

Salt Lake County Auditor's Office

Craig B. Sorensen, *AUDITOR*



June 27, 2002

Nick Morgan
Director, Fleet Management Division
7125 S. 600 W.
Midvale, Utah, 84047

Re: Audit of Fleet Management Sales Procedures

Dear Nick:

We recently completed a limited scope audit of Fleet Management ("Fleet") vehicle sale procedures. The audit was initiated due to reports through the Auditor's Office of certain non-sufficient funds checks related to sales of County vehicles. We concentrated on the unique "fast-rotation" program of selling light-duty vehicles.

BACKGROUND:

Conceptualized in 1994, the program was introduced to reduce the cost of operating the County's fleet of vehicles. Fast rotation provides a window for selling many vehicles on a wholesale basis at full or near full cost recovery. Since that time the program has evolved to include advertising on the Internet and establishment of a customer base nationally.

Law enforcement vehicles are rotated every year, other light vehicles every two years and heavy vehicles every three years. Management stated that light-duty vehicles normally are sold within a 90-day time frame from the time they are made available for sale; and, that the vehicle replacement fund is funded to the point that no additional financing is necessary to purchase replacements.

FINDINGS:

We found that in October and November, 2001, two out-of-state car dealers passed insufficient funds checks to the County for vehicle purchases from Fleet. Following several months of letters and threats of legal action by the District Attorney's Office, both companies finally paid in full. Also, on March 26, 2002 a local dealer purchased a vehicle with an unsigned check that the bank misinterpreted as an insufficient funds check.

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In one instance, on May 3, 2001, a New York car dealer purchased and took possession of five vehicles for \$92,000. Fleet did not require immediate payment, but invoiced the company for the full amount due. On October 19, 2001, Fleet received a check from the company, dated October 11, 2001, for payment in full, at which point Fleet sent the titles to the company. However, on November 9, 2001, the bank returned the check to the Treasurer's Office because of insufficient funds. The company later made the amount good in three installments. They paid \$40,000 on December 13, 2001, \$20,000 on December 18, 2001, and \$32,000 on February 14, 2002.

The account went through the Treasurer's Office notification process and had been sent to the District Attorney's Office for collection. The last payment received was a result of an investigator serving a summons to the company. The company ignored the collection fee, the returned check charge of \$80 and additional costs of service. The District Attorney's Office waived the charges since they felt collection would not have been achieved otherwise.

The second instance occurred with a Boise car dealer who purchased two vehicles for \$37,460. The dealer's check was written on November 7, 2001 and mailed November 12, 2001. The Treasurer's Office received notice the check was bad on November 15, 2001. The Treasurer's Office notification process was completed and the District Attorneys's Office received the account in January, 2002. The District Attorney's Office sent one letter dated January 7, 2002, requesting a response within 15 days of the date of the letter. The letter stated in part: "If the account is not paid in full by the date indicated, a lawsuit will be filed and your charges will also include damages, attorney fees, interest and other costs of collection."

Notwithstanding the above events, this same company subsequently purchased and took possession of three more vehicles a few days later, on November 14, 2001, at a purchase price of \$56,640, but made no payment at that time. Fleet did however retain titles to the vehicles. The District Attorney received the first payment of \$60,000 from the dealer over five months later on May 1, 2002. The remaining balance of \$34,140, which included late charges, was paid on May 29, 2002 and the titles have been released to the dealer.

In all the above instances, Fleet's practice was to not require payment up front, but instead to issue an invoice that did not specify a time frame for payment. Fleet did retain title until payment was received, but there was no attempt to verify that the payment was good.

We also noted that another check, issued by a Salt Lake City dealer, was returned to the County due to insufficient funds, even though the only problem was that the check had not been signed. Even so, the Treasurer's Office sent a notice letter of insufficient funds on April 2, 2002, requiring the company to replace the check with certified funds.

We reviewed the Fleet light-duty vehicle monthly sales reports for October and November 2001. We found that in addition to the vehicles sold to the New York based company, there was almost a two month lag-time between sales dates and payments received for sales to two other car dealers.

Fleet has recently changed billing procedures to have invoices stamped with "Payment terms: net 30 days from invoice date and payment due upon receipt of title."

Per County Wide Policy #1301. 2.6., "For receipts that do not fall under this policy (i.e., those from businesses), County agencies shall employ whatever means deemed appropriate under the circumstances to prevent the acceptance of bad checks." Given Fleet's experience with bad checks in large amounts, these checks should no longer be accepted and payment should be by guaranteed funds, such as certified or cashier's checks, or wire transfers. (We previously faxed you the information necessary to inform purchasers how to perform wire transfers).

Per County Wide Policy #1062 3.4.2 "in general, unsigned checks,... will be returned to the remitter." Those individuals who receive payments need to consistently review these and other applicable policies.

RECOMMENDATIONS:

- 1. We recommend that Fleet accept only certified or cashiers checks, or wire transfers from private car dealers, that all invoices specify payment terms, and that title to vehicles pass only upon receipt of certified funds reflecting full payment of related invoices.***
- 2. We recommend that all checks received in payment for vehicle sales be reviewed for completeness, including signature, before deposit to county account, and returned to maker if incomplete.***

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We would like to express appreciation to the Fleet Management staff for the cooperation and timely assistance which they gave to our auditor. We trust that our work will be of benefit to you as you endeavor to make changes that will strengthen internal controls over this important process. If we can be of further assistance to you in this regard please feel free to call.

Sincerely,

James B. Wightman
Director, Internal Audit Division

cc: F. David Stanley
John P. Soltis
Larry W. Richardson