THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

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LUNG CHIU, CIG, CPA
INSPECTOR GENERAL

MEMORANDUM

TO: Honorable Chair and Members of the School Board
Dr. Robert Avossa, Superintendent
Chair and Members of the Audit Committee

FROM: Lung Chiu, Inspector General KLC

DATE: December 1, 2016

SUBJECT: Transmittal of Final Investigative Report
Case # 13-094 Disposal of Information Technology Hardware

In accordance with School Board Policy 1.092(6)(d), we hereby transmit the above-referenced final report.

The report addresses two allegations concerning the improper disposal of District Informational Technology hardware:

1. Information Technology Department management instructed staff to *"dispose of tens of thousands of dollars' worth of usable computer equipment."*

2. The reason for disposing of the equipment was because of *"a pending OIG audit."*

Our investigation concluded that allegation #1 is partially substantiated as the dollar amount was undeterminable. Allegation #2 is substantiated.

The results of the investigation were referred to the Office of Professional Standards and School Police for any necessary action on April 17, 2015.

The report has been finalized and will be posted on the Inspector General's website.

cc: Michael Burke, Chief Financial Officer

Office of Inspector General
The School District of Palm Beach County

Case No. 13-094

Disposal of Information Technology Hardware

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Office of Inspector General
The School District of Palm Beach County

Case No. 13-094

Disposal of Information Technology Hardware

EXECUTIVE SUMMARY

Allegation: On September 24, 2013, the Office Inspector General (OIG) began a preliminary review into an allegation concerning the improper disposal of District Informational Technology (IT) hardware. The complainant made the allegations directly to School Police, and the matter was subsequently referred to the OIG.

Specifically, the complainant alleged that:

1. Information Technology Department management instructed staff to "*dispose of tens of thousands of dollars' worth of usable computer equipment.*"

2. The reason for disposing of the equipment was because of *"a pending OIG audit."*

Our preliminary review confirmed that a significant amount of equipment was removed from an IT storage facility shortly after the OIG notified the Chief Information Officer that the OIG would commence an audit of IT System Acquisitions. Based on the results of our preliminary review, the OIG initiated an investigation into this matter.

Conclusion: Our investigation concluded that allegation #1 is partially substantiated as the dollar amount was undeterminable. Allegation #2 is substantiated.

Background: The District routinely utilized the services of a recycling company to collect unwanted surplus equipment from District facilities. The recycling company paid the District a nominal fee for equipment they collected.

On August 30, 2013, our Office notified IT management of plans to begin an internal audit of IT System Acquisitions, pursuant to the OIG's 2013-2014 Workplan. The following workday, IT management directed staff to dispose of equipment located in the McKesson Building storage facility. That same day, the recycling company began removing the equipment. Over a four-day period, September 3, 4, 5, and September 17, 2013, the recycling company removed approximately 48 pallets containing an estimated 32,761 pounds of hardware from the storage facility. This equipment, in its entirety, is referred to in the report as the "disposed equipment."

Issues Identified: The removal of equipment raised numerous concerns as described in detail in the OIG investigative report:

1. The apparent impetus for IT Management to instruct staff to remove the equipment was the impending OIG Audit.

2. Staff failed to inventory the equipment, complete *Transfer of Property Forms* or maintain a paper trail of accountability for each disposed item, in violation of *Chapter 274 of Florida Statute; Florida Administrative Code 69I-73;* and, the District's *Purchasing Manual, Chapter 21*.

3. IT Management failed to perform a documented assessment of the value of the equipment. Consequently, the value could not be determined. We estimated a portion of the equipment had an approximate value of $1.833 million when they were originally purchased. The 18 pallets of servers, consisted of approximately 300 individual servers).

4. The District sold the equipment as "scrap," but the equipment did not meet the definition of "scrap" as provided in the District's *Purchasing Manual. Chapter 21-8* of the Manual provides that specific criteria must be met in order to qualify property as "scrap," and that criteria were not met.

5. Purchasing staff failed to obtain required documentation from IT staff identifying the equipment before scheduling collection by the recycling company, in violation of the *Purchasing Manual, Chapter 21-2*. This resulted in inaccurate capital asset records.

6. Purchasing staff failed to examine the equipment to evaluate its potential market value and determine the best means of disposal.

7. District staff did not dispose of the equipment in a manner that could demonstrate compliance with *Chapters 274.05, 274.06*, and 274.07 of *Florida Statute,* and *Florida Administrative Code 69I-73.005*, including demonstrating authority to dispose of the equipment.

8. Due to lack of documentation for status of the disposed equipment, the OIG was not able to determine if any portion of the equipment could have been stolen, or otherwise misappropriated.

9. The District conducted business with a vendor, the recycling company, without going through competitive selection or having an authorized contract. Instead, a one-page undated agreement was signed by a warehouse technician on behalf of the warehouse manager. There was no delegated authority for the technician, or his supervisor, to enter into such an agreement on behalf of the District.

10. Thousands of pounds of equipment were collected by the recycling company for which specific prices were not listed on the agreement and there were no predetermined agreed upon prices. For example, servers and hubs were sold to the recycling company for $0.18 and $0.22 per pound, respectively; however, there is no documented basis for setting these dollar amounts.

11. There were breakdowns in internal controls and vendor oversight. For example, payments from the recycling company were not received until six months after the equipment was picked up. Also, staff held payments for up to 42 days before forwarding them to the Accounting Department for deposit.

12. Money Order payments were accepted directly by warehouse staff. We noted the "Pay To" line on the Money Orders was hand written, and the "Pay To" line on one of the money orders was blank.

On August 8, 2014, the OIG issued a Memorandum to the Superintendent requesting the District to immediately discontinue doing business with the recycling company until a justified determination of continuing a business relationship was made (Exhibit 1).

Referral: On April 17, 2015, the results of the investigation were referred to the Office of Professional Standards and School Police for any necessary action.

Please see chronology on the following page, iv.

CHRONOLOGY

09/19/13	School Police received anonymous complaint
09/24/13	OIG received referral from School Police
09/25/13	IG approved and retained case
09/25/13 – 09/30/14	Complaint investigated • Conducted site visits • Conducted numerous interviews • Reviewed applicable state statutes, policies and procedures • Obtained pertinent records • Analyzed records obtained
11/21/14 – 02/25/15	OIG distributed 20-day notices to Director of Purchasing, Chief Information Officer, Construction Purchasing Manager, Director of IT Infrastructure and Systems Support, Director of Technical Operations, Redistribution Warehouse Technician; and received responses from most employees.
11/25/15 – 12/18/15	Draft report sent to Chief Operating Officer for management response; and response received
04/17/15	Draft report sent to Office of Professional Standards (OPS) and School Police
04/28/15	OPS requested for the OIG hold off on the publication of the investigative report so that OPS could conduct the administrative investigation for possible disciplinary purposes
05/14/2015 – 01/2016	OPS commenced its investigation by Detective Price
01/28/16 – 06/2016	OPS assigned investigation to Detective Sapyta
03/01/16	Redistribution Warehouse Technician retired
04/01/16	Director of IT Infrastructure and Systems Support retired
06/01/16	Director of Purchasing retired
07/12/16	OPS indicated its investigative report is not ready for release

CHRONOLOGY (cont'd)

08/19/16	OPS indicated its investigative report would be ready for release by 8/29/16
08/30/16	OIG received OPS report
09/30/16	OIG finalized its investigative report
10/3/16 – 11/15/16	OIG conducted quality review

Office of Inspector General
The School District of Palm Beach County

Case No. 13-094

Disposal of Information Technology Hardware

INVESTIGATIVE REPORT

AUTHORITY AND PURPOSE

Authority. *School Board Policy 1.092, Inspector General (4)(a)(iv)* provides for the Inspector General to receive and consider complaints, and conduct, supervise, or coordinate such inquiries, investigations, or reviews as the Inspector General deems appropriate.

Allegations. The Office of Inspector General (OIG) initiated a review on September 24, 2013, in response to a complaint referred to our office by School Police. The complaint alleged that:

1) Certain Information Technology (IT) Department management instructed District staff to "dispose of tens of thousands of dollars' worth of usable computer equipment"; and

2) The reason for the disposal was "because of a pending audit."

The OIG performed a preliminary review and, among other things, confirmed the removal of information technology hardware from a District facility (hereinafter referred to in its entirety as "Disposed Equipment"). An investigation was initiated based upon the results of our preliminary review.

BACKGROUND

District's Centralized Warehouses

The District operates two centralized warehouses:

1) The Supply & Property Redistribution Warehouse located on Australian Avenue, Riviera Beach, (Property Redistribution), where excess and obsolete District property is assembled, evaluated, and classified for redistribution or disposal.

2) The McKesson Building, located on North Florida Mango, West Palm Beach, serves among other functions, as a computer staging and storage facility for a variety of IT hardware equipment, such as servers, switches, and peripherals.

Recycling Company

The District utilized a recycling company *eTronic eWaste, LLC*, based in Miami Lakes, Florida ("Recycling Company"). Both the Recycling Company and District staff confirmed there was no formal contract between the District and the Recycling Company. Staff informed us that a former Warehouse Technician created the business relationship with the Recycling Company approximately five years ago.

Staff provided a one-page undated "*E-Waste Pick Up Service Agreement*" signed by a previous owner of the Recycling Company and the current Warehouse Technician (Exhibit 2). The agreement provided for the Recycling Company to 1) collect certain items (computers, printers, copiers, monitors, televisions and miscellaneous) from the District's Property Redistribution Center; and, 2) pay the District for the items collected (either by the pound or unit, depending on the item). The Recycling Company paid the District for the equipment collected based on a weight or unit cost schedule.

The Recycling Company regularly collected equipment from various District locations, including schools. Property Redistribution staff initiated and coordinated the equipment collections directly with the Recycling Company.

REVIEWS PERFORMED

Document Review

- Applicable Florida Statutes and Administrative Codes
- Applicable School Board Policies
- Capital Assets Inventory Records
- District *Purchasing Manual* (revision date December, 2012)
- District *Capital Assets Policies & Procedures* (revision date March, 2012)
- *Transfer of Property Forms*
- Transmittal and Deposit Records
- Warehouse and Equipment Photographs
- Recycling Company Records (July 2012 – September 2013)
- Other applicable materials

Interviews

- Director of Infrastructure and Systems Support
- Director of Technical Operations
- Director, Purchasing
- Manager, Construction Purchasing
- School Police
- Specialist, Financial Accounting
- Technician, Capital Assets
- Technician, Redistribution Warehouse
- Information Technology Management and Staff
- eTronic/eWaste Recycling Company Owner and Staff

Site Inspections

- McKesson Building located on North Florida Mango Road in West Palm Beach
- eTronic/eWaste Recycling Company located in Miami Lakes

This investigation was conducted in compliance with the *Quality Standards for Investigations* found within the *Principles and Standards for Offices of Inspector General*, promulgated by the Association of Inspectors General.

During the course of this investigation, we received the full cooperation of IT management, IT staff, and other District staff.

RELATED LAWS, POLICIES, AND PROCEDURES

Florida Statutes & Administrative Code Governing Equipment Disposal/Property Records

Section 1013.28(2), Florida Statutes, provides for tangible personal property that has been properly *classified* as surplus by a district school board to be disposed of in accordance with *Chapter 274, Florida Statutes*, specifically *Sections 274.05*, *274.06*, and *274.07. Chapter 274.07* requires that authority for the disposal of property shall be recorded in the minutes of the governmental unit (emphasis added).

Section 274.05 provides for surplus property to be disposed of by sale or donation to a government unit or nonprofit organization. The District may declare property as surplus when it is determined the property is 1) obsolete; 2) the continued use of the property is uneconomical or inefficient; or, 3) the property serves no useful purpose.

Alternatively, *Section 274.06,* provides that the District may sell or donate property determined to be obsolete, uneconomical or inefficient to maintain, to a person through public bidding or auction; or, to the state/a governmental unit/political subdivision without bids. The District may donate, destroy or abandon such property, if the property is without commercial value.[1]

Section 274.02, *Florida Statutes*, requires the State's Chief Financial Officer to establish, by rule, the requirements for the recording of property and the periodic review of property for inventory purposes.

Chapter 69I-73, Florida Administrative Code (FAC), Rules of the Department of Financial Services (DFS), establish record keeping and annual inventory requirements for school district tangible personal property and prescribe the requirements for the recording and inventorying of District tangible personal property, marking of the property items, and disposing of the property items. The rules govern all tangible property with a value or cost of $1,000 or more and a projected useful life of one year or more.[2]

[1] If the property is valued under $5000, the disposal may be by the most efficient and cost effective method. If the property is valued over $5000, the disposal must be by bid to the highest bidder or a public auction.
[2] *Rule 69I-73.002, FAC*

Specifically, *Rule 69I-73.005* requires information be recorded on the individual property record for each item lawfully disposed of that includes details of the disposition, including date, authority, witnesses, manner, etc.

District Policies & Procedures Regarding Equipment Disposal and Property Records

School Board Policy 6.10, *Property Accountability and Responsibility*, last revised in 1983, states, among other things:

- The Superintendent shall designate…administrative department heads as custodians of the property assigned to their respective…administrative departments.
- Each property custodian shall be responsible for the safekeeping and proper use of the property entrusted to their care. A property custodian cannot transfer this responsibility to subordinates; however, they may assist in meeting this responsibility.
- The Superintendent shall prescribe procedures for accountability of property as defined in *Chapter 274*, *Florida Statutes*.
- The Superintendent shall report to the Board all property that has been…discarded. Such report is to include recommendation for inactivation…of the property record.

School Board Policy 7.12, Disposal of School Board Land and Tangible Property, states if property becomes available because it is surplus, marked for disposal, or otherwise unused, it shall be provided for a charter school's use on the same basis as it is made available to other public schools in the district.

In addition to the above-required policies, *Chapter 21* of the *Purchasing Manual*[3] (Exhibit 3) provides specific guidance for the disposition of items no longer useful to the District. The *Purchasing Manual* provides for the following requirements:

- Timely identification of surplus and obsolete material is essential to an effective disposition program *(21-1)*
- In all cases of property disposal, notification to capital assets to update the fixed assets accounts *(21-2)*
- When items become excess, obsolete or surplus, the using department must report them to the Purchasing Department (Property Redistribution) *(21-2)*
- Departments are responsible for the reasonable care and security of items declared surplus during the entire disposal process *(21-5)*

[3] Revision date December 2012

- A continuous "paper trail" of accountability for an item should be maintained *(21-5)*
- All electronic waste will be processed through Property Distribution *(21-8)*

Chapter 21 of the Purchasing Manual also provides specific procedures for the disposition and disposal of surplus equipment. Those procedures require that prior to pick up, Property Redistribution is provided:

- A properly completed *Form PBSD0082*, Transfer of Property (A4)
- A complete description and quantity of items (A2)

The *Excess, Obsolescence & Scrap Policy* in Chapter 21-8 of the *Purchasing Manual* provides the following classifications for determining the status of excess, obsolete and scrap property, and the disposal method for such property.

STATUS	DEFINITION
A	Property that has been declared excess or obsolete by the school or District department and sent to the Redistribution Warehouse
B	Excess property that has resided in the Redistribution Warehouse for ninety calendar days, excluding June and July, and may be made available to the public for purchase through live auction, Internet auction or put out for bid through other Board accepted means. Obsolete property to the District will be sold through the same means with no waiting period. Property that the District does not want reused in the District may be placed on auction upon receipt at Property Redistribution
C	Property that has been put out for bid to the public and not sold. Property is declared scrap.
SCRAP	Property shall qualify as scrap if it falls into one of the following categories: * the property has attained status C (as provided above) * the property can no longer perform the function it was intended to perform Items that fall into this category may be, but are not limited to, broken or unsafe furniture or other property, seriously cosmetically damaged property and inoperable electronic devices. Note: Any scrap sold may be made available to the public for purchase through live auction, internet auction or put out for bid through other Board accepted means.

School Board Policy 2.34, *Records and Reports*, requires all District employees to faithfully and accurately keep such records as may be required by law, State Board regulations, School Board policy or their supervisor. Such records shall include "property inventory . . . and other types of information." Reports of such records shall be submitted on forms prescribed for such purposes and at designated intervals or dates.

STAFF CONCERNS

During the investigation, certain IT staff expressed concerns regarding the Disposed Equipment, as follows:

- Staff was rushed into getting rid of the equipment, and thereby not able to perform a proper evaluation and recommend the best method for disposal.

- IT staff, who were not directly involved in the removal process but affected by the removal, were never asked by IT Management if they had a need for the equipment or informed about the planned equipment removal.

- When IT staff became aware of the planned removal of this Disposed Equipment, they rushed to "rescue" and relocate some of the usable equipment so it would not be removed and destroyed.

- District staff had systematically collected, separated, organized, labeled and palletized a portion of the Disposed Equipment to facilitate its sale via online auction. However, the equipment was disposed of before it could be auctioned.

- Some of the Disposed Equipment was functional, usable, operable, and had value to the District.

- Some of the Disposed Equipment was expensive and had never been used by the District.

- Some of the Disposed Equipment could have been used as replacement (in whole or as parts) when existing equipment fails.

- Some of the Disposed Equipment was slated to be traded in or traded up.

RESULTS OF REVIEW

IT Management Directed Disposal of Equipment. Three members of IT management, including two Directors, were on site at the McKesson Building on September 3, 2013 to select, authorize, and direct the disposal of IT equipment. Management instructed staff to have the equipment removed from the warehouse.

Warehouse Staff Facilitated Removal of District Assets. Both the McKesson and the Property Redistribution warehouse staff, reacting to the direction and urgency of IT management, coordinated and facilitated the release, removal, and scrapping of District assets by the Recycling Company. The equipment removal began the same day as the directive from IT management.

In total, the Recycling Company removed approximately 48 pallets containing 32,761 pounds of hardware from the McKesson Building during September 2013. See Exhibit 4 for photographs of some of the Disposed Equipment.

The following chronology reflects the events resulting in the removal of equipment:

Friday, August 30, 2013	OIG notified IT of upcoming audit of IT System Acquisitions to begin September 4, 2013, and OIG staff contacted IT management to schedule a meeting for the week of September 2 to discuss the audit
Monday, September 2, 2013	District Holiday
Tuesday, September 3, 2013	Two IT Directors and an IT Manager visited the McKesson Building and directed warehouse staff to immediately dispose of various equipment
Tuesday, Wednesday & Thursday, September 3 - 5, 2013	Recycling Company removed approximately 39 pallets, 27,502 pounds, of equipment from the McKesson Building
Tuesday, September 17, 2013	Recycling Company removed approximately 9 pallets, 5,259 pounds, of equipment from the McKesson Building

Noncompliance with District Procedures. Action taken by IT management contradicted the District's procedures. Upon receiving direction from IT management to dispose of the equipment, warehouse staff at McKesson contacted the Redistribution Warehouse Technician via telephone to arrange the pickup of the Disposed Equipment by the Recycling Company.

When tangible property is no longer useful to a school or department, *Chapter 21* of the District's *Purchasing Manual* requires the using schools or departments to report excess, obsolete, or surplus items to the Purchasing Department (Property Redistribution). *Chapter 21* outlines procedures for District employees to use for the disposition of surplus property no longer useful to the District. However, those procedures were not followed for the disposition of IT equipment being investigated.

The schedule below denotes the required procedures for disposing of surplus equipment, and whether staff complied with the procedures.

DISTRICT PROCEDURES FOR DISPOSITION OF SURPLUS EQUIPMENT REQUIRE:		PROCEDURE FOLLOWED?
1	User Department to determine item is no longer useful to the District	**Questionable***
2	User Department to timely identify surplus and obsolete property	**No**
3	User Department to report items to Purchasing Department	**No**
4	User Department to send a description and quantity of the items to the Property Redistribution email address	**No**
5	User Department to properly complete *Transfer of Property Forms* for all items and email the forms to Property Redistribution	**No**
6	Completed *Transfer of Property Form* to include signatures of Releaser, Director, Transporter and Receiver	**No**
7	Completed *Transfer of Property Form* to include a reason code completed by the sending department of 1) Excess & Functional, 2) Obsolete but Functional, or 3) no longer capable of performing the function it was designed to perform but has scrap or market value	**No**
8	Property Redistribution to only schedule pickup after receipt of properly completed *Transfer of Property Forms*	**No**
9	Property Redistribution to forward signed *Transfer of Property Forms* to Capital Assets Department	**No**

*With regard to Item #1 above, the user department stated they determined the Disposed Equipment was no longer of use to the District. However, there was no formalized method used in making this determination nor was the determination documented.

Although the *Purchasing Manual* requires the user department to report to Property Distribution when items become excess, obsolete, or surplus, the user department neither properly reported nor processed the Disposed Equipment through Property Redistribution. Further, the *Purchasing Manual* requires the processing of all electronic waste through Property Redistribution.

Contrary to the procedures, Property Redistribution did not:

- Schedule pickup only after receipt of paperwork identifying the equipment being disposed of, as required by *Chapter 21 – Property Redistribution Procedures,* which require "all personnel" requesting pickup of excess or obsolete equipment to "provide [a] complete description, quantity of items to be picked up" and further required a "properly completed" Transfer of Property Form prior to the pickup; or,

- Make the final decision on whether the assets should be scrapped, as required in District Procedures for *Capital Assets (F).*

Disposed Equipment Not Inventoried as Required by District Procedures. The OIG requested numerous District staff, including IT management, to provide a complete description and inventory of the Disposed Equipment. District staff stated no such inventory was prepared. The District's *Purchasing Manual, Chapter 21-5*, states, "Departments are responsible for the reasonable care and security of items declared surplus during the entire disposal process. A continuous paper trail of accountability for an item should be maintained."

Partial Listing of Disposed Equipment Developed by OIG. As District staff did not inventory the equipment released to the Recycling Company, the OIG assembled a description and partial listing of the Disposed Equipment, based on:

- Reviewing the records of the Recycling Company
- Inspecting the McKesson Building and comparing inventory to photographs taken by IT staff
- Reviewing a partial list of servers affirmed by District staff as included in the Disposed Equipment, and
- Reviewing *Transfer of Property Forms*

It should be noted that IT did maintain thorough and ample documentation in the form of *Transfer of Property Forms* reflecting equipment removed from the schools and relocated to the McKesson Building.

Based on available information, the OIG estimated the makeup of the 48 pallets of Disposed Equipment consisted of:

a) Servers (18 pallets / 12,084 pounds);
b) Hubs (6 pallets / 7,630 pounds);
c) Desktop Computers (1 pallet / 281 pounds); and,
d) Large boxes/gaylords of equipment labeled by the Recycling Company as "miscellaneous" (23 pallets / 12,766 pounds).

Market Value of Disposed Equipment Undeterminable. Due to IT's failure to perform a documented value assessment of the Disposed Equipment and lack of complete records; the total cost value and estimated market value for the Disposed Equipment could not be determined. IT management believed that a portion of the servers might have been cannibalized, used for replacement parts, or damaged due to environmental conditions, rendering approximately 30% of the servers inoperable.

Original Purchase Cost of Servers Estimated at $1.8 Million. A listing of the removed servers was provided by IT management. With regard to the servers only (item (a) above), the OIG calculated the purchase cost[4] of the 18 pallets of servers, consisting of approximately 300 individual servers, was estimated at $1.8 million.

[4] District records reflect the servers were purchased between 2006 and 2010.

Disposal Failed to Comply with Statutes and Rules. The Disposed Equipment was not disposed of in accordance with Florida Statute, as described herein. *Chapter 69I-73.005 FAC* requires certain information be kept on individual property records for each item disposed. Such information includes, but is not limited to:

- Date of disposition
- Authority for disposition (resolution of governing body properly recorded in the minutes as required by *Section 274.07*, *F.S.*)
- Manner of disposition (sold, donated, transferred, cannibalized, scrapped, destroyed, traded)
- Identity of the employee(s) witnessing the disposition, if cannibalized, scrapped or destroyed
- For items disposed of, a notation identifying any related transactions (such as receipt for sale of the item, insurance recovery, trade-in)
- For property certified as surplus, reference to documentation evidencing that such property was disposed of in the manner prescribed by *Section 274.05* or *274.06, F.S*.
- Transfer of Property Records – The individual property record for each item lawfully disposed of as described in this rule shall be, upon disposition of the item, transferred to a disposed property file

The equipment was disposed in a manner noncompliant with applicable statutory provisions and State rules. Due to the undocumented status of the Disposed Equipment, the OIG was not able to determine if any of the Disposed Equipment was appropriately determined to be surplus, stolen, or otherwise misappropriated.

No Assessment Performed to Determine Best Means of Disposal. *Chapter 21* of the *Purchasing Manual* provides for the disposition of items no longer useful to the department. IT management maintains the Disposed Equipment was no longer of use to the District. However, we found no evidence or documentation that there was any process, assessment, or analysis by IT and/or purchasing staff to evaluate the various types of equipment identified for disposal, or what method(s) of disposal would be most advantageous to the District.

Undocumented Disposed Equipment Improperly Sold as Scrap. As stated above, prior to declaring the equipment as scrap and selling the equipment to the Recycling Company, there was no assessment performed to determine the potential value of the equipment.

In December 2013, the District received $4,321 in payment from the Recycling Company for the Disposed Equipment. However, the Disposed Equipment did not meet the definition of excess, obsolete, or scrap property, contained in the *Excess, Obsolescence & Scrap Policy*, *Chapter 21-8* of the *Purchasing Manual*, as the Disposed Equipment did not meet the criteria for:

- Status A (excess and obsolete), as it did not reside in the Redistribution Warehouse

- Status B (excess property), as it did not reside in the Redistribution Warehouse

- Status C (scrap), as it was not put out to bid and the District did not attempt to sell the equipment

- Scrap, as it did not attain Status C, nor was it inoperable

District Asset Records Inaccurate. District procedures require completion of *Form PBSD 0082, Transfer of Property Form* (Transfer Forms) when moving property between District facilities and transferring excess and obsolete equipment to Property Redistribution. Accounting staff charged with tracking capital assets are to receive the original transfer form for entry into the asset management system.

Transfer Forms were not completed for some of the Disposed Equipment identified on the partial list of equipment developed by the OIG. As a result, the asset management system was not properly updated. The Director of Purchasing agreed that *Form 0082* was required. The classification of "disposed" was accurately reflected on 10 (8%) of the 123 sampled items.

OIG Review of Capital Asset Records. As noted above, District capital assets records are not accurate with regard to the Disposed Equipment. District staff responsible for capital asset records reported the following:

- Property inventory records for IT equipment include approximately 1,800 items that have not been located.

- Certain IT equipment has been identified as "missing" for two years, since the last onsite inventory was performed at the McKesson Building.

CONCLUSIONS

Allegation #1 - Certain Information Technology (IT) Department management instructed staff to "*dispose of tens of thousands of dollars' worth of usable computer equipment*"

There is sufficient evidence that a significant portion of the Disposed Equipment 1) was operable; 2) may have been useful to the District for the purposes of spare parts or temporary replacements; 3) had commercial value; and, 4) was not damaged to the extent that would have rendered it as scrap.

Due to the absence of record keeping as required by *Chapter 69I-73, Florida Administrative Code (FAC), Rules of the Department of Financial Services (DFS)* and *Chapter 21-2* of the *Purchasing Manual*, the potential sale value of the Disposed Equipment, in its entirety, could not be determined.

Conclusion. The results of the investigation found the allegation to be **partially substantiated** as the dollar amount was undeterminable.

We found:

1) The disposal of the equipment did not demonstrate compliance with District policies *2.34, 6.10, 6.14(4), 7.12; Chapter 21* of the *Purchasing Manual*, *Sections 21.1*, *21-2*, *21-5* and *21-8*; *Florida Statutes 274.05, 274.06* and 274.07; and, *FAC 69I-7;*
2) There was no documented assessment made as to value of the assets disposed; and,
3) There was no documented assessment made as to whether other means of disposal (i.e., sale, trade-in, donation, etc.) were preferable to the disposal method used.

Allegation #2 – Reason for Disposal was "*because of a pending audit*"

Conclusion. The results of the investigation found the allegation to be **substantiated**.

On August 30, 2013, the OIG notified IT Management of an upcoming IT Systems Acquisition audit. Shortly after the notification, IT Management requested large quantities of hardware be disposed of expeditiously. We have received confirmation from IT staff that the upcoming audit was a primary reason for the expeditious disposal of the equipment. IT management stated they were concerned the equipment may impede the audit.

OTHER SIGNIFICANT ISSUES

During our investigation, we noted several significant issues with regard to the District's use of the Recycling Company, as follows:

Service Agreement with Vendor
School Board Policy 6.14(4), Purchasing Department, governs contractual services for goods and services on behalf of the School Board:

> *"No person, unless specifically authorized to purchase … contractual services under School Board policies, may … enter into any contract involving the use of school or School District funds."*

The District's *Purchasing Manual* defines a vendor as an actual or potential supplier of goods and/or services. Although the Recycling Company was not listed as a vendor in the District's purchasing records, technically, the Recycling Company was a vendor, as it supplied services to the District.

The District had a frequent and recurring business relationship with the Recycling Company although there was no formal written contract. Upon inquiry, IT warehouse staff provided us with an undated one-page "Service Agreement" with the Recycling Company that was signed by the Redistribution Warehouse Technician on behalf of the Warehouse/ Distribution Manager.

Section 1001.41(4), Florida Statutes, provides the contracting agent for the district school system is the school board. However, no documentation was presented by District staff that indicated a delegation of authority for the technician or his supervisor to enter into such an agreement on behalf of the District.

No Competitive Selection

There is no assurance the District received the best value from the Recycling Company as the vendor was not selected through a competitive solicitation. Based on records provided by the Recycling Company for the 14 month period July 2012 through August 2013, the Recycling Company performed 68 collections at District Schools and 13 collections at the Property Redistribution Warehouse.

Among other items, these collections included approximately 2,458 monitors, 2,347 computers, and 308 televisions. The District received approximately $19,252 from the Recycling Company for these collections. The District received $0.50 for each CRT monitor, $3.00 for each LCD monitor, $0.30 per pound for computers and $0.03 per pound for printers and miscellaneous equipment, and no payment for televisions.

Items were collected by the Recycling Company that were not listed on the one-page Service Agreement. Consequently, there was no predetermined agreed-upon price for those items. On September 4, 2013, the Recycling Company picked up 4,295 pounds of servers, and 5,246 pounds of hubs, and indicated that the amounts due the School District for these items were $0.18 and $0.22 per pound respectively. There is no known basis for these prices.

Breakdown in Internal Controls and Vendor Oversight

District records reflect significantly delayed payments by the Recycling Company. For example, payments dated August, September, and October 2013 were apparently for equipment collected during February, March and April of 2013. Additionally, the warehouse technician indicated he held vendor payments after receipt, and did not immediately forward them to Accounting for deposit. We noted payments were held by staff for as many as 42 business days.

No Authorizing Resolution Approved by School Board

Florida Statute, Chapter 274.07, requires authority for the disposal of property shall be recorded in the minutes of the governmental unit. No such authority was obtained prior to the removal of the Disposed Equipment.

No Tracking of Receivables for Equipment Sold

District staff did not adequately manage the vendor agreement or monitor payment activity to ensure timely and accurate receipt of payments. Subsequent to the commencement of this investigation in late 2013, District staff attempted to reconcile Recycling Company payments from 2011 and 2012. The OIG's review and reconciliation of payments indicated that as of November 5, 2013, the Recycling Company appeared to have owed the District $7,704.59. This amount was apparently for equipment collected in August and September 2013, but the District had no record of this receivable. The outstanding balance was eventually paid by the vendor in December 2013.

Money Order Payments

The Recycling Company historically paid the District for purchase of surplus properties by company check. However, beginning in August 2013, four payments were in the form of money orders ($3,499) (Exhibit 5) and one payment was in the form of a cashier's check ($2,500), remitted directly to warehouse staff (Exhibit 5). Those payments, including at least one money order where the "pay to" line was blank, were held in the warehouse for up to 42 business days.

As payments submitted directly to District employees might be indicative of potential irregularities, the OIG completed a separate review of this matter. Although the OIG found no direct evidence of impropriety regarding these payments, and the District has no written procedures regarding how the receipt of money orders should be handled, the State of Florida Auditor General[5] has determined that 1) restrictively endorsing checks immediately upon receipt limits negotiability in the case of misappropriation, loss, or theft; and, 2) collections should be recorded through the use of transfer documents in order to "fix" responsibility should loss or theft of collections occur. Holding vendor payments in the warehouse, particularly blank money orders, substantially increased the risk for misappropriation of these funds.

No Clearance Check for Three Employees of the Recycling Company

The Recycling Company staff regularly visited school facilities, raising concerns regarding student safety, District liability, and compliance with requirements for background screening, badge, and fingerprinting of non-instructional contractors permitted access to school grounds when students are present. School Police records indicate that two employees of the Recycling Company were cleared in 2012, under the Jessica Lunsford Act and issued District vendor badges. However, we noted the vendor's manifests reflect five employees performing school pickups.

Vendor Allowed to Operate District Equipment

Staff reported they allowed the Recycling Company to enter the McKesson Building and utilize the District's equipment (e.g., pallet jacks) to facilitate the removal of assets. This raises concerns regarding safety, liability, potential damage to District property and compliance with Occupational Safety & Health Administration (OSHA) guidelines.

[5] Florida Auditor General, PBCD SCHOOL BOARD Financial, Operational, and Federal Single Audit For the FY Ended 2007 (Rpt. #. 2008-156 Finding No. 6: Check Collection Procedures) and FY Ended 2010, (Rpt.# 2011-168 Finding No. 6: Controls over miscellaneous cash collections)

RECOMMENDATIONS

We recommend the District:

1. Ensure full compliance with Florida Statutes and District rules: *Section 1013.28, Fla. Stat., Chapter 274, Florida Statutes, and Chapter 69I-73, Florida Administrative Code*, *Chapter 21* of the *Purchasing Manual*, and the *Transfer of Property Form*. *School Board Policy 6.10*, was last revised in 1983, and should be updated.

2. Suspend the existing business relationship with the Recycling Company until the Director of Purchasing confirms that the existing Service Agreement and business relationship with the Recycling Company complies with all related District policies and relevant Florida Statutes and Rules.

   Note: On August 8, 2014 the OIG sent an Immediate Action Request to the Superintendent asking that the District suspend doing business with the Recycling Company pending a determination by the District that the business relationship was appropriate. (Exhibit1)

The Information Technology and Purchasing Departments should take steps to ensure their staff fully and timely comply with the relevant District policies and *Chapter 21* of the *Purchasing Manual*.

We recommend appropriate staff be trained regarding State laws and rules on tangible personal property.

FURTHER ACTION

On April 17, 2015, the results of the investigation were referred to the Office of Professional Standards and School Police for any necessary action.

OIG COMMENTS TO MANAGEMENT'S RESPONSES

The OIG provided a draft copy of this report to the appropriate affected parties and department heads providing the opportunity to submit a written response to the draft report, as follows:

Chief Operating Officer (response received)
Chief Information Officer (no response received)
Director of Infrastructure and Systems Support (response received)
Director of Technical Operations (no response received)
Director of Purchasing Department (response received)
Manager of Construction Purchasing (response received)
Redistribution Warehouse Technician (response received)

Responses from the five affected parties are included, in their entirety, as Exhibit 6. The Chief Information Officer did not provide a written response to the draft report within the required 20-working day period, which expired February 26, 2015. On April 20, 2015, the Chief Information Officer emailed the Inspector General noting "discrepancies in the report" (Exhibit 7).

In the management responses, both the Director of Purchasing and the Warehouse & Distribution Manager describe the Disposed Equipment as scrap. The Purchasing Manual provides that inoperable electronic devices may be considered scrap. However, there is no evidence the Disposed Equipment was inoperable or met any other criteria that would have qualified it, in its entirety, as scrap. The Disposed Equipment should not have been classified as scrap until proper evaluation was performed to make that determination.

IT Management has estimated that 70% of the servers were operable (page 9); however, servers represent only a portion of the Disposed Equipment. The remaining 30% of servers, which may or may not have been inoperable, would equate to only 11% of the total Disposed Equipment.

The Director of Purchasing states in her response that redistribution staff "received a phone call from IT indicating that they had IT equipment that needed disposal." "The message was that this equipment was inoperable and not able to be used and therefore fell into the definition of 'scrap' (emphasis added)." However, the warehouse technician's response indicates that he was told the equipment was "obsolete and had no value" and that he "determined the equipment met the criteria to be classified as [s]crap." The verbal communication among staff that led to a determination for undocumented removal of 33,000 pounds of District equipment was inappropriate.

As previously set forth in our report and in accordance with *Chapter 21-2* of the *Purchasing Manual*, a request for pickup of obsolete equipment "must include a completed copy of the Transfer of Property Form (PBSD 0082) emailed to Property Redistribution." This procedure was not followed.

Chapter 21-2 further provides that when items become excess, obsolete or surplus, the using department must report them to the Purchasing Department (Property Redistribution). In all cases of property disposal, Capital Assets must be notified to update the Department's Fixed Asset Accounts. This procedure was not followed.

Chapter 21 further outlines procedures for pickup of excess/obsolete equipment requiring "the Property Distribution Warehouse" to "forward signed copies of transfer forms to the Capital Assets Department." This procedure was not followed.

In his response, the Director of IT Infrastructure notes furnishing "a great deal of information and district records related to the disposal of these assets." Although the OIG had previously obtained the majority of this information, we reexamined the provided documentation to ensure it contained no new information requiring revisions to our draft report.

The Director of IT Infrastructure makes reference to the OIG's "estimated value" for the Disposed Equipment. The draft report provided to the Director did reference the OIG's estimated market value for the portion of the Disposed Equipment attributable only to servers. However, the OIG subsequently removed that reference from later draft reports for clarification. The OIG's final report calculated the estimated purchase cost of the servers based on the available asset identification numbers and the related purchase cost reflected in District records. Approximately 240 of the servers were purchased between 2006 and 2010. Purchase costs for other Disposed Equipment (including hubs, desktop computers, and other gaylords of equipment) could not be determined due to the absence of records.

THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

OFFICE OF INSPECTOR GENERAL
3318 FOREST HILL BLVD., C-306
WEST PALM BEACH, FL 33406

(561) 434-7335 FAX: (561) 434-8652
www.palmbeachschools.org

LUNG CHIU, CIG, CPA
INSPECTOR GENERAL

MEMORANDUM

TO: E. Wayne Gent, Superintendent

FROM: Lung Chiu, Inspector General KLC

DATE: August 8, 2014

SUBJECT: Immediate Action Request – Suspension of Recycling Vendor, eTronic eWaste, LLC

During the course of our investigation into a large quantity of District IT equipment sold to a recycling vendor, it has come to our attention that the vendor, eTronic eWaste, LLC:

- May not have been properly procured
- Is operating under an improperly approved agreement (attached)
- Has not been timely in their payments to the District

Additionally, we have concerns regarding the ongoing process the District uses to dispose of surplus IT equipment.

As a result, we request that the District immediately discontinue doing business with eTronic eWaste, LLC until a justified determination of continuing a business relationship with this vendor is made.

Attachment

cc: Mike Burke, Chief Operating Officer
Sharon Swan, Director of Purchasing

eTronic eWaste

E-WASTE PICK UP SERVICE AGREEMENT

Service to be performed:

- Collect following items from School District of Palm Beach County, Property Redistribution Center
  1. Computer
  2. Printer/Copier
  3. LCD/CRT Monitor
  4. Television
  5. Miscellaneous

Payment:

- eTonic eWaste agrees to pay School District of Palm Beach County, Property Distribution Center for the following items

  1. Computer (Pentium 1-3) – at $.30 per pound
  2. Computer (Pentium 4) – at $8 per unit
  3. Printer – at $.03 per pound
  4. Professional Copier (floor standing models) – at $25 per unit
  5. LCD Monitor with non-broken screen - $3 per unit
  6. CRT Monitor – at $.50 per unit
  7. Miscellaneous - $.03 per pound

Date:

By:
Jim Chen
eTronic eWaste LLC.
14515 NW 60 Ave
Miami Lakes, FL 33014

Date:

By: Peter a Piboni
Mark Moon
Property Redistribution Center,
School District of Palm Beach
1481 Australian Ave, Riviera Beach, FL 33404

4775 NW 157 Street, Building 8, Miami Gardens, Fl 33014
Ph: (305) 430-9098 Fx: (305) 430-9770
www.etronicewaste.com

CHAPTER 21

DISPOSITION OF SURPLUS

21-1 GENERAL

The final step in the purchasing cycle is the disposition of the item when it is no longer useful to the school/department. Timely identification of surplus and obsolete material is essential to an effective disposition program.

21-2 METHODS OF DISPOSAL

When items become excess, obsolete or surplus, the using school/department must report them to the Purchasing Department (Property Redistribution). In all cases of property disposal, Capital Assets must be notified to update the Department's Fixed Asset Accounts. The following are the methods of disposition that may be used for the items:

A. **TRANSFER OF PROPERTY FOR RE-USE/DISPOSAL** - The following instructions are provided to assist you when requesting property redistribution. The services provided by this department include:

- Providing school/department access to surplus property housed in the District Warehouse located at 1481 Australian Avenue, Riviera Beach.
- Transferring of property from school/department to other District facilities.
- Picking up property designated as excess/surplus by schools/departments.

The following is the procedure for requesting service from the Property Redistribution Center:

- If you have requested an item or items from PUBLIC SURPLUS AUCTION, Property Redistribution will contact you to coordinate delivery. You also have the option of picking up items selected from PUBLIC SURPUS AUCTION or from visiting Property Redistribution.

For delivery of personally tagged items at the Redistribution Warehouse or request for pick-up of property being transferred to Redistribution or another school/department:

- Send an e-mail to equip@palmbeachschools.org
- List the Subject: "PICK UP REQUEST" or "DELIVERY REQUEST", whichever is appropriate.
- In the body of the message, request a pick-up or delivery. Include location name along with a contact person and their phone number. If delivery is from the Redistribution Warehouse, list the items to be delivered. Requests for items personally tagged at the Redistribution Warehouse must be received within ten days of when the items were tagged or the items will be put back into the pool of available to tag property.
- Requests for pickup must include a completed copy of the Transfer of Property Form (PBSD 0082) emailed to Property Redistribution.
- **A pick up will not be scheduled until the email and Transfer of Property Form, properly filled out, are received in Property Redistribution.**
- You will be contacted via telephone prior to delivery or pickup.
- A signed copy of the Transfer of Property Form should be kept in the administrative area of your location. Additional copies are also required for Property Redistribution and Capital Assets.

Should you have any questions, please contact Property Redistribution at 882-8539 (PX 88539) or Capital Assets at 434-8173 (PX 48173).

B. **TRADE-IN** - The Purchasing Agent, in conjunction with the school/department may determine that it is advantageous to the District to seek bids on replacement items with a trade-in allowance. The Board must approve the trade in of any District owned property.

C. **CANNIBALIZATION** - Disassembling an item to use its components for repair or maintenance of a similar item is authorized only if cannibalization has more potential value and benefit than disposal or trade in of the item. Cannibalized property returned to Redistribution must be marked "C" in the Reason Code Column of the Transfer of Property Form.

D. **DONATION** - Disposal of a capital asset by donation must meet specific requirements and be approved by the Australian Site Warehouse Manager who will make the decision based on District Policy.

E. **HAZARDOUS MATERIALS** - There are strict federal and state requirements for the disposal of hazardous materials. Schools/Departments which generate hazardous materials shall use District contracts for the proper disposal of these materials.

21-3 ALLOCATION OF PROCEEDS

Unless otherwise directed by the School Board or required by a grant, the proceeds from the disposition of surplus or excess property will be deposited to the District's general fund.

21-4 SALES TO EMPLOYEES

Employees of the disposing school/department or of the District's departments processing surplus and excess property may not purchase items with a value greater than $1,000. Employees without connection to the surplus item may purchase the property when the sale is to the highest bidder at a public auction or by sealed bid.

21-5 SECURITY OF PROPERTY

Schools/Departments are responsible for the reasonable care and security of items declared surplus during the entire disposal process. A continuous "paper trail" of accountability for an item should be maintained. Transferring schools/departments must be certain that the recipient of an item is properly authorized to receive the item.

21-6 DOCUMENTATION

Transfer of Property Form (PBSD 0082) -- A form that is used to report the transfer or disposition of an excess item.

21-7 DISPOSAL OF GRANT FUNDED EQUIPMENT

When equipment was purchased using funds from State or Federal grant funds, the provisions of the grant must be followed during the disposal. It is the disposing school's/department's responsibility to notify Purchasing at the time of the Surplus

Property Report of any grant provisions, proceeds from disposal may be returned to the grant funding agency, rather than the District's general fund.

21-8 EXCESS, OBSOLESENCE & SCRAP POLICY

STATUS A:
By definition all property in the Redistribution Warehouse has been declared excess or obsolete by the school or district department that sent the property to the warehouse. Property in this status shall be considered property in Status A Excess or Obsolete.

STATUS B:
The second level of status of property in the Redistribution Warehouse is property that is excess or obsolete to the district. Property in this status shall be considered property in Status B Excess. Property that has resided in the Redistribution Warehouse for ninety calendar days, excluding June and July, shall be declared in Status B Excess. Property in Status B Excess may be made available to the public for purchase through live auction, Internet auction or put out for bid through other Board accepted means. Property that is Obsolete to the District will be sold through the above means with no waiting period. Property that the District does not want reused in the District may be placed on auction upon receipt at Property Redistribution.

STATUS C:
The third level of status of property in the Redistribution Warehouse is property that has been put out to bid to the public and was not sold due to no bids being received. Property in this status shall be considered in Status C Excess or Obsolete. Property in Status C is declared scrap and will be treated as such.

SCRAP:
Property shall qualify as scrap if it falls into one of the following categories:

- The property has attained Status C Excess or Obsolete
- The property can no longer perform the function it was intended to perform. Items that fall into this category may be, but are not limited to, broken or unsafe furniture or other property, seriously cosmetically damaged property and inoperable electronic devices.

Electronic Waste- All electronic waste (TV's, computers, monitors and other electronic equipment) will be processed through Property Redistribution. Contact Property Redistribution for information specific to your situation on how to dispose of electronic waste.

Property categorized as scrap may be disposed of in the trash or sold as scrap if there is a market for the property as a scrap item. Any scrap sold may be made available to the public for purchase through live auction, Internet auction or put out for bid through other Board accepted means.

PROPERTY REDISTRIBUTION PROCEDURES

The purpose of the Property Redistribution Warehouse is to provide a standard procedure for the receipt, issue, temporary preservation, and disposition of surplus property. Their objective is to provide an efficient and timely service of collection and disposal of District surplus equipment that will keep schools and departments free of excess equipment and provide disposal of surplus at the highest dollar value possible. This procedure is applicable to all personnel utilizing the Redistribution Warehouse.

SERVICES PROVIDED

A. **Surplus property available for re-use**. It is located at the Property Redistribution Warehouse on Australian Avenue in Riviera Beach. Schools and departments may send a representative to the Warehouse to tag available furniture/equipment.

B. **Transfer of Property** – from schools/departments to other facilities.

C. **Pickup of Excess / Surplus Property** – from schools and departments for disposal.

PROCEDURES FOR REQUESTING SERVICES

A. **Pickup of Excess / Obsolete Equipment and All Usable Furniture**

1. Send an email to "Property Redistribution" from the Global Address Book in Outlook.
2. Provide complete description, quantity of items to be picked up, school or department name, contact person and telephone number.
3. You will be contacted prior to pick-up or delivery.
4. Prior to a pickup a "Transfer of Property" form (PBSD 0082) must be properly completed and e-mailed to Property Redistribution. Contact Property Redistribution at 561-882-8539 (PX 88539) with any questions.
5. The Property Redistribution Warehouse will forward signed copies of transfer forms to the Capital Assets Department to update the location of these items accordingly.

B. **Receipt of Surplus Property from the Redistribution Warehouse for Re-Use**

1. Call Property Redistribution at 882-8539 (PX 88539) and coordinate a visit to the Redistribution Warehouse to select and tag requested furniture / equipment.
2. Prepare a "Transfer of Property" form (PBSD 0082) identifying items selected by the school/department during the visit to the Redistribution Warehouse.
3. The Redistribution Warehouse will coordinate delivery of items selected or the school or department may choose to pick them up.
4. The Property Redistribution Warehouse will forward signed copies of transfer forms to the Capital Assets Department to update the location of these items accordingly.

C. **Transfer of Property between Facilities**

1. Send email to "Property Redistribution" from the Global Address Book in Outlook.

2. Provide description, quantity of items to be picked up, contact person and telephone number.
3. You will be contacted prior to pick-up.
4. The releasing facility will prepare the "Transfer of Property" form (PBSD 0082) identifying all items to be moved.
5. At the time of pickup, the releasing school/department will sign the "Transfer of Property" form releasing the furniture/equipment to the receiving school/department.
6. Upon delivery of property, the receiving school/department will sign the "Transfer of Property" form in the appropriate space accepting ownership.
7. The Property Redistribution Warehouse will forward signed copies of transfer forms to the Capital Assets Department to update the location of these items accordingly.

D. Request for Donations

1. Requests for donations must be approved by the Australian Warehouse Site Manager and the Manager's approval must be consistent with District policy. All requests must be on the letterhead stationery of the organization.
2. Any organization requesting donations must be affiliated with the Palm Beach County School District, i.e., paid School District staff members or an after-school program directly associated with a particular school or is affiliated with a governmental agency within Palm Beach County.
3. Donations of items determined to be "scrap" as defined in Section 21-8 may be made to non-profit organizations.

E. Gifts / Donations to the District

All donations (i.e., computers, furniture, etc.) offered to the Palm Beach County School District, Redistribution Warehouse, must be approved by the Manager of Warehousing and Distribution and the Director of Purchasing. (See Administrative Directive D6.05).

PROCEDURES FOR USE OF PUBLIC SURPLUS AUCTION

1. **Viewing and Acquiring Items for Use Within the District**
Items for sale at auction may be found at www.publicsurplus.com If an auction is already released to the public and you want the item for your department or school, contact Property Redistribution immediately via email so that the auction can be withdrawn from the public auction. Item may be withdrawn from the auction while the auction is still active. Once an auction is completed the item is sold and is no longer available.

   If you want the item delivered to your school or department, send an email to equip@palmbeachschools.org listing the auction number, item name and description, quantity, contact name and PX number, and the school/department.

2. **Viewing and Acquiring Items for Personal Use**
(Viewing auctions for personal use should only be done outside normal work hours or on your personal computer.)

   If you wish to bid on items that have been released to the public for auction, access the site at www.publicsurplus.com. After you register as a new user, you may view and bid on any of the auctions on the site. Because this website is used by other governmental agencies and school districts throughout the country, you should be careful to note what location is auctioning the item. The safest way to ensure you are looking at items auctioned by The School District of Palm Beach County is to indicate (on the home page) "Florida" in the field designated for the region and "The School District of Palm Beach County" in the field designated for the organization.

   Any item purchased through the auction must be picked up at the location designated in the auction for that item. No item auctioned to the public will be delivered. Payment must be made by money order with tax added. The money order should be made payable to the School District of Palm Beach County. No cash or personal checks will be accepted.

   Before bidding on items you should be aware of Purchasing Policy 21-4, "Sales To Employees" which states: Employees of the disposing school/department or of the District's departments processing surplus and excess property may not purchase items with a value greater than $1,000. Employees without connection to the surplus item may purchase the property when the sale is to the highest bidder at a public auction or by sealed bid.

Should you have questions or need clarification regarding any of the above information, please contact Mark Moon at 882-8500 or PX 88500.


FOXCONN


DELL
W802


DELL
SERVERS
PALLET #2
W901
AVAYA


DELL
DELL


DELL
DELL
DELL
DELL
SERV RAILS
OLD
NETWORK
EQUIPMENT
IBM
X SERIES
400


W902
HYSTER

UNITED STATES POSTAL SERVICE®

POSTAL MONEY ORDER

Serial Number: 21048180570
Year, Month, Day: 2013-08-21
Post Office: 334041
U.S. Dollars and Cents: $950.00
Amount: NINE HUNDRED FIFTY DOLLARS & 00¢ **********
Pay to: SCHOOL BOARD OF PALM BEACH COUNTY
Address:
Memo:
From: E WASTE
Address:
Clerk: 0003
© 2008 United States Postal Service. All Rights Reserved.
SEE REVERSE WARNING • NEGOTIABLE ONLY IN THE U.S. AND POSSESSIONS
:00000800 21:
21048180570

UNITED STATES POSTAL SERVICE®

POSTAL MONEY ORDER

Serial Number: 21048180581
Year, Month, Day: 2013-08-21
Post Office: 334041
U.S. Dollars and Cents: $950.00
Amount: NINE HUNDRED FIFTY DOLLARS & 00¢ **********
Pay to: SCHOOL BOARD OF PALM BEACH COUNTY
Address:
Memo:
From: E WASTE
Address:
Clerk: 0003
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SEE REVERSE WARNING • NEGOTIABLE ONLY IN THE U.S. AND POSSESSIONS
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21048180581

UNITED STATES POSTAL SERVICE®

POSTAL MONEY ORDER

Serial Number: 20326587996
Year, Month, Day: 2013-09-05
Post Office: 334041
U.S. Dollars and Cents: $1000.00
Amount: ONE THOUSAND DOLLARS & 00¢ **********
Pay to:
Address:
Memo:
From: E WASTE
Address:
Clerk: 0009
© 2008 United States Postal Service. All Rights Reserved.
SEE REVERSE WARNING • NEGOTIABLE ONLY IN THE U.S. AND POSSESSIONS
:00000800 21:
20326587996

UNITED STATES POSTAL SERVICE®

POSTAL MONEY ORDER

Serial Number: 21048188973
Year, Month, Day: 2013-10-15
Post Office: 334041
U.S. Dollars and Cents: $599.03
Amount: FIVE HUNDRED NINETY NINE DOLLARS & 03¢ ********
Pay to: SCHOOL DISTRICT OF
Address: PALM BCH COUNTY
Memo:
From: E WASTE
Address:
Clerk: 0018
© 2008 United States Postal Service. All Rights Reserved.
SEE REVERSE WARNING • NEGOTIABLE ONLY IN THE U.S. AND POSSESSIONS
:00000800 21:
21048188973

MEMORANDUM

To: Lung Chiu, Inspector General

From: Peter Raboni, Property Redistribution Peter a Raboni

Date: January 5, 2015

Subject: Response TO Draft Report for OIG Case No. 13-094

General

I was contacted by the IT department and told there was equipment in their inventory that needed to be picked up. The information I received was the equipment had been used for parts, was obsolete and had no value.

I contacted E-Waste to arrange for pickup.

Based on the information from the IT Department, I determined the equipment met the criteria to be classified as Scrap.

The IT Department would be responsible to report the equipment as being scraped.

Exhibit 2 (pg. 23)

Although I was not directly authorized to sign the Service Agreement with E-Waste, the purpose of the Agreement was to document the general services and payment for collection of scrap materials that had been established with E-Waste in 2008.

RECEIVED
JAN - 5 2015
INSPECTOR GENERAL

RECEIVED
JAN - 6 2015
INSPECTOR GENERAL

MEMORANDUM

To: Lung Chiu, Inspector General

From: Mark Moon, Warehouse and Distribution Manager, Purchasing Department 1/6/15

Date: January 6, 2015

Subject: Response to Draft Report for OIG Case No. 13-094

General:

I supervise the operation in the Redistribution Warehouse along with other areas. It was not until the OIG began the investigation that I became aware of the disposal of this property and the questions around this process. My responsibility in this area is to support the School District in its efforts to safety and appropriately redistribute or dispose of excess property in the best interest of the District.

Below are my specific comments.

1. Noncompliance with District Procedures: Page 7, District Procedures

I disagree that the Redistribution Department's actions were noncompliant with District Procedures. Per Chapter 21 of the Purchasing Manual, excess property defined as scrap does not require a Transfer of Property Form to be filed with the Redistribution Department; therefore, there is no requirement by the Redistribution Department to forward the signed Transfer of Property Forms to Capital Assets.

The Purchasing Department and the Accounting Department are working together to clarify and improve this process.

2. Conclusion Allegation #1: Page 12

I disagree as the Redistribution Department's actions were to dispose of the scrap property " in the most efficient and cost-effective manner" as allowed by Florida Statute 274.06.

3. Service Agreement with Vendor, Page 13

The services of the electronic scrap recycling company were initiated in November, 2008 by Bill Hayes, the Warehouse and Distribution Manager at that time.

The Service Agreement referenced in the report contains no terms and conditions and was only intended as a means to document the general basis for payment to the District for those materials most typically recycled through E-Waste. Mr. Raboni signed this document in an effort to facilitate this documentation.

4. No Competitive Selection, Page 13

This service does not involve expenditure of funds and therefore I believe it is compliant with Board Policy 6.14. However, to ensure best value to the District, I am working with the Director of Purchasing to establish these services through a competitive process.

5. Breakdown in Internal Controls and Vendor Oversight, Page 14

E-Waste is not certified with the District but is a small minority owned Metropolitan Area business. It is my understanding the partners of E-waste had separated and the cash flow of the operation had been severely impacted. Mr. Tan, the remaining partner of E-waste, explained the circumstances and requested an extension on payments. This was approved after discussing with the Director of Purchasing. Subsequent payments were monitored to insure payment in full was received.

6. Unusual Money Order Payments, Page 14

During this period, E-Waste had not re-established a commercial checking account. Money orders were requested for payment in lieu of checks in order to eliminate the possibility of non-sufficient funds. With one exception, which was an oversight, each money order was made payable to the School District. All money order payments received from E-Waste were forwarded for deposit.

7. Safety and Security Concerns, Page 15

Vendors are instructed to report to the administrative office at each school. The school is responsible to ensure each person is badged and their activity within the school is appropriately monitored. I am aware that employees of E-Waste went through the badging process as required by the Jessica Lundsford Act and am not aware of any safety concerns at any District location.

Recommendations/Actions:

All services with E-Waste have been discontinued as directed by the Inspector General.

The current Purchasing Procedures have been reviewed with staff to insure compliance is maintained.

The process for Disposal of Surplus Property has been reviewed and recommendations for revisions are in process along with other departments associated with this process to strengthen and improve the process.

THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FL

IT INFRASTRUCTURE, SYSTEMS & SECURITY
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LARRY PADGETT
DIRECTOR

DEEPAK AGARWAL
CHIEF INFORMATION OFFICER

MEMORANDUM

January 26, 2015

TO: Joni Loehrig, Director of Investigations

FROM: Larry Padgett, Director of IT Infrastructure, System Support, and Security

SUBJECT: **Response to Draft Report Case #13-094**

Thank you for allowing me the opportunity to give input into this investigation report. At our January 5, 2015 meeting, I furnished a great deal of information and district records related to the disposal of these assets. Hopefully this meeting and the information provided will afford the Inspector General's Office an opportunity to revisit several findings included in your original draft report.

All undertakings by the Department of IT Infrastructure, System Support, and Security are done to deliver and maintain the technology needed to support the mission and goals of the School District while protecting its assets. All of our department's staff activities regarding this draft report were in compliance with Board Policy with the process exception of completing the final paperwork. Staff members performing those functions have been retrained to improve the process going forward.

I still contend that your estimated value is high for old equipment which had been cannibalized and repurposed. It is my understanding that your estimates were based on eBay.com pricing for equipment that is functional, tested, and will be delivered to the buyer. However, the only District authorized source for selling District assets is PublicSurplus.com. District equipment sold through them is sold in bulk, not assured to be functional, has not been tested, and must be picked up in Riviera Beach, FL. Documented sales of similar equipment through PublicSurplus.com substantiates an estimated value of $8,500.

LP:rc

THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FL

MICHAEL J. BURKE
CHIEF OPERATING OFFICER

E. WAYNE GENT
SUPERINTENDENT

CHIEF OPERATING OFFICE
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WEST PALM BEACH, FI33406

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February 25, 2015

To: Lung Chiu, Inspector General

From: Sharon Swan, C.P.M.
Director of Purchasing

Subject: Office of Inspector General Case No. 13-094
Disposal of Information Technology Hardware
DRAFT Investigative Report

I have reviewed the information contained in the above referenced case and offer the following:

1) I do not concur with your conclusions to this investigation.
   a) Redistribution Staff received a phone call from IT indicating that they had IT equipment that needed disposal. The message was that this equipment was inoperable and not able to be used and therefore fell into the definition of "scrap". Redistribution Staff took the most efficient method available to them and called our e-Waste vendor to come and pick up the scrap. There is no cost for this service but rather the vendor pays the district for the value of the scrap.
   b) Disposal of scrap equipment was in compliance with all laws. Based upon the information provided to the Redistribution Staff, it was determined that the value of the equipment met the rules in 274.06.
   c) There is no written Agreement with the E-Waste vendor. The document signed by the Redistribution Staff was merely a price summary and did not contain any terms or conditions. Redistribution Staff has been reminded that they are not authorized to sign documents of this type.
2) Corrective actions in process.
   a) A collaborative team including staff from the Purchasing and Accounting Departments has been working with the PeopleSoft team to develop improved processes for tracking, transferring and managing all assets and other property.
   b) The Purchasing Manual will be updated to align with these new processes and procedures.
   c) Competitive Solicitations or Quotes are being prepared to align with the new processes and will be released sometime in March.
3) Our goal is to have the corrective actions ready for the start of FY16.

If you have any additional questions regarding the Purchasing involvement in this investigation, please let me know and I will be happy to meet with you.

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CHIEF OPERATING OFFICER

ROBERT M. AVOSSA, Ed.D.
SUPERINTENDENT

MEMORANDUM

TO: Lung Chiu, Inspector General

FROM: Michael J. Burke MJB
Chief Operating Officer

DATE: December 18, 2015

SUBJECT: Management Response - OIG Case No. 13-094

The following corrective actions have been taken to assure proper handling of capital equipment:

Information Technology:

- Staff members involved with IT capital equipment have been informed, and directed to diligently manage equipment inventory, and maintain all required paperwork as part of their job responsibilities.
- Standard Operating Procedures have been provided to the appropriate staff for the handling of capital equipment to ensure they know the proper processes and procedures.
- A running electronic inventory of infrastructure servers and storage equipment is now maintained in Google Apps in order to better track equipment, from purchase to disposition.
- The district-wide computer tracking process has been enhanced to track computers on the district network using the desktop management system that Accounting utilizes to assist with their annual inventory.

Purchasing:

- Following a solicitation for bids, the District contracted with Southeastern Data, Inc. to provide collection, data destruction and processing of electronic waste, including obsolete or broken computers, computer accessories, office equipment, audio/visual equipment and other miscellaneous electronic devices defined as scrap property. Schools and departments were notified of the process in Bulletin PD 16-049 (8/7/15) COO Recycling of Electronic Waste from Schools and Ancillary Facilities.
- The purchasing manual has been updated to reflect the new process.
- The Purchasing and ERP departments are working to establish a method within PeopleSoft to further streamline the process.

MJB/DA/SS/SK:sk/cbt

cc: Robert M. Avossa, Ed.D.

From: **Deepak Agarwal**
Date: Mon, Apr 20, 2015 at 9:32 AM
Subject: Fwd: Report 13-094 Disposal of Information Technology Hardware
To: Lung Chiu

Good morning Mr Chiu-

Larry and I are at a conference in Orlando until Wednesday. There are few discrepancies in the report the way it talks about cost. It appears the way it is written that the cost of the scrap (after full life use) is $1.8 million.

Can Larry and I meet with you prior to its release to point out disagreement?

Thanks,
Deepak....

On Apr 20, 2015, at 04:53 PM, Deepak Agarwal wrote:

. . .

Some of my concerns which we can discuss for accurate reporting:

1. Cost of equipment is mentioned $1.833 million (a very big number) without clarity when it was acquired and current value. The way it is written appears to be current cost which is not a true reflection of current value. Our estimate of current value based on district standards is $8500 (not eBay value which is not our standard) some of that was recouped from the vendor and staff cannibalization. There is a major discrepancy here.

2. On Page 12, many statements are made without any proof, one of them is some of the equipment was new, never been used and expensive. An assumption is made here which I would like to see some proof along with few other statements made on that page.

I have more questions from the report but quickly want to provide you the first two.

Again, I respect your efforts to improve our processes which I agree wholeheartedly but there are many statements and assumptions made in the report without supporting data.

I look forward to our discussion. Let me know if you want Chris Persaud in the meeting as well.

Thanks