



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

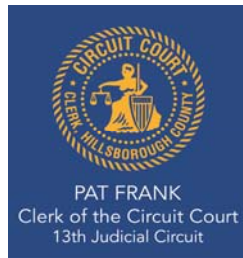
COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

SURPLUS PROPERTY DISPOSAL OPERATIONS

REPORT # 274

JANUARY 07, 2015



January 7, 2015

The Honorable Sandra L. Murman, Chairman
The Honorable Kevin Beckner
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Lesley "Les" Miller
The Honorable Stacy R. White

Dear Chairman Murman and Commissioners:

The Audit Team performed an audit of surplus property disposal operations (Audit Report # 274, dated January 7, 2015). Responses to the Audit Team's recommendations were received from the Director of Real Estate and Facilities Services and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Real Estate and Facilities Services during this audit.

Sincerely,

Peggy Caskey, CIA, CISA, CFE
Director of County Audit

CC: Mike Merrill, County Administrator
Tom Fass, Assist. County Administrator, Asset Mgmt. & Knowledge Commons
Josh Bellotti, Director, Real Estate & Facilities Services
Bruce Dangremond, Performance Mgmt., Management and Budget

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

Hillsborough County government has a surplus property disposal process to remove recorded and unrecorded personal tangible property items that are no longer utilized, are out of date, or are no longer working from the physical inventory and from the financial records.

Administrative Directive PI-01, *Procedures for Implementation of Board Policy for Control of Tangible Personal Property and Sensitive Property*, defines surplus property as "serviceable recorded property which is not needed by its Department users." This Directive supports the Board of County Commissioners' (BOCC's) *Tangible Personal Property Policy (08.02.01.00)*, and the *Policy for the Control of Tangible Personal Property Classified as "Sensitive Property" (08.02.02.00)*.

Policy 08.02.01.00 addresses accountability, safeguarding, and proper use of County-owned vehicles, tools, equipment, furniture, and other tangible personal property, as specified in Chapter 274 of the Florida Statutes. It specifies that accountability of recorded tangible personal property is the responsibility of the Clerk of the Circuit Court.

Recorded tangible personal property is defined as being purchased with County funds or obtained by acquisition, with a cost equal to or greater than the statutory minimum (of \$1,000) and has a normal life expectancy of one year or more.

Unrecorded tangible personal property is defined as being purchased with County funds or obtained by acquisition, with a cost of less than the statutory minimum (of \$1,000) and has a normal life expectancy of one year or more.

Per the *Hillsborough County Surplus Warehouse Procedures Manual*, recorded and unrecorded tangible personal property no longer useful to a County department is to be sent to the Hillsborough County Warehouse (Warehouse).

Per Section J of Administrative Directive PI-01, it is the responsibility of each County department to review the Warehouse inventory for suitable property prior to expending funds to acquire new property. It is the responsibility of the Warehouse's personnel to prepare and submit an agenda item requesting the BOCC's approval to remove recorded tangible personal property after 90 days if the property cannot be used by any department.

The Warehouse is staffed by two full-time employees. The Real Estate and Facilities Services Department's Support Services has oversight responsibility for the Warehouse.

OBJECTIVE

The objective of the audit was to determine whether or not surplus property is authorized and recorded, properly safeguarded, and disposed of in a timely manner.

SCOPE

The audit was conducted based on the *Generally Accepted Government Auditing Standards* and the *International Standards for Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The timeframe covered by this audit was the six month period ending May 31, 2014. The Audit Team evaluated through workflow diagrams, site visits, observations, control identification, and sample testing whether or not disposed assets were:

- authorized and recorded,
- safeguarded, and
- disposed of in a timely manner.

The scope of work was limited to recorded and unrecorded tangible personal property. The scope of work did not include: real, fleet or sensitive property; temporary property transfers; and disposal of property purchased with grant funding.

OVERALL EVALUATION

The Real Estate and Facilities Services Department and the Information Technology Services Department (ITS) were responsive to the Audit Team's inquiries and provided thorough information when requested. Information was provided in a prompt and courteous manner. The Audit Team encountered knowledgeable and dedicated employees during the course of the audit.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	Opportunities exist to enhance authorization and recordkeeping controls for the disposal of surplus property.	5
2	The physical controls designed to safeguard surplus property stored in the Warehouse are reasonable.	10
3	Opportunities exist to increase the inventory turnover rate.	11

OPINION

The surplus property disposal operations control environment is at the formal (defined) maturity level. The controls are well defined and documented. There appears to be consistency even in times of change. Performance monitoring is informal, placing great reliance on the diligence of people and independent audits.

The Warehouse is under new management. Management is aware of control gaps and is in the process of remediating them. For example:

- The Warehouse is migrating toward an automated inventory software system;
- Management is in the process of implementing procedures to address the surplus inventory operations' inefficiencies; and
- Management implemented the *Online Warehouse*, accessible on the County Online Information Network (COIN). The *Online Warehouse* is a catalogue of surplus items available for use.

Taking corrective action to alleviate the concerns identified in this Report will help the surplus property disposal operations reach the next maturity level.

The exit conference was held on November 19, 2014.

Other minor concerns not included in this report have been communicated to management and/or corrected during fieldwork.

AUDITED BY

Peggy Caskey, Director of County Audit, CIA, CISA, CFE
 Steve Hooper, Audit Manager, CIA, CGAP, CCSA, CFE

Margaret Brown, Senior Internal Auditor, CIA
Ben Everett, Internal Auditor II, CPA, CIA
Lovonia Scott, Internal Auditor II, CGAP

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Opportunities exist to enhance authorization and recordkeeping controls for the disposal of surplus property.

To determine if surplus property was properly authorized and recorded, the Audit Team analyzed the design of work flow processes and reviewed existing policies, administrative directives, and standard operating procedures.

To assist in the surplus property disposal process, the Warehouse developed three main forms to be used by County departments, agencies, and constitutional officers. These forms are:

1. *Fixed Assets (FAACS) Action Request Form* – Used to transfer a single recorded tangible personal property.
2. *Multiple FAACS Form* – Used to transfer multiple recorded tangible personal property items.
3. *Transfer of Surplus Property Form* – Used to transfer one or more unrecorded tangible personal property items.

Audit Test 1

The Audit Team judgmentally selected a total of 30 recorded and unrecorded tangible personal property items from the Warehouse floor. The Audit Team traced these items to the supporting documentation in the Warehouse's files.

- The Warehouse retained supporting documentation for 13 of the 30 items.
- The correct form was utilized for 9 of the 13 items.
- For all 13 items, the form contained the item's identifying information (property control number, description of the item, and quantity) in compliance with the *Hillsborough County Surplus Warehouse Procedures Manual*.
- For 6 of the 13 items, the form was signed by a Warehouse staff member and authorized by the delivering department staff member.

The control environment for authorizing recorded and unrecorded tangible personal property for disposal is well designed but due to a lack of enforcement and an informal recordkeeping process, the control environment is ineffective.

Audit Test 2

The Audit Team obtained a total of 105 completed Fixed Assets (FAACS) Action Request forms, Multiple FACCS forms, and Transfer of Surplus Property forms from five user departments for the six month period ending May 31, 2014. From those forms, the Audit Team selected a random sample of 26 recorded and unrecorded tangible personal property items. The sample was selected from only those forms that were signed by a Warehouse staff member and a delivering department staff member indicating that the surplus item actually transferred to the Warehouse. The Audit Team traced each item’s property control number (PCN) to the Warehouse’s July 16, 2014, Master Pallet Inventory List and each item to its physical location or disposition. As shown in the table below, the Pallet Inventory Master List is incomplete and there are posting errors.

Test Results

Sample	26 recorded and unrecorded tangible personal property items.
Recordkeeping	14 items were included in the Master Pallet Inventory List. 12 items were not included in the Master Pallet Inventory List (posting errors).
Physical Location	21 items were physically located in the Warehouse. 1 item was sent to auction. 4 item’s location and disposition is unknown (recordkeeping and posting errors).

RECOMMENDATION

Consideration should be given to:

- enforcing the applicable policies, administrative directives, and standard operating procedures; and
- implementing a more complete, accurate, and reliable recordkeeping process.

This can be accomplished by enhancing the current manual system or implementing an automated inventory system. Well designed manual and electronic systems, when used appropriately, provide accurate tracking of items and reduce recordkeeping and posting errors.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

The Real Estate and Facilities Services (REFS) Department concurs with Audit Comment One. REFS would like to thank the County Audit Department for their positive review and critique of our Surplus Warehouse operations. The proposed (and some already implemented) enhancements, articulated below, will:

- Define and improve recordkeeping policies and controls.
- Codify the physical controls and safeguards in place but which have not always been strictly enforced.
- Create a more effective and efficient operating environment.

At the beginning of Fiscal Year 2011 the Surplus Warehouse experienced a reduction in force of two full-time employees: a Custodian (Surplus Warehouse) and an Office Assistant I. During the subsequent three-year period there was an unprecedented increase in surplus property as many County agencies, departments and partners consolidated resources, right-sized/down-sized operations and outsourced programs and services. The Surplus Warehouse retained two (2) full-time positions and began to rely on senior volunteers for clerical and filing duties as resources were refocused in the areas of inventory out-processing, revenue generation, recorded asset inventory management and transfer/source document handling. Maintenance of the Pallet Inventory Lists was compromised resulting in many of the errors identified during this review. Despite stresses, the Surplus Warehouse recently achieved several remarkable goals, to include:

- Helped create and operate a central custodial product warehouse.
- Helped create and operate a central modular workstation product warehouse.
- The last three (3) annual recorded asset inventories were the most accurate in the Surplus Warehouse's history.
- Generated the highest average annual sales of about \$72,000 each during the past three (3) years.

As stated in the Audit Report the Surplus Warehouse has well defined and documented process controls in place. Approximately 15 months ago we began to research and procure an automated asset tracking system to improve or replace ineffective manual tracking and reporting procedures and to generally enhance the existing structure and framework. The vetting and procurement process is now complete and the Fixed Asset Tracking Software

(FATS), published by Computer Directions, will be installed with staff trained and our operations converted on or before, February 28, 2015.

FATS will provide significant reporting capability and allow the management of inventory based on age; a capability heretofore unavailable. This single feature alone will promote timely and efficient surplus property throughput. FATS will create asset history records at various stages of processing to include initial receipt, movement and final disposal of surplus property. Internal FATS records can be easily matched to source documents – a feature critically lacking in our current manual process. There are many more features of FATS which will enhance operations and promote efficiency. An overview of FATS is attached to this response.

A new policy has been established to document and clarify the surplus warehouse workflow, document handling and filing process. This new Surplus Warehouse policy systematizes the proper handling and filing procedures for property transfer forms and other source documents. It will become part of the Surplus Warehouse Procedures Manual and be strictly enforced. Surplus property transfer forms consist of a Fixed Asset (FAACS) Action Request form, Multiple FAACS form or Transfer of Surplus Property form. During the recent past there had been a gradual loosening of enforcement of standards regarding the use of unapproved or incorrect forms, manual changes to source documents and the signing/approval of source/transfer documents by unauthorized personnel. These issues are addressed and documented within the new operating policy.

The policy flowchart visualizes the surplus property processing environment. It identifies where in the process source documents are generated and where FATS will supplant old manual processes. Emphasis is placed on correcting administrative issues and source document problems at the commencement of the surplus process. FATS will greatly improve our ability to locate single or multiple assets during any stage of processing. As we become acclimated with FATS we will create a unique policy for the use of this software application and peripheral equipment.

Lastly, REFS has been leveraging its staff from other functional areas to provide part time supplemental support to the Surplus Warehouse. An Administrative Specialist II and a Custodian are each assigned at the Surplus Warehouse for two (2) days per week. The Custodian provides physical labor such as loading and unloading surplus property, palletizing products, and cleaning the warehouse showroom. The Administrative Specialist II is assigned clerical and

filling responsibilities to eliminate our dependence on senior volunteers from the ExperienceWorks program. The senior volunteers will continue to answer phones and provide some office support.

TARGET COMPLETION DATE

With the exception of items already completed the target completion date for all other actions above is February 28, 2015.

AUDIT COMMENT 2

The physical controls designed to safeguard surplus property stored in the Warehouse are reasonable.

To assess the effectiveness of the physical security controls that safeguard surplus property stored in the Warehouse, the Audit Team observed:

- access and security,
- fire detection and control mechanism, and
- risk of flooding.

The Warehouse is a standalone building located inside the Fleet Maintenance Services compound which is surrounded by a chain-linked fence with a lockable entrance gate. Additional access and security controls designed to safeguard the Warehouse are reasonable.

Per the Federal Emergency Management Administration (FEMA) the Warehouse property is in a moderate to minimal flood zone. Per Warehouse management, there is no specific flood management process in place to address the safeguarding of surplus items if the Warehouse is compromised due to flooding. Warehouse personnel are part of the Real Estate and Facilities Services Continuity of Operations Planning (COOP) and have been assigned other duties, not related to the Warehouse during times of disaster. The Audit Team identified that the warehouse building and its contents are valued at approximately \$2.1 million and are fully insured with a \$100,000 deductible per occurrence.

A fire sprinkler head is located in the Warehouse. There are fire extinguishers accessible in the Warehouse. These fire extinguishers were most recently inspected and serviced in February 2014.

RECOMMENDATION

No material concerns were identified during the observations.

Audit Comment 3**Opportunities exist to increase the surplus property inventory turnover rate.**

Administrative Directive PI-01 addresses recorded tangible personal property items. Per the Directive, it is the responsibility of the Warehouse's personnel to request the BOCC's authorization to remove surplus items after 90 days if that item cannot be used by any department. The Directive does not provide guidance on how long the item should remain in the Warehouse after obtaining the BOCC's approval for disposition. The Clerk of Circuit Court removes the item from the financial record when a notice is received from the Warehouse that the item has been disposed of.

There is no formal guidance for the timeliness of disposing unrecorded tangible personal property items from the Warehouse. The Warehouse's disposition does not require the BOCC's authorization and, because these items are unrecorded, disposition does not require removal from the Clerk of Circuit Court's financial records.

The Master Pallet Inventory List is a key control in the surplus property disposal operations process. It is a continuously running list comprised of recorded and unrecorded tangible personal property. The Master Pallet Inventory List provides a reference to each surplus item's: property control number (PCN), description, warehouse (shelf or floor) location, condition, and transfer in delivery date.

The Audit Team reviewed the entire population of recorded and unrecorded tangible personal property items contained in the July 16, 2014, Pallet Inventory Master List. The Audit Team determined how long these items have been stored in the Warehouse. The Pallet Inventory Master List contained a population of 7,013 items.

- Seventy percent (or 4,893) of the population of recorded and unrecorded tangible personal property items in the Warehouse have been stored there for more than one year (transferred prior to August 2013).
- The longest stored items (62) were transferred into the Warehouse in September 2011 (34 months).
- Twenty six percent (or 1,846) of the population consisted of recorded tangible personal property items that were identified for disposition.
 - In May 2014, these 1,846 items were authorized by the BOCC for disposition.

- o The Audit Team sample tested 30 of these items to determine whether or not the items were disposed of and if so, if the recorded items were properly removed from the Clerk of Circuit Court's financial records. As of July 16, 2014, the items had not yet been disposed of.

Four material concerns were identified during testing:

1. There is no formal guidance for the timely disposition and removal of unrecorded tangible personal property items.
2. The Warehouse is slow to dispose items and may not be complying with Administrative Directive PI-01.
3. Administrative Directive PI-01 does not provide a timeline to dispose items and remove them from the Clerk of Circuit Court's financial records after obtaining the BOCC's approval.
4. Storing items longer than necessary increases the Warehouse's labor and storage costs.

RECOMMENDATION

Consideration should be given to:

1. Creating formal guidance for the timely disposition of unrecorded tangible personal property;
2. Complying with Administrative Directive PI-01;
3. Revising Administrative Directive PI-01 to establish a time limit for the disposal of recorded property items once approved by the BOCC for disposal and removal from the Clerk of Circuit Court's financial records; and
4. Storing items no longer than necessary.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

REFS concurs with Audit Comment 3 in general, however REFS does not agree that the Surplus Warehouse may be violating Administrative Directive (AD) PI-01. REFS also believes that modification of AD PI-01 is not necessary in order to meet

the intent of this audit comment and recommendations. The REFS Department shall implement several key initiatives that:

- Establishes formal guidance for the timely disposition of unrecorded surplus property.
- Expedites the throughput of surplus property.
- Adheres to AD PI-01 by promoting the internal reuse of as many assets as possible before final disposal or donation.

The Surplus Warehouse Manager must comply with the following Statutes and policies when final disposing of surplus property:

- Florida Statute 274.06 generally requires the sale of surplus assets at public offering.
- AD IT-01 prohibits the reissuance of surplus computer equipment into the County work environment.
- Board Policy 08.01.01.01 requires that surplus computer equipment is made available to qualified non-profit entities. It further requires the Surplus Warehouse Manager to operate a non-profit donation program and to properly qualify non-profit entities in accordance with Florida Statute 273.01. Hillsborough County recently completed a non-profit donation event which spanned 2-½ months, served over 75 qualified non-profits and issued approximately 1,300 surplus assets, 98% of which was computer equipment. These are very time consuming and labor intensive events.

The Surplus Warehouse Manager must balance divergent, competing and time-consuming requirements (with limited resources) and requires flexibility to adapt to market and workplace conditions. Rather than modifying AD PI-01 with hard coded time restrictions, REFS chose to leverage technology and establish baseline requirements and improvement incentives through performance and evaluation standards. This will enhance throughput and allow creative management of surplus property while attaining the goals referenced at the beginning of this comment section.

Many errors cited in this comment section were the result of poorly designed, manual, and insufficiently maintained Pallet Inventory Lists which will be replaced by FATS. FATS consists of an asset tracking database and software application and hand-held computing devices with integrated bar code scanners and FATS runtime licenses. It accommodates mass processing of surplus property at each point of transaction in the disposal process and will

streamline manual efforts thereby reducing labor hours. FATS will create asset history records as surplus property navigates the disposal process. These history records replace the manual Pallet Inventory Lists and will be accurate and easily matched to source documents. FATS will provide considerable reporting capability and the ability to report by inventory/asset age. FATS is sophisticated and powerful yet simple to operate. It will have a very positive impact on operations.

Another technology tool recently deployed is the on-line surplus Marketplace. This software application is a joint effort between the Surplus Warehouse and ITS Department. It resides on COIN and is used to advertise available merchandise using photographs and descriptions. The Surplus Warehouse Manager populates and administers this system which is expected to develop into a valuable tool for increasing throughput. A description of the Marketplace is attached.

Lastly, the Surplus Warehouse Manager Performance Planning and Evaluation Form has been modified and provides formal guidance, base standards and incentives to decrease surplus asset retention time and increase processing time for all categories of surplus assets. A copy of the form is attached. The evaluation and performance document defines acceptable standards and expectations and provides incentives for creative problem solving as follows:

- Contains minimum and recurring reporting standards.
- Establishes acceptable inventory accuracy rates based on industry standards.
- Requires twice-annual recorded asset Board Agenda Items with performance incentives for more.
- Requires a minimum annual inventory turnover rate of 90% with performance incentives to achieve a higher rate.
- Requires a minimum of two (2) annual non-profit donation events with performance incentives to complete more events.
- Contains performance incentives to design creative methods for disposing of surplus property. The State of Florida, Department of Management Services recently chose not to renew Term Contract Number 991-705-09-1 which provided State-wide services for the recycling of end-of-life electronics equipment. Many governmental entities must now pay vendors to remove and dispose of old computer equipment and electronics. This performance standard will promote creative thinking and solutions to problems such as described above, difficult to

market surplus property, workplace changes and adverse market conditions.

- Requires attainment of minimum self-sufficiency standards and provides performance incentives to achieve higher turnover and mitigate operating costs.

TARGET COMPLETION DATE

With the exception of items already completed the target completion date for all other actions above is February 28, 2015.