efficiency, and administration of OCP’s surplus property program. The two objectives were to assess: (1) OCP’s controls and procedures

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<sup>1</sup> D.C. OFFICE OF THE INSPECTOR GENERAL, GOV’T OF THE DISTRICT OF COLUMBIA FISCAL YEAR 2017 PROCUREMENT PRACTICES RISK ASSESSMENT (OIG Project No. 16-1-17MA July 2017), available at [http://app.oig.dc.gov/news/PDF/release10/District\\_Procurement\\_Practices\\_Risk\\_Assessment.pdf](http://app.oig.dc.gov/news/PDF/release10/District_Procurement_Practices_Risk_Assessment.pdf) (last visited January 5, 2020).

for safeguarding, marketing, selling, and disposing of surplus District government property; and (2) District agencies' use of OCP's surplus property program. We conducted this project using inspection and evaluation standards promulgated by the Council of the Inspectors General on Integrity and Efficiency.

Before I discuss our findings, it is important to understand the statutory and regulatory framework governing the disposition of the District's surplus property. In enacting the Procurement Practices Reform Act of 2010 (PPRA), the Council recognized that consistency in the District's procurement practices "promote[s] efficiency and eliminate[s] duplication in the District government procurement organization and operation to reduce costs."<sup>2</sup> The PPRA carved out specific responsibilities for supply management within the District,<sup>3</sup> which include assigning the Chief Procurement Officer (CPO) with the authority and responsibility to:

sell, trade, or otherwise dispose of surplus goods  
belonging to the District government;<sup>4</sup>

To satisfy the statutory duties set forth in D.C. Code § 2-352.04, D.C. Code § 2-358.01(2) requires the CPO to issue rules governing:

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<sup>2</sup> D.C. Code § 2-351.01 (b)(6).

<sup>3</sup> See D.C. Code § 2-358.01.

<sup>4</sup> D.C. Code § 2-352.04(b)(10).

[t]he sale, lease, disposal, or transfer of surplus goods by public auction, competitive sealed bidding, competitive electronic sales, or other appropriate method designated by rule . . . .

This D.C. Code provision is implemented via 27 DCMR §§ 901.1 (b) and (c), which require the CPO to delegate a Chief Property Disposal Officer (CPDO) to manage disposal of “District surplus personal property in accordance with District law and regulations governing the sale, donation, and transfer of District surplus property; [and] [m]aximiz[e] the investment recovery value of surplus personal property and effective oversight and management of personal property utilization.”

Overall, it is clear that OCP has designed and implemented an effective surplus property program, and our findings and recommendations can only serve to strengthen the program. As I will discuss, there are opportunities for OCP to: (1) address inconsistent use of the program by District agencies; (2) improve the administration of its online auction system contract; (3) coordinate with the Office of the Chief Technology Officer (OCTO) to improve data destruction practices; and (4) increase revenue generated by online auction sales. With OCP exercising leadership over its program, the District ultimately stands to benefit through enhanced District agency participation in the program, cost avoidance through the

repurposing of District property, and revenue generation through sales of surplus property.

**Lack of Clarity in OCP's Role.** Notwithstanding the D.C. Code and DCMR provisions I previously discussed, OCP's role in disposing of District surplus property is unclear. D.C. Code § 2-352.04(b)(10) says only the CPO is authorized to and responsible for the sale, trade, and disposal of surplus goods belonging to the District government. No part of the District government is exempt in this statute. However, several District agencies are exempt from the PPRA, which encompasses D.C. Code § 2-352.04(b)(10). While it is clear the CPO is responsible for surplus property disposal for those District agencies subject to the PPRA and the CPO's authority, it is unclear what role, if any, OCP and the CPO should play in disposing surplus property from District government agencies that are subject to the PPRA but not the CPO's authority, or, exempt from both the PPRA and the CPO's authority. For example, we identified two District agencies exempt from both the PPRA and CPO's authority, which have nonetheless entered into an agreement with OCP to provide surplus property disposition services. Absent an understanding of OCP's role to lead surplus property disposition efforts on behalf of the District as a whole, the following risks remain: (1) not maximizing sales revenue from the sale of surplus property, and (2) an increased

likelihood that valuable surplus property is not consistently and properly safeguarded and dispositioned as discussed in the DCMR.

**Administration of the GovDeals Contract.** OCP contracts for an online auction system to manage its surplus property sales. We found that OCP's online auction contract identified several District agencies who were neither subject to the CPO's authority nor had a surplus property disposition agreement in place. Without agreements in place for these District agencies, there is a risk of inconsistent and inaccurate contract administration.

We also found that OCP did not have a written procedure for auditing and approving auction revenue before sales proceeds are remitted by the contractor. Without a written process to document and verify auction revenue, the District lacks assurance that it (1) receives the appropriate revenues and (2) there is consistency and transparency in the process.

**District Surplus Property and Data Destruction Practices.** We found that data destruction prior to sale (to include sanitization of any confidential data or personal identifying information) should occur within OCP's Data Destruction Unit. The Data Destruction Unit receives and inspects computers, and destroys hard drives before disposition of the computers. However, for District agencies not subject to CPO's authority, there is a considerable risk for inconsistent data destruction.

Consistent data destruction, in accordance with industry best practices, is critical to: (1) minimize the possibility that sensitive/protected information can be accessed and exploited to perpetrate illegal activity; and (2) prevent disclosures prohibited by law.

### **Online Surplus Property Disposition Cost and Revenue to the District.**

Finally, we found that in accordance with the GovDeals contract, every online surplus property sale is assessed a “buyer’s premium” of 5% on the winning bid. The online auction contractor, in turn, charges the District a 7.5% fee for each sale. Increasing the buyers' premium percentage could help offset the 2.5% loss to the District.

Additionally, we found that the District does not assess sales tax for online auction sales. In comparison, several states assess sales tax for their online auction sales. Given the District’s current online auction sales revenue (\$4 million), we estimate that assessing sales tax on each auction transaction could generate at least \$250-thousand in sales tax revenue. The amount of sales tax revenue would likely increase with District agency awareness and use of OCP’s Surplus Property Program.

## **Actions Taken as a Result of our Inspection**

Our report presented OCP with 10 recommendations intended to clarify District agencies' roles and responsibilities; increase participation in OCP's Surplus Property Disposal Program; strengthen data destruction practices throughout the District; and increase revenue to the District. While OCP disagreed with 8 of the 10 recommendations, their comments on the draft report indicated they had already acted on, or planned to act on, some of the recommendations they disagreed with. For example, OCP noted that "in consultation with OCTO, we can confirm [data destruction practices] remain in line with current industry standards and are supported by OCTO." And with regard to reviewing the buyer's premium rate and the possibility of imposing sales tax, OCP stated that it and OCFO "have engaged in discussions concerning sales tax and admin fees ... and will continue those conversations ... to help determine what changes, if any, should be made and the best approach to achieve a favorable outcome for the District."

## **Conclusion**

As I stated previously, OCP has established a robust surplus property disposal program for agencies under the CPO's authority. However, there are opportunities to centralize and increase participation of both agencies subject to the PPRA as well as those agencies exempt from the PPRA. Doing so will help the District



realize efficiencies by reducing duplicative surplus property disposition efforts by other District agencies and reduce the risk of data disclosures prohibited by law. By consolidating the surplus property disposal process, the District has an opportunity to generate additional revenue by increasing online auction sales, increasing the buyer's premium, and assessing sales tax on each transaction. The OIG's report recommendations are actionable, achievable first steps toward improvement, and my Office will continue to communicate and collaborate with OCP as it continues to refine its Surplus Property Program. That concludes my prepared testimony, and I am happy to answer any questions you have.