



# DALLAS COUNTY COUNTY AUDITOR

## Memorandum

To: Daniel R. Garza  
Purchasing Director

From: Darryl D. Thomas *Darryl D. Thomas*  
County Auditor *dkw*

Subject: Purchasing Auctions - Review for Fiscal Year 2016

Date: Issued April 17, 2017  
Released June 26, 2017

## Scope

A review was performed in accordance with statutory guidelines on the financial records, processes, and internal controls of Purchasing handling of auctions for fiscal year 2016 with an internal control procedures walkthrough completed in December 2015.

## Review Procedures

Standard review procedures were followed to test the internal controls and statutory compliance within the department as relate to auctions. A random sampling of the total activity was selected for certain procedures, while others were reviewed in their entirety. Review steps included but were not limited to the following:

- Review of auction process for compliance with applicable Dallas County Code and Commissioners Court orders
- Review of proceeds (includes deposit and GL posting) from miscellaneous equipment/vehicles auctions completed in FY2016
- Review of disposal of property once the auction is completed
- Evaluate internal control procedures related to the auction process

## FINDINGS

1. A review of processes for auctions held during fiscal year 2016 related to miscellaneous equipment, animals, and vehicles revealed:
  - Insufficient details listed on briefings to Commissioners Court limiting the ability to readily determine if auctioned items are fixed assets (which require disposition update on the Oracle Fixed Assets module) or other assets tracked separately by departments.
  - Instances of incorrect vehicle information listed on briefings to Commissioners Court.  
*Status: Amended briefing was not completely revised.*
  - Auction date not listed on briefing for Court Order 2016-0527.
  - Auction dates incorrectly listed on briefing for Court Order 2016-0933.

A walkthrough of the Purchasing department's auction processes revealed the below risks:

- Equipment originally purchased with General Funds placed in auction lots with equipment purchased from other funding sources.
- Incomplete (lack of original funding source, fixed asset tag number, etc.) or limited details included on auction spreadsheets received by Purchasing from other departments and subsequently included with the briefing to Commissioner Court.
- Insufficient supervisory review over determination of which items to auction or recycle.
- Lists are not maintained by Purchasing related to items in surplus, including capital assets in surplus.

2. A review of auctions proceeds for all auctions held during fiscal year 2016 related to miscellaneous equipment and vehicles sold revealed:

- One auctioneer's reports and supporting documentation were not provided on a timely basis and were insufficient in detail inhibiting the accurate deposit of auction proceeds.
- Items purchased from the General Fund, various Grants, and other funding sources were commingled within the same lots inhibiting the accurate deposit of auction proceeds.
- Delays from eight to 22 business days in depositing auction proceeds for items sold when comparing auctioneer check dates to Purchasing deposit preparation/submission dates to County Treasurer.
- Two deposits with 100% of auction proceeds incorrectly deposited to the General Fund by Purchasing.

*Status: Corrected by Auditor's office.*

A walkthrough of the Purchasing department's auction procedures revealed the below risks:

- Auction proceeds for equipment not identified with the original funding source used to purchase the item are automatically deposited into the General Fund.
- Lack of review by Purchasing to ensure funding source is available and noted on the spreadsheet for items to be auctioned.
- One auctioneer sent state sales tax collected to Dallas County rather than retaining and reporting to the Texas State Comptroller, separately.
- Lack of oversight by Purchasing to ensure proper grouping of auction items within lots by the auction vendor which inhibited proper revenue recognition.

3. A review of miscellaneous equipment and vehicles submitted for disposal via auctions held during fiscal year 2016 revealed:

- One auctioneer did not provide reports or supporting documentation on disposition of unsold property.
- Texas Department of Motor Vehicles form VTR-346 'Texas Motor Vehicle Transfer Notification' is not consistently completed either manually or online by Purchasing when County vehicles are sold at auction. Potential County liability when a buyer does not timely submit title transfer paperwork.

## RECOMMENDATIONS

1. Detailed written auction procedures should be developed for the proper handling and disposition of property to ensure compliance with statutes, County code, and grant contracts.
2. Purchasing should create detailed auction lists from items on hand in surplus (no longer needed/serviceable for County business) using processed property transfer forms. Details should include available county property tag numbers and associated serial numbers.
3. Briefing attachments for court orders should properly reflect the date property items are to be auctioned with a detailed description of the items including fixed asset numbers.

4. Grantor approval to dispose, sale, or salvage should be verified prior to inclusion of grant equipment in auctions. Capital and non-capital property purchased with Grant funds is tracked according to UGMS 2 CFR section 215.34(e), (f) and (g).
5. Similar property items should be segregated by funding source into auction “lots” to facilitate proper revenue recognition. All departments should clearly identify the funding source used to purchase capital assets on the P280.
6. Purchasing should review spreadsheets received from other departments to ensure information is complete and accurate. All equipment should be identified as capital equipment or non-capitalized equipment. County asset tag numbers should be included for the capital equipment.
7. Commissioners Court approval should be obtained in advance prior to disposing of surplus or salvage property in accordance with Local Government Code, § 263.152 and Dallas County Code Chapter 90. Notice of the sale should be published in accordance with Local Government Code, § 263.153.
8. Funds received by Purchasing staff should be promptly and accurately receipted and deposited within five business days in accordance with Local Government Code, § 113.022.
9. Reports from auctioneer should be detailed and sufficient to clearly record sold items, proceeds, and disposition of unsold items. Once reports are received, Purchasing should provide the Auditor’s office with a copy.
10. Auctioneer should remit collected state sales tax to the Texas Comptroller in accordance with state statute.
11. Form VTR-346 (Texas Motor Vehicle Transfer Notification) should be completed by Purchasing when vehicles or sold or otherwise disposed with the form submitted manually or online within 30 days to the Texas Department of Motor Vehicles.

#### **SUMMARY**

The report is intended for the information and use of the department. While internal controls and compliance factors reviewed, all matters of a material weakness may not have been identified. It is the responsibility of the department to establish and maintain effective internal control over compliance with the requirements of laws, regulations, and contracts applicable to the department.

Priority areas of risk which need to be addressed include: control procedures for auction (including proceeds and unsold items), sufficient detail reports from auctioneer, timely and accurate depositing of auction proceeds, and proper separation of property into lots by original funding source.

Consideration of all issues and weaknesses should be incorporated by the Purchasing as a self-assessment tool. Adherence to and follow-through with the recommendations should improve internal control and compliance with state statutes and Dallas County policies and procedures.

cc: Darryl Martin, Commissioners Court Administrator