



OFFICE OF THE COUNTY AUDITOR DUPAGE COUNTY, ILLINOIS

James W. Rasins, C.P.A., C.F.E.
County Auditor

Peter W. Balgemann, C.G.A.P.
Chief Deputy Auditor

421 N. County Farm Road
Wheaton, Illinois 60187
(630) 682-7190
FAX: (630) 682-7442
www.dupageco.org/auditor

April 26, 2004

Hon. Robert J. Schillerstrom, County Board Chairman,
and Members of the County Board
Wheaton, Illinois

Ladies and Gentlemen:

As part of its continuous internal audit responsibility, the Office of the County Auditor has completed an internal audit related to the controls and procedures followed during the sale of three parcels of real property acquired by the former DuPage County Solid Waste Division. The three parcels included within the audit scope were:

- An unused one acre parcel purchased in West Chicago, which was sold in 1999;
- A parcel of approximately 11.8 acres, which was sold in 2001, that remained vacant and unused after the County purchased and consolidated several parcels for the siting of the Intermediate Processing Facility (IPF) in Carol Stream; and,
- A parcel of approximately 11 acres upon which the County constructed the IPF, which was sold in 2003.

The objectives of this audit were to determine that the sales transactions were processed in compliance with applicable State statutes and County policies, and that appropriate internal controls existed to oversee and monitor the sales process. The audit was performed in accordance with generally accepted government auditing standards, and included such procedures deemed necessary to meet the internal audit objectives.

SUMMARY OF AUDIT RESULTS

The audit procedures identified the need for formal, uniform methods and procedures related to the sale of surplus real property owned by the County.

BACKGROUND

Audit procedures previously performed by the Office of the County Auditor identified and recovered \$5,750 in sales proceeds from the sale of the West Chicago parcel that were erroneously held by a third party; and, determined that \$1.5 million in sales proceeds from the sale of the 11.8 acre parcel were deposited into the wrong fund by County personnel. In light of these previous audit findings, additional audit procedures were performed to evaluate the methods and procedures used to sell the three parcels of property referenced above.

The sales of each of the three parcels were preceded by the County Board declaring the parcels as surplus. The Purchasing Division distributed the sale bid/proposal documents to interested parties for each of the three parcels, and participated in the opening of bid/proposal responses. The West Chicago parcel and the vacant 11.8 acre parcel were sold through the use of separate sealed sale bids, with the County Board approving the highest offer received in response to each sale bid. The sale of the IPF was accomplished through the use of sealed proposals submitted by interested parties. The highest sale bid and proposal amounts respectively for the 11.8 acre parcel and the IPF were reduced by the County Board after receipt of the sale bid and proposal amounts. These reductions were negotiated after taking into consideration wetland mitigation requirements on the 11.8 acre parcel, and a deed restriction related to the IPF property.

A bid deposit was received from the purchaser of each parcel prior to the closing of each sale. The closing for each of the three sales was attended by a representative of the Office of the State's Attorney. The County received total proceeds from the three sales transactions in the amount of \$4,975,000.

DETAILED AUDIT RESULTS AND RECOMMENDATION

Sale Bid Deposit Amount

The amount and/or timing of the receipt of the bid deposit varied for each of the three sales. For one sale, the amount of the bid deposit was established at five-percent of the bid price, with the deposit required to be submitted with the bid. Another sale required a ten-percent deposit to be submitted with the bid. The terms of the third sale required a ten-percent deposit within ten days of the notice of the award of the sale. Purchasing Division personnel stated that judgment is used in establishing the terms and amount of the deposit.

Further, the receipt of a bid deposit from the entity that submitted the second highest bid was also inconsistent. For two of the three parcels sold, a bid deposit was required from the second highest bidder, while no deposit was required relative to the third parcel.

Handling of Bid Deposit

Audit procedures were performed to determine that the bid deposit amounts received were handled in a consistent manner by County personnel and were properly deposited. The sale bids submitted by the highest bidder for two of the parcels were deposited with the County Treasurer in a timely manner. However, the check representing the bid deposit received for one of the parcels was endorsed and paid to the third party escrow agent that was participating in the property closing. Prior audit procedures performed by the County Auditor identified the amount as being held by the agent after the closing. After notification by the County Auditor, the agent remitted the amount to the County.

It was noted that the checks representing the other two bid deposit amounts were inconsistently handled prior to the deposit with the Treasurer by County personnel. The bid deposit check for one parcel was received by the Purchasing Division, forwarded to the Director of Public Works, and then deposited with the Treasurer. The bid deposit for one of the other parcels was received by the Solid Waste Director and deposited with the Treasurer.

Notification of Property Closing and Processing of Sales Proceeds

Detailed audit procedures disclosed that the Purchasing Division was not notified of the property sales closings on a consistent and timely basis. Rather, the responsibility of determining the status of the sales transactions was left to the Purchasing Division. This potentially delayed the Purchasing Division completion of the sale bid process, including the timely return of the bid security to the second highest bidders. An attempt to determine the affect of this delay was precluded due to the lack of documentation noting the return date of such deposits. Similarly, it was noted that the distribution of the closing documents and the subsequent processing of the sale proceeds were inconsistently handled.

Absence of Uniform Methods and Procedures

With the adoption of Resolution FI-0027-97 on February 11, 1997, the County Board established methods and procedures for the disposal of *personal property* no longer needed by the County. This Resolution assigned the responsibility for administering such procedures to the Director of Finance. It was noted that specific methods or procedures do not exist relative to the disposal of surplus *real property* owned by the County. The absence of written procedures was determined to be a significant factor in the inconsistent administration of the three sales included in the scope of this internal audit. The absence of such procedures also contributed to the failure of the County to receive the total sales proceeds amount at closing, and the error in depositing the proceeds previously identified.

It is strongly recommended that the Chief Financial Officer develop, and the County Board approve, procedures to be followed in the future sale of surplus real property. These procedures should include references to the:

- County Board declaration of the property as surplus;
- Appraisal of the property to be sold, to assist in establishing a minimum sales price;
- Bid deposit requirements, including which bidders are required to supply deposits, and the deposit timing, amount, and form;
- Handling of all bid deposits received, including deposit with the Treasurer, processing of documentation of such deposit with the Treasurer, secure storage of deposits that are not deposited with the Treasurer, and the maintenance of documentation noting the return of bid deposits received from unsuccessful bidders;
- Handling, deposit, and documentation of the sales proceeds;
- Pre-bid resolution of potential limitations on the use of the property;
- Establishment of the responsibility for co-coordinating all phases of the sales process; and,
- Appropriate notification to affected County departments of the completion of the sale process.

I would like to thank the personnel in the Purchasing Division, Department of Development and Environmental Concerns, the Office of the County Treasurer, and the Office of the State's Attorney for the fine co-operation and generous assistance provided during this audit.

Sincerely,
OFFICE OF THE COUNTY AUDITOR

James W. Rasins, C.P.A., C.F.E.
County Auditor