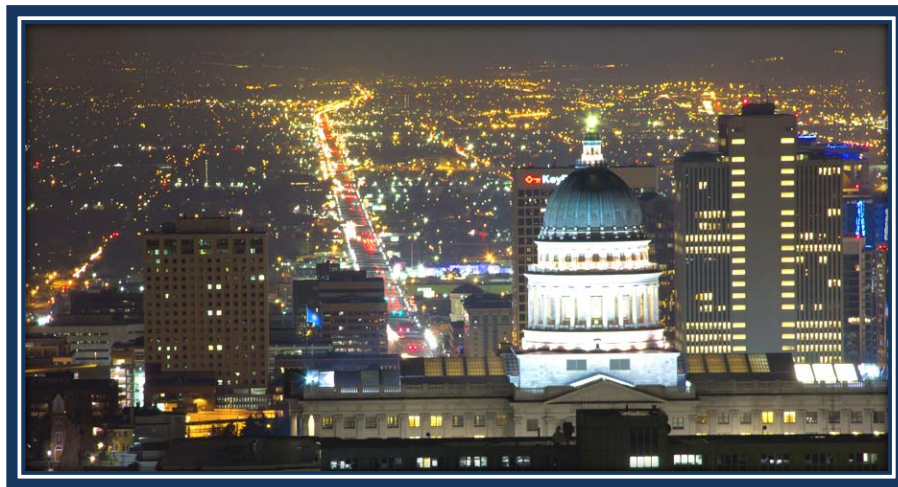


An Audit of
**Salt Lake County's
Surplus Property
Disposal Function**



Report Number 2015-04

August 2015



Office of the
Salt Lake County Auditor

Executive Summary

We recently conducted an audit of the Contracts and Procurement Division's Surplus Property (Surplus) disposal function. The objective of the audit was to inform management and other stakeholders of the adequacy of internal controls and the accuracy of transaction tracking and reporting. Surplus is responsible for the re-distribution, re-sale, and disposal of County assets by County agencies.

Poor segregation of duties and inadequate controls over scrap metal sales increased the risk of errors and irregularities.

Between 2010 and 2014, Surplus conducted 75 scrap metal sales that brought in a total of \$16,525 in revenue. We found a lack of segregation of duties in the area of scrap metal sales. Specifically, we found that the Surplus Manager performed the duties of authorizing transactions, keeping custody of assets, and record keeping. In addition, the scrap metal sales documentation we examined did not indicate any supervisory oversight to enforce segregation of those duties.

Documentation was insufficient to indicate if scrap metal sales were conducted in an open and competitive manner as required by **Countywide Policy** or if the scrap was sold at fair market value. Also, the documentation did not disclose whether County assets were sold as scrap or discarded, or the condition of items sold as scrap metal.

Countywide policy was not followed by agencies for hard drive removal, which placed the County at risk for releasing sensitive information to the public.

Hard drives were found on computers disposed of by various County entities and then transferred to Surplus for public sale. We examined the contents of those hard drives and found they had not been erased properly and that some of the hard drives contained sensitive County information that should not be available to the public.

Accounting controls to track and report sales tax collections were not followed, resulting in sales tax collection and remittance errors.

We examined sales tax returns and reconciled them to reported revenue collections. We found that sales taxes collected did not match amounts remitted to the Utah State Tax Commission. We also found that third-party auctioneering services erroneously deposited the sales tax collected into the Contracts and Procurement Division's depository account.

An Audit of
**Salt Lake County's Surplus
Property Disposal Function**

Report Number 2015-04

August 2015

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Introduction

The Salt Lake County Contracts and Procurement Division (Contracts and Procurement), operates the County's surplus property warehouse. The warehouse is located at 4474 South Main Street, Salt Lake City, Utah, and serves as the central location for the disposal of County-owned surplus personal property. Property transferred to the surplus warehouse is disposed of through one of the following means:

- **Transfers to other County agencies**
- **Third-party online auctions**
- **General public warehouse sales**
- **Private negotiated sales**
- **Scrap sales by competitive bid**
- **Disposal at the County landfill**

Audit Scope and Objectives

Our audit objective was to determine if the internal controls over the County's surplus property disposal function are adequate, functioning as management intended, and comply with Countywide Policies.

The scope of the audit was from January 1, 2010 to June 30, 2014. We reviewed compliance with the following policies, ordinances, and regulations:

- **Countywide Policy #1062, "Management of Public Funds"**
- **Countywide Policy #1100, "Surplus Property Disposition /Transfers/Internal Sale"**
- **Countywide Policy #1125, "Safeguarding Property/Assets"**
- **Countywide Policy #2110, "GRAMA Disposal of Records"**
- **Salt Lake County Purchasing Ordinance 3.36, "Property Disposal"**
- **Utah State Tax Rule R865-19S-38**
- **State of Utah Uniform Accounting Manual**

Finding 1 There was a lack of segregation of duties over the scrap metal sale process.

We reviewed 75 scrap metal sales from 2010 through 2014. Fourteen of the sales were facilitated between the County’s Facilities Management Services Division (Facilities Management) and private recycling companies, and 61 were sales to private scrap metal purchasers. During these sales, we found that the Surplus Manger performed the duties of authorizing the sales, keeping custody of both the scrap and the cash collected, and recording the scrap metal sales. We determined that the Surplus Manager solicited bids from buyers and awarded the final bid to the purchaser (authorization), performed cashiering duties for each of the sales (custody of assets), and maintained the scrap metal accounting records (record keeping). There was no indication of supervisory oversight.

Poor segregation of duties and inadequate controls over scrap metal sales increased the risk of errors and irregularities.

Countywide Policy #1062, "*Management of Public Funds*," states in the purpose that:

“In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining accounting records related to those public funds. Segregating these functions protects the employees involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping. Supervisory oversight enforces the separation of duties, creates an atmosphere of employee accountability, and strengthens the control environment.”

Contracts and Procurement may not have the staff necessary to segregate the duties within the scrap metal sales process. However, a lack of proper segregation of duties and little management oversight increases the risk that an individual could commit fraud and easily conceal it. In addition, errors that occur may go undetected without proper management oversight. Furthermore, there is an increased risk that sales may not be conducted in an open and competitive manner.

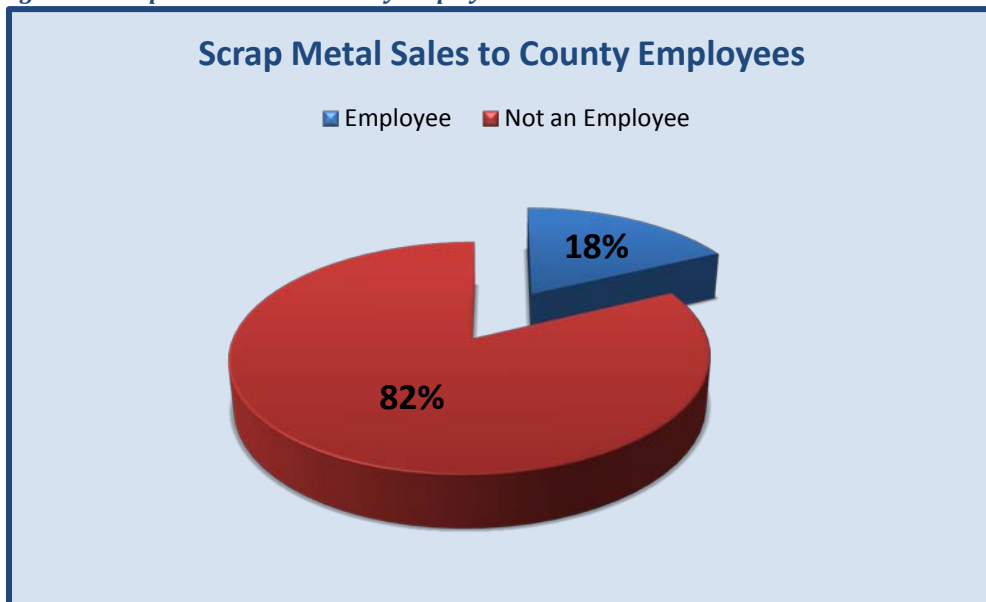
Recommendation

We recommend that Contracts and Procurement review the current segregation of duties at Surplus, and implement procedures to provide adequate management oversight and a secondary review of transactions that occur during the scrap metal sales process.

Finding 2 Sales documentation was insufficient to determine if scrap metal sales were conducted in an open and competitive manner.

During our review of scrap metal sales from January 1, 2010 to June 30, 2014, we identified 12 scrap metal purchasers. We compared the names of the 12 purchasers with a list of County employees. The list included those employed by Salt Lake County from December 31, 2009 to February 28, 2015, with the exception of those terminated from January 1, 2014 to February 28, 2015. Seven out of the 12 scrap metal purchasers were either current or former County employees. Eighteen-percent of the scrap metal sales from 2010 to 2014 were sold to persons we identified as either current or former County employees, as detailed in Figure 1, below.

Figure 1: Scrap Metal Sales to County Employees



Percentage of scrap metal sales to County employees vs. non-employees.

We were unable to determine if sales of scrap metal were conducted in an open and competitive environment due to the limited amount of supporting documentation. For example, the records did not indicate if a public announcement was posted prior to each sale, or if only the same frequent scrap metal buyers were contacted. During our review of the available documentation and interviews with the Contracts and Procurement Division's staff, we also noted the following:

- **Invitations to bid on scrap metal sales were consistently extended to the same individuals**
- **Bids were not opened in the presence of two or more employees**

- **Winning bid information was not retained for 97% of the scrap metal sales we examined**

Of the 75 scrap metal sales that we reviewed, only two of the sales included supporting documentation of the winning bids. However, even these sales did not include information about the other competing bids to show that the sale was awarded to the highest bidder.

Countywide Policy #1100, "Surplus Property Disposition/Transfer/Internal Sale," states that the purpose of the policy is,

"...to ensure that sales are conducted in an open, competitive environment; and to minimize disposition costs [for the County]."

Section 7.1 of the policy states,

"All sales will be conducted under the delegated authority of the purchasing agent. Sales will be conducted in an open manner consistent with county ordinances, good business practices, and generally accepted accounting principles."

Due to the lack of sufficient documentation on file, we could not determine if the scrap metal sales were conducted in an open and competitive environment, as required by **Countywide Policy**.

Recommendation

We recommend that Surplus management keep sufficient documentation on file to show that all scrap metal sales are conducted in an open and competitive manner.

Finding 3 Documentation was insufficient to indicate whether or not surplus items were sold for fair market value.

During the audit, we examined 43 negotiated sales of surplus property to private individuals. In every negotiated sale we examined, there were no records kept on file to indicate whether or not each item was sold at fair market value, what the condition of each item was prior to the sale, or whether or not the sale had received approval from either the County's Purchasing Agent or the County Mayor. For example, in two of the negotiated sales, we noted that a 64GB iPad was sold for \$75, and an iPhone 5 was sold for \$150. Without any records of the condition of the items sold, or whether or not the sales received the proper approval, it was impossible to determine if the County received a fair market value price for the equipment sold.

Countywide Policy #1100, "*Surplus Property/Disposition/ Transfer/Internal Sale*," Section 7.7.3 states,

"The mayor must approve such purchases in advance, and the offer must represent a full and fair market value for the equipment."

Recommendation

We recommend that Surplus management document the general condition, estimate a fair market value price, and receive proper approval from the County Purchasing Agent or the County Mayor, for the sale of each surplus item that is sold through private negotiated sales.

Finding 4 The condition of most items sent to Surplus for disposal was not indicated on the appropriate form when sold or disposed of.

When items are sent to the Surplus warehouse for disposal, a *Salt Lake County Personal Property Transfer/Disposal/Internal Sale Form PM-2* (PM-2 form) should be completed by the County agency that is disposing of the property. One column on the PM-2 form is titled "Condition of Item."

According to the PM-2 form training provided to property managers by Contracts and Procurement, suggestions for terms to enter in the "Condition of Item" column include "excellent," "good," "poor," and "scrap." When we reviewed the forms on file at the Surplus warehouse, we noted that when County assets were discarded or sold as scrap, the column was not marked to indicate the condition of the assets. For example, the PM-2 forms did not indicate whether or not assets were considered "scrap" or in "good" condition when they were sold or discarded. We noted that the only items that had an indication of their condition were assets deemed "electronic waste" on the forms.

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.12 states:

"To ensure adequate accountability, Property Managers should establish internal protective controls appropriate for custody of the property assigned ... maintaining supplementary records to support location and existence of property as necessary."

Not recording the condition of an asset prior to being sold or disposed of, creates a risk that items in excellent or good condition could be sold for less than fair market value, or assets in good condition are sold or disposed of in a manner that would not be in the best interest of the County.

Recommendation

We recommend that Surplus management ensure that an accurate description of an asset's general condition is recorded on County Form PM-2 prior to discarding or selling any County surplus property.

Finding 5 We could not determine if items sold as scrap metal were truly in scrap condition when sold to private bidders.

We were unable to determine if sales of scrap metal were appropriate, and if the items sold were truly in scrap condition at the time of the sale. The condition of items sold as scrap could not be confirmed due to the lack of any supporting documentation. The scrap metal sales documents only listed the final sale amount, the date the items were sold, the name of the purchaser, and the name of the County employee conducting the sale. A description of the item, the condition of the item, or any other characteristics of the scrap items sold, were not indicated on the sales documents we reviewed.

In addition, unsuccessful bids from scrap purchasers were not retained, and only the information about the successful bidder was kept with sale documentation. It was unclear from interviewing staff and reviewing the available documentation, if the purchases were privately conducted. Bidders and purchasers were interviewed to verify scrap metal sales. However, neither kept documentation regarding date of bids, bid amounts, or purchases. No additional documentation was available to show the bidders involved in each sale.

Countywide Policy #1100, "Surplus Property Disposition/Transfer/ Internal Sale," states the purpose of the policy is

"...to ensure that sales are conducted in an open, competitive environment; and to minimize disposition costs."

Without the details indicating whether or not items sold as scrap metal were in scrap condition at the time of the sale, we could not verify that all of the items sold were actually scrap metal. Furthermore, Surplus did not have adequate documentation to show that the scrap metal was sold to the highest bidder.

Recommendation

- 1. We recommend that the Surplus Manager keep detailed records of the scrap metal bidding process, including a brief description of, and the condition of the scrap items sold.***
- 2. We recommend that the Surplus Manager retain a record of all of the bids received for the sale of scrap metal as supporting documentation that the scrap was sold to the highest bidder.***

Finding 6 Hard drives were not removed from or erased properly on some County computers transferred to Surplus for disposal.

We obtained a judgmental sample of 52 computers out of 229 in the current stock at County Surplus to determine if the hard drives had been removed or erased properly prior to being transferred to Surplus for disposal. We discovered that four of the computers had hard drives that were still intact and readable. The computers included two from Engineering, one from Criminal Justice Services, and one from the County Sheriff's Office. When we discovered the hard drives, Contracts and Procurement management was notified, and Contracts and Procurement stopped the sale of all surplus computers until they could be inspected for the presence functioning hard drives.

The current practice of the Surplus Division is to verbally verify with the transferring agency that all computer hard drives are removed prior to accepting the transfer.

Countywide Policy #2110, "GRAMA Disposal of Records," Section 4.1.2 states:

"Agencies must ensure the media [hard drive] is completely destroyed by using an authorized record disposal service that meets AAA NAID Certification requirements."

Countywide Policy allows County entities disposing of computers to leave the hard drive in the devices. However, if they remain in a device, the policy requires that all information on the hard drive be completely erased prior to transferring it to County Surplus for disposal.

We examined the contents of the four hard drives and found that they were in fact functioning normally, and had not been erased properly. Furthermore, one of the hard drives contained sensitive information belonging to the County agency that had transferred the computer to Surplus.

We inquired about the process when County computers are transferred to Surplus for disposal. The Surplus Manager verbally verifies with the transferring agency that the hard drives have been removed, but that there is no additional effort made to ensure that hard drives are removed or properly erased prior to accepting them.

Countywide Policy #1100, "Surplus Property Disposition/Transfer/ Internal Sale," Section 4.3 states,

"Prior to surplusing (sic) information technology equipment, county agencies shall delete all information from all storage devices. Information shall be deleted in such a manner as to not be retrievable by data recovery technologies."

Additionally, **Countywide Policy #2110, "GRAMA Disposal of Records,"** Section 4.1.3 states,

"Agencies that do not shred their electronic media must conform to the records disposal requirement of the Department of Defense DoD 5015.02 STD for Electronic Records Management Software Applications Design Criteria Standards, April 25, 2007. This standard requires that the data be wiped seven times to ensure [it] is unrecoverable."

When hard drives on County computers sent to Surplus are not removed and destroyed or erased properly, there is a risk that protected information and other sensitive data could be found on the hard drives and inadvertently released to the public. The potential impact of inadvertently releasing protected information or sensitive data to the public is hard to quantify, but could easily lead to lawsuits, loss of public trust, and other dire consequences for the County.

Recommendations

- 1. We recommend that County Surplus require written verification that all computer hard drives have been removed and destroyed prior to accepting the transfer of computers from County entities.***
- 2. We recommend that County Surplus obtain written verification that all hard drives left in any computers were erased properly prior to accepting the transfer of computers from County entities.***

Finding 7 Sales tax collected did not match amounts remitted to the State Tax Commission.

While verifying surplus sales deposit documentation, we examined warehouse sales, negotiated sales, and private sales receipts. We also examined sales tax reported on the Utah State Tax Commission Form (Form TC-62S) and compared that amount to the reported amount of sales tax receipts. In addition, we obtained sales documentation from third party auctioneering services.

Accounting controls to track and report Utah State sales tax collections were not followed resulting in payment errors.

Sales tax becomes a liability to be paid to the Utah State Tax Commission as soon as the funds are collected. However, in our analysis we found that sales tax that Surplus had collected was not accurately reported and paid to the Utah State Tax Commission. Reconciliations of sales tax did not accurately reflect the quarter in which the sales tax was collected. We reconciled sales tax collected during 2013 and 2014 and compared the totals reported and paid on Tax Commission Form TC-62S "Sales and Use Tax Return." We found the following:

Table 1: Reconciled Liability vs. TC-62S Paid

Reconciled Liability vs. TC-62S Paid			
Quarter	Reconciled Liability	TC-62S Paid	+Over/-Under Paid
Q1-2013	\$697.03	\$952.04	+\$255.01
Q2-2013	\$868.11	\$137.62	-\$730.49
Q3-2013	\$256.79	\$324.65	+\$67.86
Q4-2013	\$294.51	\$290.08	-\$4.43
Total 2013	\$2,116.44	\$1,704.39	-\$412.05
Q1-2014	\$214.21	\$143.02	-\$71.19
Q2-2014	\$87.01	\$137.19	+\$50.18
Q3-2014	\$115.67	\$404.33	+\$288.66
Q4-2014	\$770.49	\$368.36	-\$402.13
Total 2014	\$1,187.38	\$1,052.90	-\$134.48
Combined	\$3,303.82	\$2,757.29	-\$546.53

Sales tax collected in 2013 and 2014 was underpaid by \$546.53.

The State of Utah Uniform Accounting Manual, Reference II, A.01.01 "Basis of Accounting" states,

"Under the modified accrual basis, revenues and other financial resources are recognized in the accounting period that they become measurable and available."

When sales tax collected is not reconciled to the quarter received, errors in reporting and payment are likely to occur. This creates discrepancies between the sales tax actually collected and the amounts due to the State Tax Commission.

Recommendation

We recommend that County Surplus perform a reconciliation of sales taxes collected to the amount remitted to the State Tax Commission at least on a monthly basis, to ensure that the correct amount of sales taxes are collected and remitted to the State Tax Commission when due.

Finding 8 Third-party auctioneering services erroneously deposited sales tax collected into the Contracts and Procurement Division’s depository account.

Contracts and Procurement contracts with PublicSurplus.com and TNT Auctions to sell County assets that have been transferred to the Surplus Warehouse. We found that PublicSurplus.com erroneously deposited sales taxes collected from auction sales into the Contracts and Procurement Division’s depository account. We contacted the Utah State Tax Commission and verified that auctioneering services should remit sales tax directly to the State Tax Commission. The State Tax Commission also stressed that auctioneering services do not qualify as exempt from the collection and direct remittance of sales taxes pursuant to Utah State Tax Rule.

Utah State Tax Commission Rule R865-19S-38, “Isolated or Occasional Sales and Use Tax Exemption Pursuant to Utah Code Ann. Section 59-12-104,” Paragraph (1a-b) states,

“Isolated or occasional sales and use tax exemption’ means a sale that qualifies for the sales and use tax exemption for the sale of tangible personal property by a person: regardless of the number of sales of that tangible personal property by that person; and not regularly engaged in the business of selling that type of property.”

Section (8) continues:

“Sales of items at public auctions generally do not qualify for the isolated or occasional sales and use tax exemption.”

The current practice of PublicSurplus.com depositing the sales tax collected imposes an unnecessary obligation on Surplus to track and report sales tax collected on sales tax returns.

Recommendation

We recommend that County Surplus ensure that third-party auctioneering service providers collect and properly remit sales tax directly to the Utah State Tax Commission when conducting auction sales on behalf of the County.



Response to the Audit

October 9, 2015

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Salt Lake County Mayor

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Scott Tingley
Salt Lake County Auditor

RE: Response to Audit of Surplus Property Disposal Function

Dear Mr. Tingley,

Contracts and Procurement has reviewed the audit of the County's Surplus Program conducted by James Fire, Todd Livingston and Leonardo Flores. This audit was initiated last year shortly after the 2014 audit of the same program. Many of the findings have already been addressed by Contracts and Procurement. After the 2014 audit, Contracts and Procurement changed the procedure for conducting scrap metal sales to ensure proper segregation of financial transaction duties. To further improve the program, in May of this year, Contracts and Procurement started using the State of Utah's Cooperative Contract with "GovDeals" to conduct all scrap metal sales and other sales of surplus items through its open, online auctioning service to ensure an open-bidding process and improved record-keeping.

Preliminary findings of the audit were shared with Contracts and Procurement months ago. We feel confident that the changes we have made have added appropriate controls to mitigate risk and improve the program.

Attached is an individual response to each finding outlined in the report.

Thank you,

Jason Yocom
Director, Contracts and Procurement



Contracts and Procurement Surplus Audit Findings Response

Finding 1: There was a lack of segregation of duties over scrap metal sale process.

Scrap metal sales are now posted online and conducted by GovDeals, a contracted online auction service. Anyone may register on GovDeals.com and bid on the items. Sales receipts are collected and deposited by GovDeals to the County's account for public auctions. Before any scrap metal is posted online, a manager will review the listing and approve for posting. In the rare event of a live auction at the surplus warehouse, there will be two staff members, one management and the Surplus Manager, that will facilitate the auction and sales functions.

Finding 2: Sales documentation was insufficient to determine if scrap metal sales were conducted in an open and competitive manner.

Scrap metal auctions are now completed online, open to the public. Pictures of the scrap items as well as descriptions of materials included are listed in the online posting. The online auction platform, GovDeals.com serves as the repository of all activity related to each sale as it is completed.

Finding 3: Documentation was insufficient to indicate whether or not surplus items were sold for fair market value.

Contracts and Procurement keeps a file of the approval letters signed by the Purchasing Agent and the Mayor, which was not requested by the Auditor and is available for review. All negotiated sales reviewed are properly approved of by the Purchasing Agent and the Mayor. Contracts and Procurement will include with the approval letters, documentation of the general condition and "fair market value" of the items sold in negotiated sales.

Finding 4: The condition of most items sent to Surplus for disposal was not indicated on the appropriate form when sold or disposed of.

The Surplus Manager will ensure that all PM2 forms contain complete information as required.

Finding 5: We could not determine if items sold as scrap metal were truly in scrap condition when sold to private bidders.

Scrap metal sales are now taking place online, where a brief description will be listed of the scrap items. The Surplus Manager, along with management staff, assures these auctions contain adequate details. Since all bids online are retained in GovDeals, the online platform also serves as the record for all bids received and awarded.

Finding 6: Hard drives were not removed from or erased properly on some county computers transferred to Surplus for disposal.

Upon Notification of this finding back in February, 2015, Contracts and Procurement halted disposition of computer equipment and examined the remaining machines. No other hard drives were found. Contracts and Procurement will add a statement on the PM2 form that requires the agency that sends equipment to surplus to verify that all hard drives have been destroyed or erased properly before computers are brought to surplus. Additionally, Contracts and Procurement will distribute periodic communication to county agencies via the Purchasing Newsletter that reiterates this important policy.

Finding 7: Sales tax collected did not match amounts remitted to the State Tax Commission.

After careful review of the records, Contracts and Procurement was unable to corroborate the discrepancy between the Auditor's findings and the Division's records. Contracts and Procurement found errors in the Auditor's calculations related to this finding, but also found some errors in Division's records and have re-formatted the Surplus Sale Tracking workbook.

Finding 8: Third-Party auctioneering services erroneously deposited sales tax collected into the Contracts and Procurement Division's depository account.

Surplus is no longer working with PublicSurplus.com to conduct third party online auctioning services. GovDeals.com has taken over this function. GovDeals is a contracted vendor made available through the state of Utah's Best Value Cooperative Contracts. GovDeals has indicated they are not set up to remit taxes directly to the Utah State Tax Commission. We would appreciate the Auditor providing the USTC rule or regulation that we can pass on to GovDeals. Otherwise, the county will need to remit sales taxes collected by online auction sales.



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Auditor's Comments

Re: County Contracts and Procurement Division's Response to the Audit

Finding 3: Documentation was Insufficient to Indicate Whether or not Surplus Items were Sold for Fair Market Value

Contracts and Procurement's Response:

Contracts and Procurement keeps a file of the approval letters signed by the Purchasing Agent and the Mayor, which was not requested by the Auditor and is available for review. All negotiated sales reviewed are properly approved of by the Purchasing Agent and the Mayor. Contracts and Procurement will include with the approval letters, documentation of the general condition and "fair market value" of the items sold in negotiated sales.

Auditor's Comment:

During the audit, we reviewed a total of 45 negotiated sales. Of these 45, 38 did not have documentation showing Mayoral approval, and 44 lacked documentation that items were sold for fair market value.

Early in the Audit process, we requested all documentation regarding the sale of all surplus items. Auditors were told that all documentation had been provided. When we reviewed this finding with the Surplus Manager at Contracts and Procurement, we were told that documentation regarding Mayoral approval and comparable price determination of surplus items was available, but never requested.

Contracts and Procurement subsequently sent a file containing the requested documentation. However, we noted that regarding the sale of negotiated items, the file only contained seven Mayoral approvals, and documentation of fair market value for one item.

There is a risk with negotiated sales of surplus property that the County could receive less than fair market value for an item, or that collusion could occur between the buyer and the County agency that disposed of the item for sale. **Countywide Policy #1100**, requires that all negotiated sales of surplus property be reviewed by the County Purchasing Agent and approved by the County Mayor, or his or her designee. This step helps to mitigate those risks, and provides accountability and transparency for the process.

Finding 7: Sales Tax Collected did not Match Amounts Remitted to the State Tax Commission

Contracts and Procurement's Response:

After careful review of the records, Contracts and Procurement was unable to corroborate the discrepancy between the Auditor's findings and the Division's records. Contracts and



Procurement found errors in the Auditor's calculations related to this finding, but also found some errors in Division's records and have re-formatted the Surplus Sale Tracking workbook.

Auditor's Comment:

We identified discrepancies between the sales tax collected for sales of County surplus property and the sales tax Contracts and Procurement later filed and remitted to the Utah State Tax Commission. Specifically, we identified sales tax accounting errors that occurred with sales conducted by auction services such as PublicSurplus.com and TNT Auctions. We determined that these errors were mostly caused by timing differences that were not taken into account by Contracts and Procurement when calculating sales tax amounts due at the end of each quarter.

Both auction service providers produced statements for Contracts and Procurement which included the amount of sales tax collected on sales transactions. Based on the State Tax Commission's guidelines, sales tax must be collected at the time of the sale, regardless of when the proceeds from the sale are received. For accounting purposes, a sales tax payable liability is created when sales taxes are collected prior to filing a sales tax return with the State Tax Commission.

We identified several discrepancies throughout 2013 and 2014, where the sales tax collected and reported by the auction services did not match the sales tax that Contracts and Procurement calculated and reported on their quarterly sales tax returns. We provided this information to Contracts and Procurement when we reviewed this finding with them. We would be happy to provide additional training for Contracts and Procurement employees responsible for calculating, filing, and remitting sales tax to the State Tax Commission.

Finding 8: Third-Party Auction Services Erroneously Deposited Sales Tax Collected into the Contracts and Procurement Division's Depository Account

Contracts and Procurement's Response:

Surplus is no longer working with PublicSurplus.com to conduct third party online auctioning services. GovDeals.com has taken over this function. GovDeals is a contracted vendor made available through the state of Utah's Best Value Cooperative Contracts. GovDeals has indicated they are not set up to remit taxes directly to the Utah State Tax Commission. We would appreciate the Auditor providing the USTC rule or regulation that we can pass on to GovDeals. Otherwise, the county will need to remit sales taxes collected by online auction sales.

Auditor's Comment:

Prior to Contracts and Procurement switching online auction service providers, we reviewed the sales tax reporting practices for both PublicSurplus.com and TNT Auctions. We noted the frustration expressed by one of the providers that while they collected, tracked, and remitted sales tax directly to the State Tax Commission, the other provider that Contracts and Procurement used for auction services did not. Our finding in this report is based on the condition that existed at the time of the audit.

We determined that the process was inefficient and increased the likelihood of discrepancies and sales tax accounting errors similar to those we discussed in Finding 7 above. We have reviewed the State contract with the new auction service provider, GovDeals, Inc., and our interpretation of the contract language is that GovDeals should be responsible for collecting and remitting sales tax directly to the Utah State Tax Commission.

GovDeals, Inc., contract #PA2161 dated October 3, 2014, states the following on page four of the summary:

“In addition to the above, for Tier Two, the Statement of Work includes, but is not limited to, the following:

*Contractor shall provide a complete accounting of items from pick up to final sale or disposition. Contractor shall be fully responsible for the collection of monies and reimbursement to the Participating Entity. **Contractor shall collect and process all taxes due.**” (emphasis added)*

If at all possible, GovDeals should collect and remit sales tax for sales of County surplus property directly to the State Tax Commission, as stated in the contract. In our opinion, the risk of errors in calculating, filing, and remitting the correct sales tax liability would be significantly reduced. This would also help to prevent potential fines and penalties assessed to the County for improperly reporting and remitting sales tax when due.