

**Fleet Surplus Property Auction Audit
#2018-06**

April 26, 2019



**Clerk of the Circuit Court & Comptroller
Internal Audit Department**



ANGELA VICK

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
CITRUS COUNTY, FLORIDA

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April 26, 2019

The Honorable Angela Vick
Clerk of the Circuit Court and Comptroller

Dear Ms. Vick:

The Internal Audit Department (IAD) has completed an audit of the of Fleet Surplus Property Auction process.

The purpose of this audit was to determine the adequacy of internal controls and accounting procedures over the auction process, and determine the degree of compliance with applicable laws, rules, policies and procedures. The audit period was October 1, 2016 through September 30, 2018. The audit included examinations of various governance and accounting documents in effect throughout the audit period.

Audit results included six findings and one observation. The following audit report contains all findings, recommendations for improvement, management responses, and target dates for when management plans to implement the recommendations.

We extend our thanks to the staff at Fleet Management, Department of Management & Budget (DMB), and the Clerk's Financial Services Department (FS) for their cooperation and assistance during the course of this audit.

Sincerely,

Robin Barclay
Chief Audit Officer

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Summary of Findings, Recommendations & Observations

No.	Finding	Recommendation
1	Sales tax was not always collected on auctioned assets.	IAD recommends that management: <ol style="list-style-type: none"> a. review statutes and approve task outlines, flowcharts, forms, and the policies and procedures manual, to ensure accuracy, completeness, and compliance with local and state regulations. b. cross-train other staff to continue operations in the event of extended absences or vacancies. c. review auction sales reports, checking for accuracy and compliance with F.S.212.05. d. coordinate with DMB and FS to determine whether the Florida Department of Revenue will require filing amended sales tax returns, due to the shortage in sales tax collections.
2	Auction notices were not advertised as required by F.S. 274.06.	IAD recommends that management: <ol style="list-style-type: none"> a. advertise the auction notice at least seven days prior to the scheduled auction. b. incorporate this requirement into a comprehensive procedures manual to ensure continued compliance and to strengthen internal controls.
3	Procedures established by BOCC AR:8.11-3, Surplus Property, were not consistently followed.	IAD recommends that management provide training to staff to ensure compliance with the AR.
4	An inventory discrepancy was found between the data in Pentamation and the auction sales reports.	IAD recommends that management strengthen their oversight and recordkeeping controls to mitigate the risk of missing inventory and financial loss to the County.
5	Several revenue transactions were posted incorrectly.	IAD recommends that management strengthen controls by: <ol style="list-style-type: none"> a. performing regular reconciliations. b. providing training sessions for staff to enhance accounting skills.
6	Auction proceeds were not transferred to the respective departments.	IAD recommends that management: <ol style="list-style-type: none"> a. formalize a process to initiate the transfer of auction proceeds on a regular basis. b. transfer the remaining FY18 auction proceeds to the appropriate departments.
Observation		Recommendation
	Security access controls to the GovDeals Client Asset Server were not established.	IAD recommends that management: <ol style="list-style-type: none"> a. immediately deactivate the accounts of former employees. b. review current users' accounts to determine if access is appropriate for his/her duties. c. create formal, written policies and procedures for managing security access, such as: <ul style="list-style-type: none"> • provisioning <ul style="list-style-type: none"> ○ authorization requests ○ approvals • periodic review of users • termination of access

EXECUTIVE SUMMARY

As part of the fiscal year (FY) 2018 Annual Audit Plan, the Internal Audit Department (IAD) conducted an audit of the Fleet Management Surplus Property Auction process. The purpose of the audit was to assess the adequacy of internal controls and accounting procedures over the auction process, and assess the degree of compliance with applicable laws, rules, policies and procedures.

Based on our review and testing, IAD determined that the control environment needs improvement. Auction notices were not published in accordance with Florida Statute (F.S.) 274.06. Sales taxes were not always assessed in accordance with F.S. 212.05. Several departments did not comply with County policy regarding the disposition of assets. Former employees' user access to the GovDeals client server was not deactivated.

BACKGROUND

Citrus County government utilizes a surplus property disposal process to remove recorded and unrecorded personal tangible property items that are no longer utilized, are out-of-date, or are no longer working, from the physical inventory and from the financial records. This property includes vehicles, trucks, heavy equipment, tractors, on- and off-road equipment, computer equipment, mobile radios, small tools and equipment, tires, and miscellaneous items.

The Board of County Commissioners (BOCC) established the Administrative Regulation 8.11-3, Surplus Property (AR), dated June 28, 2016, governing policies and procedures for the disposition of County-owned surplus property, in accordance with F.S. 274, Tangible Personal Property Owned by Local Governments.

Section J of AR 8.11-3 assigned responsibility to Fleet Management (Fleet) for disposing all surplus vehicles and equipment. After the BOCC approves the disposition, the items slated for auction are delivered to Fleet. The Fleet Director determines a fair market value, and the items are scheduled for auction with GovDeals, Inc., (GovDeals) or Iron Planet, Inc. (Iron Planet).

The BOCC executed a Seller's Agreement with GovDeals, on June 12, 2007, for internet-based auction services. GovDeals collects the proceeds from the customer and remits them to the County. Payments consist of the net proceeds of the sale (sale price less fees), plus sales tax. All sales are taxable, unless the buyer presents a tax exempt certificate.

GovDeals' fees are based on single auction items:

- Up to \$100,000 7.5%
- \$100,000 to \$500,000 7.5% up to \$100,000
5.5% in excess of \$100,000 up to \$500,000
- Greater than \$500,000 7.5% of \$100,000
5.5% in excess of \$100,000 up to \$500,000
3.5% of excess of \$500,000

Sales tax collected is reported by the Clerk's Financial Services Department (FS) to the Florida Department of Revenue on the monthly Sales and Use Tax Return, Form DR-15.

The Iron Planet contract, adopted by the BOCC on March 27, 2018, was piggy-backed on the Pinellas County Agreement RFP 145-0225-R. Fees for auctioned items are 2.5% of the sale price.

Iron Planet is responsible for collecting proceeds and documentation during the auction, including certification of payments of Florida State Sales Tax. Buyers are liable for paying all such taxes or for presenting a valid sales tax exemption certificate. Payments consist of the net proceeds of the sale (sales price less fees). In accordance with the contract, Iron Planet collects all applicable sales tax due upon each sale, and remits to the Florida Department of Revenue.

The table below indicates the net auction sales recorded in Pentamation, per fiscal year:

Surplus Auction Sales		
Vendor	FY17	FY 18
GovDeals	\$ 98,119.28	\$ 66,162.19
Iron Planet		\$ 82,436.25
Total	\$98,119.28	\$148,598.44

SCOPE, OBJECTIVES & METHODOLOGY

Scope

The scope of this audit covered the period October 1, 2016 through September 30, 2018. The audit included examination of transactions which occurred, and processes in effect, throughout the audit period. The scope did not include activities outside the auction process, such as donations to charitable organizations, asset disposal at the Solid Waste facility or an approved alternative disposal entity, trade-ins, or transfers to another agency/entity.

Objectives

The overall objectives of this audit were to determine the adequacy of internal controls and accounting procedures, and the degree of compliance with applicable laws, rules, policies and procedures.

Specifically, the objectives of this audit were to:

1. Determine that the surplus property was disposed according to statutes and County policy.
2. Determine if applicable fees and charges were applied according to the contracts.
3. Determine if auction proceeds were collected, disbursed properly, and reconciled.

Methodology

To meet the objectives of the audit, procedures included, but were not limited to, the following:

- Management and staff interviews
- Review of Pentamation general ledger reports and documentation relating to asset dispositions, auction sales reports, sales tax
- Review of Fleet Management policies and procedures

- Evaluation of internal controls related to deposits, auction proceeds transfers, and reconciliations
- Review of GovDeals user access privileges
- Review of County policy and state regulations
- Review of GovDeals and Iron Planet contracts

Findings, Recommendations, Management Responses, and Target Dates

Finding 1 – Sales tax was not always collected on auctioned assets.

In accordance with F.S. 212.05, Sales, storage, use tax, all sales are taxable at the rate of 6% of the sales price, unless the buyer provides tax exempt documentation.

IAD analyzed all of the sales to determine that sales taxes were collected in accordance with F.S. 212.05, and that the vendors' fees were calculated accurately in accordance with the GovDeals and Iron Planet contracts.

IAD identified 46 GovDeals auction transactions, totaling \$147,210.90, that were not assessed sales tax. IAD's calculations indicate that \$8,832.65 sales tax should have been charged. None of these sales were considered tax exempt, since there was no documentation to verify that any buyers submitted tax exemption certificates.

By contract, the Iron Planet auction vendor collects applicable sales taxes and remits to the Florida Department of Revenue under their business registration number.

The Fleet employee coordinating the auction process was hired in February 2018, and was not aware that all items auctioned through GovDeals were taxable. Additionally, there were no formal written processes, checklists, policies or procedures available for training at that time.

As a result, sales taxes were not charged on 46 auction transactions, resulting in non-compliance with F.S. 212.05, and a potential sales tax liability of \$8,832.65.

Written policies and procedures provide a basic framework for accomplishing the department's mission and goals. **Auditor's Note:** During the course of this audit, Fleet started creating task outlines, flowcharts, and documentation relative to the auction process to integrate into a comprehensive policies and procedures manual. The manual can serve as a resource for training in the event of an employee's absence or turnover, and mitigate the risk of noncompliance.

Recommendation 1:

IAD recommends that management:

- a. review statutes and approve task outlines, flowcharts, forms, and the policies and procedures manual, to ensure accuracy, completeness, and compliance with local and state regulations.

- b. cross-train other staff to continue operations in the event of extended absences or vacancies.
- c. review auction sales reports, checking for accuracy and compliance with F.S.212.05.
- d. coordinate with DMB and FS to determine whether the Florida Department of Revenue will require filing amended sales tax returns, due to the shortage in sales tax collections.

Management Response:

- a. *Procedures shall contain statutes, outlines, flowcharts, forms, policies and procedures.*
- b. *System in place to default the 6% Florida Sales Tax on every sale, unless buyer can provide legal documents showing exemption for the State of Florida.*
- c. *Dan Johnson will take over in the event staff is out due to extended absence or vacancy.*
- d. *Management agrees - processes are now in place.*
- e. *Management agrees - a process will be put in place to remit uncollected sales tax.*

Target Implementation Date: April 8, 2019

Finding 2 – Auction notices were not advertised as required by F.S. 274.06.

Florida Statute 274.06 states property valued at \$5,000 or more will be sold to the highest bidder, after publication of notice not less than 1 week nor more than 2 weeks prior to the sale in a local newspaper.

IAD reviewed all auctioned assets to determine if proper and timely advertising requirements were met, and subsequently identified 16 assets that sold above the \$5,000 threshold.

IAD inquired about the advertising requirement with Fleet Management. This requirement was not outlined in a written procedures manual; therefore, this mandate was not integrated into the auction process, resulting in non-compliance with the Statute.

Auditor’s Note: The Director stated that his department did not publish notices prior to an auction, but they would start advertising items that meet the \$5,000 criteria.

Advertising an upcoming sale of property with higher values not only provides all potential buyers the equal opportunity to place competitive bids during an auction, but assures statutory compliance.

Recommendation 2:

IAD recommends that management:

- a. advertise the auction notice at least seven days prior to the scheduled auction.
- b. incorporate this requirement into a comprehensive procedures manual to ensure continued compliance and to strengthen internal controls.

Management's Response:

- a. *Effective immediately, Public Notices will be scheduled 7 days prior to auction.*
- b. *Procedures are now in place.*

Target Implementation Date: March 22, 2019

Finding 3 – Procedures established by BOCC AR:8.11-3, Surplus Property, were not consistently followed.

The BOCC AR:8.11-3, dated June 18, 2016, established the policy and procedures for the disposition of County-owned surplus property. Prior to an auction, an Asset Activity Form (AAF) is prepared by the Property Custodian, and routed to the appropriate Division, Department, or Director for approval. The approved AAF is then submitted as an agenda item for Board approval to dispose the property and remove from the County's fixed asset list.

IAD reviewed the AAFs for the auctioned assets to determine completeness, accuracy, proper authorizations, and that Board approval was obtained prior to disposition by auction.

The results of our review disclosed that all AAFs were submitted to the Board for timely approval, and were complete and accurate, with three exceptions. These three requests for disposition of Motorola radios were submitted *by departments other than Fleet* for the Board's approval after the assets were auctioned.

Recommendation 3:

IAD recommends that management provide training to staff to ensure compliance with the AR.

Management Response by the Department of Management and Budget:

An email will be sent out with a copy of the AR for employees to reference when handling surplus property.

Target Implementation Date: May 10, 2019

Finding 4 – An inventory discrepancy was found between the data in Pentamation¹ and the auction sales reports.

IAD evaluated the data in the Pentamation Fixed Assets module for each auctioned asset to verify that the asset information agreed with the data contained in the vendor sales reports, including sales prices and disposition dates.

¹ Pentamation is fund-accounting financial management software.

IAD noted that ten Motorola radios listed as 'retired/auction' in Pentamation did not appear in the GovDeals vendor sales report as being sold. According to documentation provided by FS, the auction sale price for these ten assets was entered as \$0, since no sales information was available.

The Board-approved AAF, submitted by the Water Resources Department on August 7, 2018, stated:

"These obsolete radios were not located during inventory and believe they were among the bundle of radios sold at auction. Requesting to remove from our asset inventory list to update our records."

Based on the documentation provided, it is uncertain whether these radios were sold, lost, or misappropriated.

Recommendation 4:

IAD recommends that management strengthen their oversight and recordkeeping controls to mitigate the risk of missing inventory and financial loss to the County.

Management Response by the Department of Management and Budget:

This was discussed with the department.

Target Implementation Date: April 23, 2019

Finding 5 – Several revenue transactions were posted incorrectly.

IAD verified that all payments for each auction sale were recorded in Pentamation. IAD also analyzed the supporting receipt detail reports provided by Fleet and FS, along with the vendors' sales reports.

All auction payments were recorded in Pentamation. However, IAD noted four transactions were recorded in the revenue accounts, using the net proceeds² of the check. Revenues should be recorded using the GovDeals auction sale price. This posting error created a \$79 understatement in the auction revenues.

An effective reconciliation method was not in place. Reconciling the auction sales reports with the general ledger revenue accounts and receipt detail reports would have disclosed the understatement in total sales.

Undetected posting errors create inaccurate, unreliable data that could be used for reporting, analyses, and trending.

² For GovDeals, the net proceeds consist of the sale price minus commission fees, plus sales tax. There were no sales taxes collected for these sales.

Recommendation 5:

IAD recommends that management strengthen controls by:

- a. performing regular reconciliations.
- b. providing training sessions for staff to enhance accounting skills.

Management Response:

- a. *Reconciliations will be made on a regular and timely basis.*
- b. *Training for staff will be made available as needed.*

Target Implementation Date: April 8, 2019

Finding 6 – Auction proceeds were not transferred to the respective departments.

IAD analyzed whether auctioned assets were purchased with grant funds, enterprise funds, or by self-funded departments, and if the auction proceeds were transferred back to the appropriate fund/department. IAD also reviewed the deposits for non-assets, which included assorted parts, computers, gas pumps, airboat prop, tires, etc.

During fiscal years 2017 and 2018, auction proceeds were recorded in the ‘General Gov Vehicle Trust Fund (555).’ There were no Iron Planet transactions in fiscal year 2017. None of the auction proceeds were transferred to the departments.

Due to staff turnover, lack of documented procedures, and inadequate training, the transfer of auction proceeds was overlooked during the audit period.

According to the DMB, sale proceeds should be transferred to self-funded (S), enterprise (E), and grant-funded departments (G). DMB also stated that proceeds from the sale of non-assets should be transferred to the originating fund.

On November 2, 2018, Fleet Management collaborated with DMB to initiate a partial transfer of FY18 proceeds to the following departments.

Fund	Title	Amount
551	Fleet Vehicle Trust Fund (S)	8,882.83
403	Solid Waste Management Fleet (E)	233.91
456	Utilities Fleet (E)	4,450.18
150	Aquatic Services Vehicles (G)	10,545.00
	Total	24,111.92

Proceeds from auction sales of assets and non-assets should be transferred to the appropriate departments in a timely manner. Grant-funded departments must comply with the terms of the grant contracts, which may require returning proceeds from the sale of grant assets.

Recommendation 6:

IAD recommends that management:

- a. formalize a process to initiate the transfer of auction proceeds on a regular basis.
- b. transfer the remaining FY18 auction proceeds to the appropriate departments.

Management Response:

- a. *A spreadsheet is provided to Department of Management and Budget to distribute auction proceeds.*
- b. *Department of Management and Budget handles the transfer of proceeds.*

Target Implementation Date: November 11, 2018

Observation – Security access controls to the GovDeals Client Asset Server were not established.

Observations are issues observed outside of the audit scope, but found during the course of the audit. IAD initially reviewed the user security settings in November 2018 to determine who had access to the data base, and the types of permissions granted. A second review disclosed these settings had not changed.

Four of the ten users with access had terminated employment from the County as early as 2008. Only one of those four accounts was locked to prevent the former employee from gaining access to the web-based client server. One of Fleet’s employees was assigned two user IDs.

Access for three former employees was not deactivated. An absence of policies and procedures over the IT control environment poses a risk to the integrity of the system. Access controls are designed to limit a user’s access to certain documents, files, and programs. A lack of controls increases the opportunity for unauthorized changes to files and programs, and exposes the organization to potential hacking attempts.

Recommendation 7:

IAD recommends that management:

- a. immediately deactivate the accounts of former employees.
- b. review current users’ accounts to determine if access is appropriate for his/her duties.
- c. create formal, written policies and procedures for managing security access, such as:
 - provisioning
 - authorization requests
 - approvals

- periodic review of users
- termination of access

Management Response:

- All non-authorized users have been deactivated.*
- Review of users: Authorized Users: Dan Johnson, Deborah Bloss, and Stephanie Struble (Facilities). All others have been deactivated.*
- Written requests, policies and procedures are in place.*
- Upon employee termination, immediate deactivation of all user rights will take place.*

Target Implementation Date: April 8, 2019