



OFFICE OF THE INSPECTOR GENERAL

Montgomery County, Maryland



MEMORANDUM OF INVESTIGATION

TO: Richard S. Madaleno
Chief Administrative Officer

FROM: Megan Davey Limarzi, Esq.
Inspector General *ML*

DATE: August 17, 2022

SUBJECT: Disposal of Surplus Property Utilizing GovDeals.com

The Office of the Inspector General initiated a limited investigation of the county's use of the internet auction platform GovDeals.com (GovDeals) to sell surplus goods.¹ The investigation sought to determine compliance with policy and evaluate current practices.

We found that departments using GovDeals to sell surplus goods generally followed procedures that went beyond those required by the Office of Procurement (Procurement). Their practices were generally consistent with instructions provided by the Deputy Chief Administrative Officer (DCAO) through email but never memorialized in Procurement's written procedures. We also noted that departments often sought the Director of Procurement's approval to dispose of surplus goods through GovDeals even though it was not required by Procurement's written procedures or the DCAO's instructions. An absence of clearly defined policy has resulted in inconsistent practices and may potentially lead to a weakening of the county's property accountability system.

Additionally, we observed a lack of written procedures addressing the valuation of goods to be surplus and the payment of commissions. The absence of guidance led to differences in how departments approached both topics. For example, the Department of General Services paid \$23,661 in commission fees for items sold through GovDeals over the last two years while other departments paid no commissions. Written procedures could ensure the county receives the highest return for items sold.

Inquiry and Outcome

The county has utilized GovDeals to dispose of surplus goods since 2008. The Department of General Services is the contract administrator and the county's primary point of contact for GovDeals. There are five departments identified on the county's contract with GovDeals: Montgomery County Fire and Rescue Service (MCFRS); the Department of Environmental Protection (DEP); the Department of General Services (DGS); the Department of Transportation (DOT); and the Montgomery County Department of Police (MCDP). The chart below depicts the sales through GovDeals for each department from January 1, 2020, through June 30, 2022.

¹ County Code Section 11B-43 defines surplus goods as "goods no longer of use to the county."

TABLE: Sales Through GovDeals January 1, 2020 to June 30, 2022

Department	# of Items Sold	Total Sales
Fire and Rescue Service	289	\$792,427
General Services	69	\$346,472
Environmental Protection	6	\$311,285
Transportation	2	\$5,840
Department of Police	4	\$2,730

Relevant Law & Guidance

The disposal of surplus goods is governed by Section 11B-44 of the Montgomery County Code. Section 11B-44 provides that the Director of Procurement may sell surplus goods by any competitive method (including sealed bids, public auction, trade-in or exchange) likely to bring the highest return to the county.

Additional guidance is outlined in the Purchasing and Materials Management Division's (PMMD) *Procedure-190, Procedure for Disposal of Goods*. PMMD-190 assigns the Director of Procurement the responsibility of selling surplus goods and provides that they, in coordination with using departments, may issue a solicitation for the sale of specific items.

In February of 2020, the DCAO disseminated an email to all department directors titled *Leading with Integrity – Issue #4, 2020: Disposal of Surplus Property*. The email reiterates that the Director of Procurement may sell surplus goods by any competitive method. The email provides guidance not contained in the County Code or PMMD-190. It directs that “an authorized manager must determine that the County property is surplus, that the County no longer needs the property, and indicate whether there is scrap or resale value.” The email further instructs departments to “consult” with Procurement once property has been determined to be surplus and that the Director of Procurement will determine if the property has resale value and identify the most appropriate way to dispose of the property. The guidance provided in the email appears to shift the responsibility for coordination from the Director of Procurement to departments. These specific roles and responsibilities are not delineated in the County Code or PMMD-190 and therefore may not be apparent to departments seeking to dispose of surplus goods.

We observed that only DGS and DEP had written procedures governing aspects of the disposition of surplus property, some of which aligned with the guidance contained in the DCAO's email.

Observations

In evaluating the use of GovDeals we found that, with the exception of DOT and one section within MCFRS, departments generally requested authorization via email through a staff member at Procurement prior to listing items for sale on GovDeals. We further observed that in response to requests the Director of Procurement approved the sale and departments were notified through email of the Director of Procurement's decision. This process seems to follow the DCAO's direction that departments consult with Procurement, but we found no evidence that the Director of Procurement determines that property has resale value or is involved in determining the appropriate way to dispose of the property as required by the DCAO's email. It appears that

departments are unilaterally determining whether items have resale value and the disposition method.

Additionally, we observed that departments are seeking the Director of Procurement's approval to dispose of surplus goods even though PMMD-190 and the DCAO only require consultation and coordination with the Director of Procurement. We were not able to identify why departments were following this practice but observed that it was included in a current Procurement pilot process for the disposition of surplus goods.

In discussions with MCFRS and DOT we learned that they did not always consult with Procurement prior to listing items for sale on GovDeals. We noted that the small tools section within MCFRS was not aware of the guidance provided by the DCAO. With respect to DOT, we noted that they did not consult with Procurement prior to selling approximately 846lbs of foreign coins that were retrieved from parking meters during routine collection. Above not consulting with Procurement, since DOT collected the coins as payment for parking, they should have treated the coins as revenue and deposited them following the county's normal process for collected funds. Doing otherwise potentially limited the county's ability to realize the full value of the collected funds.

Procurement staff told us that they traditionally do not retain documentation of requests to dispose of surplus property nor their associated authorizations. Procurement recently implemented a pilot process for departments to electronically request and obtain approval for the disposal of surplus goods. The associated form asks for departments to provide the description of the item, whether it has scrap or resale value, the intended mechanism for disposal, and whether the department director has approved the item for surplus. This information is not required by PMMD-190 but generally comports with the DCAO's instructions. The new system will reportedly catalog and save all processed actions. Retaining this documentation will further increase transparency of the disposition of surplus goods.

We also noted that guidance was lacking on how to determine the value of items sold through GovDeals. The DCAO's guidance assigns the Director of Procurement the task of determining if property has resale value. It also instructs departments to "indicate whether there is scrap or resale value." We observed that departments in general were determining the value of items without the Director of Procurement's involvement and with no direction on how to properly determine an item's value. We observed that the approach to determining valuation varied within departments, even within the same category of equipment. Some departments told us that they conducted research to determine the market value of items while others stated that they simply listed items with no predetermined opening bid and no minimum sales price, thereby "letting the market decide" the value. Not having a consistent method to determine the value of items can result in discrepancies and prevent the county from obtaining the highest return.

Similarly, we found no guidance related to paying commission fees when selling items through GovDeals. DGS has been the only department to pay commission fees for items sold since June of 2020. The GovDeals contract allows participating departments to choose between two payment methods to cover the commission fees charged by GovDeals. The first option allows GovDeals to collect a 12.5% commission directly from buyers and the second requires listing departments to pay a 7.5% commission fee to GovDeals. According to GovDeals, there are 163

participating entities in Maryland and DGS is one of only three that opts to pay the 7.5% commission fee rather than pass the charge on to buyers. Since June 2020 DGS has paid \$23,661 in commission fees to GovDeals in contrast to other departments who paid no commission fees. DGS contends that assuming the fee encourages greater bidder participation and possibly leads to a higher sale price. However, this method will result in the county expending additional funds while not guaranteeing that items sell for a higher price.

Conclusions and Recommendations

The practices and methods of how departments and Procurement competitively dispose of surplus goods have, at times, deviated from written procedures and the DCAO's guidance. Departments, in the absence of guidance, differ in how they approached valuing surplus goods for sale and the payment of commissions. We recommend the county evaluate current guidance, written procedures, and practices for the competitive disposition of surplus goods and formalize in writing methods to be followed. Consideration should be given to specific department and Procurement responsibilities, including who determines the value of items to be sold and the most appropriate method for disposal; whether approval from the Director of Procurement is required; and the retention of associated documentation. We further recommend the county standardize the procedures used to determine valuation and the payment of commissions for items sold through GovDeals.

Additionally, we recommend that DOT implement policy and procedures to ensure that all revenue collected be processed in accordance with the county's financial policies and not disposed of as surplus property.

Clearly defined policy will result in consistent practices, strengthen property accountability and ensure the highest return for items sold through competitive methods.

cc: Fariba Kassiri, Deputy Chief Administrative Officer

OIG Note: A confidential draft of this Memorandum of Investigation was provided to the Chief Administrative Officer on August 17, 2022, for review and comment. On August 24, 2022, the Deputy Chief Administrative Officer responded via email that her office "will coordinate a comprehensive assessment of all aspects of our current process and will take any actions required to enhance existing processes".