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REPORT NO. 2024-02

TO: Joseph Lauro, Director
Administrative Services Department

FROM: Melissa Dondero, Inspector General/Chief Audit Executive *MD*
Division of Inspector General

DIST: Ken Burke, CPA, Clerk of the Circuit Court and Comptroller
Jeanette Phillips, Chief Deputy Director, Finance Division
Diana Sweeney, Deputy Director, Administrative Services Department
The Honorable Chair and Members of the Board of County Commissioners
Barry Burton, County Administrator
Kevin Knutson, Assistant County Administrator

SUBJECT: Inspector General's Follow-Up Audit of the Observation of the Surplus 2022 Annual Physical Inventory of Fixed Assets

DATE: February 29, 2024

The Division of Inspector General has completed a Follow-Up Audit of the observation of the annual physical inventory of Surplus fixed assets. The objective of our review was to determine the implementation status of our previous recommendations.

Of the five recommendations in the original audit report, we determined that two have been implemented and three have been partially implemented. The status of each recommendation is presented in this follow-up report.

We appreciate the cooperation shown by the staff of the Administrative Services Department during the course of this review.



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I. Scope and Methodology

We conducted a follow-up audit of the observation of the annual physical inventory of Surplus fixed assets. The purpose of our follow-up review was to determine the status of previous recommendations for improvement.

The purpose of the original audit was to:

1. Interview and observe staff conducting the department's physical inventory to determine compliance with required inventory procedures
2. Test and verify, on a sample basis, the assets recorded by staff

To determine the current status of our previous recommendations, we surveyed and/or interviewed management to determine the actual actions taken to implement recommendations for improvement. We performed limited testing to verify the implementation of the recommendations for improvement.

Our follow-up audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General*, and, accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our follow-up testing was performed during the months of January and February 2024. The original observation of the annual physical inventory of fixed assets was completed on June 27, 2022. However, transactions and processes reviewed were not limited by the audit period.

II. Original Report Reference

To view the original report (Report No.: 2023-01), published in the report section of our website, please use the following link:

[Report 2023-01 Inspector General's Observation of the Surplus Department's Annual Physical Inventory of Fixed Assets](#)

III. Implementation Status Table

FINDING	PREVIOUS RECOMMENDATION	STATUS
1	<i>Surplus Did Not Submit Its 2022 Inventory To The Finance Division.</i>	
A	Submit the 2022 inventory and support electronically to Finance Fixed Assets.	Implemented Management provided confirmation it submitted the 2022 and 2023 inventory reports to Finance Fixed Assets.
B	Ensure the staff responsible for the inventory process is adequately trained and knowledgeable to complete the annual physical inventory.	Implemented Management trained both team members involved in the Surplus Warehouse function in December 2022. Management further stated that training on the annual physical inventory process is a requirement for all new responsible team members, and management will incorporate this requirement into its internal policies and procedures.
2	<i>Twelve Surplus Auction Assets Were Unaccounted For.</i>	
A	Give each of the 12 identified assets a status of pending departmental audit (PDA) in its current annual physical assets inventory. Moving forward, management should complete an “Unaccounted For Property Form” for all assets not located and not determined to be stolen or destroyed by the next inventory. If an investigation by management determines some or all of the assets were stolen or destroyed, management should complete a “Stolen or Destroyed Property Form” and file a report with the appropriate law enforcement agency.	Partially Implemented Of the 12 assets, we determined 8 assets were listed as PDA, 3 assets were present in the inventory report but not marked as PDA, and 1 asset was absent from the inventory report. Regarding the three assets not marked as PDA, management provided evidence it located and sold two of the assets subsequent to our audit, and no evidence was available as to whether the third asset had been located or sold. Management stated it would complete the necessary documentation to retire the remaining asset record from its inventory. In addition, the asset missing from the inventory report was found subsequent to our audit and sold at auction. By not having all assets correctly identified, management risks inaccurate records and misappropriation of assets. We continue to encourage management to implement this recommendation fully by marking the one asset it could not locate PDA while further research is performed and thereafter completing the required

FINDING	PREVIOUS RECOMMENDATION	STATUS
		documentation to retire the asset record. Management should also ensure all assets located and sold at auction are retired from its asset records.
B	Implement procedural changes to ensure accountability over assets and to prevent future loss of Surplus assets.	<p style="text-align: center;">Partially Implemented</p> <p>Management informed us during the original audit it was going to review the prospect of implementing barcoding software to help with the management of inventory intake and disposition records. Management evaluated multiple solutions and ultimately chose to implement SharePoint as its inventory tracking mechanism and forms repository and implemented an interactive workbook integrated with asset pallets. These process improvements were designed to digitize the process and reduce the need for manual interaction. In addition, management began other initiatives, such as the on-site auction program, which was designed to improve the efficiency of the asset auction process and lessen the burden of warehouse storage. Although management has made progress with regard to increased asset accountability and loss prevention, these efforts and associated requirements must be formalized in policies and procedures to ensure consistent application and avert assets being misappropriated and inventory reports being inaccurate. We continue to encourage management to implement this recommendation fully.</p>
3	<i>Surplus Inventory Records Were Inaccurate.</i>	
	Communicate and collaborate with Finance Fixed Assets to ensure it receives the necessary documentation and retires the identified asset records from the Warehouse and Auction inventories in a timely manner.	<p style="text-align: center;">Partially Implemented</p> <p>We reviewed the PIN FA Custom Inventory Report and determined three of the four assets identified in the original audit were still listed in the report, and one was retired. Management remains at risk of inaccurate inventory records. Erroneous inventory records complicate the annual physical inventory process for all parties involved. Inaccurate inventory records are a sign of an inefficient asset record disposal process. We continue to encourage management to implement the recommendation fully.</p>