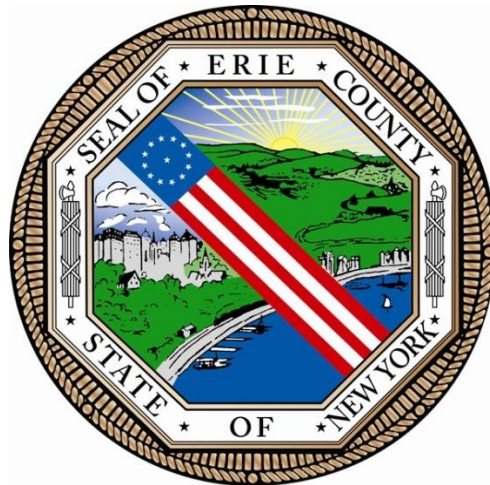


October 2019

**Erie County Division of Purchase
Audit of Internal Controls for Auctions
January 1, 2018 through December 31, 2018**



**STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER**

**HON. STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER'S OFFICE
DIVISION OF AUDIT & CONTROL
95 FRANKLIN STREET
BUFFALO, NEW YORK 14202**



August 9, 2019

Erie County Legislature
92 Franklin Street, 4th Floor
Buffalo, New York 14202

Dear Honorable Members:

The Erie County Comptroller's Office has completed an audit of the internal controls for the auction of surplus assets administered by the Erie County Division of Purchase for the period January 1, 2018 through December 31, 2018.

Management of the Division of Purchase is responsible for establishing and maintaining a system of internal control. The objectives of such a system are to provide management with reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization and are recorded properly. Because of inherent limitations in the system of internal control, errors or irregularities may nevertheless occur and not be detected.

Our responsibility is to express an opinion based on our audit. We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. Our objective was to test and evaluate the internal controls for auctions administered by the Division of Purchase. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations based on our audit objectives.

Opinion

In our opinion, the internal controls over the auction of surplus equipment or vehicles, cash receipts from auctions and contract compliance for auction services are adequately designed and operating effectively.

No other specific matters adversely affecting compliance and procedures came to our attention. Our audit was made for the purpose previously discussed, and would not necessarily disclose all instances of noncompliance with respect to areas of operations not audited.

REPORTING REQUIREMENTS

A draft copy of this report was provided to the Division of Purchase for their review. Their comments were considered in the preparation of this report. Their response to the this report is attached as Appendix A.

BACKGROUND

The Director of the Division of Purchase (“Director”) is authorized by the Erie County Administrative Code to sell or lease any surplus, obsolete or unused supplies, materials and equipment. Erie County (the “County”) issued Bid Proposal #216159-002 with specifications for auctioneering services. The auctioneer disposes of surplus items authorized by the Director on behalf of the County.

Auctions are conducted either at a specified physical location or online. Online bidders register with the auctioneer. Bidders place bids incrementally. The highest bid at the conclusion of the auction is the buyer. The buyer pays the auctioneer the amount of the winning bid, sales tax (if applicable), and a buyer’s premium. A surcharge is paid to the auctioneer if the buyer pays by credit card, rather than cash.

Winning bids are approved by the Director before ownership of an asset is transferred to the buyer. The auctioneer sends the amount of the proceeds due to the County. Late fees are assessed if payment from the auctioneer is received ten (10) business days beyond the end date of the auction. The auctioneer remits the auction proceeds to the Division of Purchase (“Purchasing”). The auction proceeds are deposited into the general fund.

AUDIT RESULTS AND RECOMMENDATIONS

Audit findings were discussed with the Director after fieldwork was completed. The details of the significant results and findings are presented in this section.

- 1) *Auction Sales Testing* – files for auctions of surplus items and vehicles during the audited period were obtained and summarized in a schedule. Twenty (20) auctions were identified during the audit period. The County contracted with a vendor to perform all auctions of surplus assets on behalf of the County.
 - a. *Slow Payments by Auctioneer* – proceeds from auctions were received three (3) to forty-two (42) days late. Payments of auction proceeds are due to the County within ten (10) business days from the date the auction is complete.

WE RECOMMEND that Purchasing enforces collection of auction proceeds within ten (10) business days of the completion of the auction.

- 2) *Cash Receipts Testing* – proceeds from auctions are deposited by Purchasing with the Cash Management Division of the Comptroller’s Office. A schedule of all checks received from the auctioneer was prepared.

- a. *Auction Proceed Checks* – auction checks were traced to the check log. All auction checks received were recorded in the check log. Auction checks were also traced to Consignment Settlement documentation.
- b. *Cash Deposits* – all cash deposits in the County’s financial reporting system (“SAP”) were traced to the checks from the auctioneer.
- c. *No receivable recorded* – there were no receivables recorded in SAP to provide a record that cash was due from the auctioneer.

WE RECOMMEND that Purchasing establishes a receivable document in SAP to provide a record of all amounts due to the County.

- 3) *Contract Compliance Testing* – the major terms of the contract were tested for compliance. The contract for auctioneer services was awarded in July 2016 through the competitive bidding process on bid number 216519-002 to Cash Realty & Auctions. The contract has been extended through June 2020.

The following finding was noted during the testing:

- a. *No Late Fees Collected* – the County did not assess or collect late payment fees from the auction vendor as allowed in the contract.

WE RECOMMEND that Purchasing enforce terms of the contract. All late fees should be recovered from the auctioneer.

AUDITOR COMMENTS

Auction proceeds are not separately identified from other sales of excess materials on the deposit transmittal prepared by Purchasing.

WE RECOMMEND that Purchasing consults with the Comptroller’s Office on revising the deposit transmittal to identify auction proceeds from other sales of excess materials.

SUBSEQUENT EVENTS

This section provides information on events which occurred after field work for this audit ended and before the release of the audit report. The information is related to the findings presented in the report and provides an update on corrective action initiated by the Director.

The Director reviewed the payments from the Auctioneer. Purchasing determined that five (5) late payments did not have acceptable support for payment delays totaling \$674.05. Purchasing collected the late payment fee of \$674.05 from the Auctioneer on September 23, 2019.

Purchasing has initiated the process in conjunction with the Comptroller’s Office to implement a new Deposit Transmittal that provides additional detail for the Sale of Excess Materials. The new transmittal details the amount for auction surplus sales and the amount for non-auction surplus sales.

RESULTS OF EXIT CONFERENCE

An exit conference was held with the Director of Purchase, a member of her staff, and a representative from the Division of Budget and Management on September 24, 2019. The audit draft report was reviewed and discussed. A written response to the audit report from the Director was received by the Comptroller's Office on October 2, 2019.

ERIE COUNTY COMPTROLLER'S OFFICE

Cc: Hon. Mark C. Poloncarz, County Executive
Vallie M. Ferraraccio, Director of Division of Purchase
Robert W. Keating, Director of Division of Budget and Management
Erie County Fiscal Stability Authority

APPENDIX A

Auditee Response to Audit Report



OCT 2 2019 PM 12:34

COUNTY OF ERIE

MARK C. POLONCARZ
COUNTY EXECUTIVE

DIVISION OF PURCHASE
VALLIE M. FERRARACCIO
DIRECTOR

October 1, 2019

Dear Hon. Stefan I Mychajliw:

RE: Response to the Findings from Audit of Internal Controls for Auctions Held
January 1, 2018 through December 31, 2018

After reviewing the Audit Results and Recommendations, I offer the following:

1. Auction Sales Testing.

Although special circumstances existed for the majority of the late payments, after discussion with the Comptroller's Office, the Division of Purchasing will develop and implement appropriate policies and procedures to address any future late payment of auction proceeds.

2. Cash Receipts Testing – (c) No Receivable Recorded.

The Division of Purchase has been responsible for the sale and transfer of surplus equipment for decades. There is no process history for maintaining account receivables for auctioned items. The Division of Purchasing will work with the Comptroller's Office to learn the needed SAP transaction process and create the needed customer account in SAP for the auctioneer, as well to obtain the needed training in order to best follow the audit recommendation.

3. Contract Compliance Testing (a) No Late Fee Collected.

After reviewing the payments from the Auctioneer, it was found that the Auctioneer made five (5) late payments without acceptable support for payment delays and such late payment fees total six hundred seventy-four dollars and five cents (\$674.05). The Division of Purchase has already taken the needed steps to collect this late-payment fee and the auctioneer's check #6242 was received on 9/23/2019 for the prior amount stated. Going forward, Purchasing will follow the Comptroller's recommendation to create needed policies and procedures.

Continued:

4. Auditor Comments.

The Division of Purchase will work with the Comptroller's Office to modify the Deposit Transmittal layout used by the Division of Purchase (which was first created by the Comptroller's Office) and will coordinate with the Division of Budget and Management so that the appropriate account numbers will be used.

In closing, the Division of Purchase looks forward to working with the Comptroller's Office to implement the needed process changes as recommended in this audit.

Sincerely,



Vallie M. Ferraraccio
Director