



Ken Burke, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

Clerk of the County Court
Recorder of Deeds
Clerk and Accountant of the Board of County Commissioners
Custodian of County Funds
County Auditor

Division of Inspector General

510 Bay Avenue
Clearwater, FL 33756
Telephone: (727) 464-8371
Fax: (727) 464-8386
Fraud Hotline: (727) 45FRAUD (453-7283)
Clerk's website: www.mypinellasclerk.gov

REPORT NO. 2023-01

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 Chairman and Members of the Board of County Commissioners
Barry Burton, County Administrator
Kevin Knutson, Assistant County Administrator

SUBJECT: Inspector General's Observation of the Surplus Department's Annual
Physical Inventory of Fixed Assets

DATE: January 17, 2023

This letter serves to inform you that the Division of Inspector General completed its observation of the annual physical inventory of fixed assets for the Surplus Department on June 27, 2022.

Our objectives were 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.

Our 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.



An Accredited Office of
Inspector General

We conclude that the Surplus Department's physical inventory was not performed in compliance with required inventory procedures, and some of our sample tests disagreed with those of your staff. Specifically, we identified assets that were unaccounted for and inaccurate inventory records. The issues are noted below.

1. Surplus Did Not Submit Its 2022 Inventory To The Finance Division.

During our audit, via email on October 3, 2022, the Finance Division's Fixed Asset Group (Finance Fixed Assets) informed us it had not received the 2022 annual physical inventory and supporting documents from the Surplus Department's (Surplus) "Surplus.Warehouse.REM" (Warehouse) and "Surplus.Auction.REM" (Auction) asset locations. Annually, Pinellas County (County) departments are responsible for physically locating fixed assets assigned to their particular locations to verify their conditions and to verify and update fixed asset records to be submitted to Finance Fixed Assets electronically. Department directors are responsible for authorizing their staff to act in designated inventory roles to conduct the annual physical inventory each year. The designated staff are documented on the "Fixed Asset Custodian Authorization Form," which management submits with the inventory results to Finance Fixed Assets.

The County provides training to employees through the "Annual Physical Inventory: Steps, Best Practices & Tips" course throughout the year. The County provides the course in person and virtually to teach employees the requirements and objectives of the inventory and how to prepare the departmental inventory report. The course's intended audience is fixed asset custodians, record keepers, and inventory contacts.

Each year, the Division of Inspector General (IG) conducts observations and tests of the annual physical inventories conducted by County departments. During January of each year, the IG selects and notifies the departments it plans to observe and test. Our 2022 Annual Audit Plan included a fixed asset audit of the Surplus Warehouse and Auction asset location inventories.

On January 28, 2022, we sent a letter to management as notification that the IG had selected the Surplus inventory for an onsite observation. On February 3, 2022, management responded that, although Surplus did not participate in the inventory process, the IG was welcome to have an onsite meeting with Surplus.

We contacted Finance Fixed Assets in February 2022 to verify if it required Surplus to participate in the annual physical inventory process and if Surplus had submitted previous inventories. Finance Fixed Assets responded that Surplus was required to complete its annual physical inventory during June, and the last Surplus inventory submission was in 2021. Finance Fixed Assets provided a copy of the Surplus 2021 inventory results. The Surplus Warehouse and Auction 2021 physical inventory was completed in July 2021 and signed by management in August 2021 before being submitted to Finance Fixed Assets.

We contacted management and the Primary Custodian (Custodian) on February 17, 2022, to schedule a virtual meeting for the following day to discuss the information we

received from Finance Fixed Assets. Due to the short notice, only the Custodian was available to meet on February 18, 2022. During the meeting, the Custodian told us neither he nor the Primary Record Keeper (Record Keeper) was knowledgeable enough regarding the inventory process to complete the physical inventory in June. The Finance Division's "Dept. FA Processing (FA 300)" course guidelines state the custodians are the reviewers of the inventory process, and an inventory contact person, who can also be the record keeper, is responsible for performing the inventory.

On February 18, 2022, we obtained a Surplus "Fixed Asset Custodian Authorization Form" covering each asset location for 2021 from Finance Fixed Assets. The "Fixed Asset Custodian Authorization Form," signed by management on August 16, 2021, detailed the department's designated staff who performed key inventory roles. On June 24, 2022, we obtained the "Fixed Asset Custodian Authorization Form" covering each asset location for 2022 from the Custodian. The Custodian was the same employee both years for both asset locations. Also, management delegated a single employee as Record Keeper for both asset locations. The Record Keeper changed from 2021 to 2022, with the current employee assignment occurring in September 2021. The Record Keeper was also the departmental Inventory Contact Person.

We met virtually with the Custodian in March 2022 to explain that Surplus was required to complete the inventory for the Warehouse and Auction asset locations in June 2022. We informed the Custodian that he and the Record Keeper could increase their awareness of governing the inventory process and gain hands-on training to prepare departmental inventory reports by enrolling in the County course "Annual Physical Inventory: Steps, Best Practices & Tips." The Custodian stated he would pass the information on to the Record Keeper and that, if possible, they would plan to attend the learning course before June 2022. On June 27, 2022, we visited the Surplus warehouse to meet with the Custodian and Record Keeper. Both were in attendance and stated they had not taken a learning course to get familiarized with the fixed asset inventory process. We performed our inventory testing at that time and discussed with them our results and additional information we needed.

Between June and October 2022, we maintained contact primarily with the Record Keeper who was responsible for providing us the additional information and completing the inventory. Additionally, we contacted Finance Fixed Assets as a supplemental resource to obtain the necessary information. We returned to the Surplus warehouse on September 21, 2022, and met with the Record Keeper. The Record Keeper stated he had completed the inventory and sent the results with supporting documents to the Custodian and management.

On October 3, 2022, we emailed Finance Fixed Assets to request a copy of the Surplus 2022 inventory results. Finance Fixed Assets responded that it had not received the 2022 inventory and supporting documents from Surplus. On October 3, 2022, Finance Fixed Assets emailed the Surplus Record Keeper and management a reminder that the 2022 inventory, which was to be completed by July 25, 2022, was needed as soon as possible before Finance Fixed Assets could complete its year-end processing.

The Florida Administrative Code, Rule 69I-73.006(1) states:

“Physical Inventory Required – Each governmental unit shall ensure a complete physical inventory of all property is taken annually and whenever there is a change of custodian or change of custodian’s delegate.”

The Finance Division’s FA 300 course guidelines state:

“The purpose of the Dept. FA Processing course is to increase departmental awareness of state and local requirements governing asset financial record keeping and physical safeguarding of County owned assets, to provide information regarding policies and procedures, discuss recent processing changes and demonstrate system functionality....

The goal of the inventory is to maintain control of County assets by physically locating each asset assigned to a particular location on an annual basis.”

Our review revealed management assigned employees to key inventory roles without adequate training in performing the annual physical inventory.

Not completing the annual physical inventory and submitting the results to the Finance Division, Fixed Assets could lead to:

- Control of County assets being lost
- Inaccurate County fixed asset records
- Untimely fixed asset record adjustments and corrections

We Recommend Management:

- A. Submit the 2022 inventory and support electronically to Finance Fixed Assets.
- B. Ensure the staff responsible for the inventory process is adequately trained and knowledgeable to complete the annual physical inventory.

Management Response:

- A. **Management Concurs.** Management’s team is in the process of finalizing the inventory report for 2022 and will electronically submit to Finance Fixed Assets no later than February 28, 2023.
- B. **Management Concurs.** The department will send all staff and management having responsibilities related to the Surplus Warehouse function to the County’s formal training “Annual Physical Inventory: Steps, Best Practices & Tips.” The Surplus Warehouse functionality will now report to the department’s Budget and

Analytics Section, which section is more closely aligned with the requirements of Finance Fixed Assets; the new Property & Stores Clerk 3 has been thoroughly trained, and the department is in the process of training additional staff who will be responsible for the administrative functions of this role, which will not only provide a back-up but separation of duties to maintain the integrity of the data and process.

2. Twelve Surplus Auction Assets Were Unaccounted For.

Through our observation and communication with management during the audit, we determined 12 assets from the Auction asset location required the classification of "Unaccounted for Property." Surplus management acquired assets that were obsolete and transferred from other County departments to Surplus. Management assigned the records of assets it planned to sell or donate to the Auction asset location and physically stored the assets in a County-approved warehouse. The warehouse is also used as storage for assets assigned to other Surplus asset locations. However, during our inventory observation, we noted multiple assets missing from the warehouse.

We noted management performed multiple auction and donation events for the County during the year. Management documented auction sales with a bill of sale form that stated the date it sold the asset and the date the purchaser made payment. Management stored the sales and donation documentation internally on the department's SharePoint document management and storage system. Finance Fixed Assets was responsible for removing asset records in the County's Oracle asset records from the Auction asset location once it received payment for the assets or documentation stating Surplus donated the assets.

During January of each year, the IG selects and notifies the departments it plans to observe and test. Half of our tests are book-to-floor tests designed to confirm the specific inventory location's inventory records are tied to assets observed on the floor of the inventory location. The other half are floor-to-book tests designed to ensure assets observed on the floor of the inventory location are recorded in the inventory location's inventory records. Upon selecting Surplus as one of the planned fixed asset inventory audits for 2022, we identified Surplus historically completed its inventories in June.

We contacted the Custodian on June 17, 2022, and scheduled the initial site visit to Surplus for June 27, 2022. In preparation for the initial site visit, we obtained a PIN FA Custom Inventory Report on June 21, 2022. The PIN FA Custom Inventory Report, produced from the County's Oracle asset records, is a custom report containing the fixed asset records of a specific department.

We used the PIN FA Custom Inventory Report to select a random sample size of 18 of the 177, or 10.2%, total Auction fixed assets to review for the book-to-floor test. We conducted the book-to-floor test of the 18 fixed assets on June 27, 2022, with assistance from the Record Keeper and the Custodian. During the site visit, we did not observe any of the 18 assets from our sample. The Record Keeper stated some assets were missing,

sold, or belonged to other departments and requested time to examine the department's records to clarify each asset's status.

We subsequently confirmed 2 of the 18 assets belonged to other County departments, and we successfully collaborated with the other departments and Finance Fixed Assets to have the asset records in Oracle transferred from Auction to the correct inventory locations. In addition, we confirmed 4 of the remaining 16 assets were sold. Finance Fixed Assets and the Record Keeper provided documentation to clarify the assets were sold. See Finding No. 3 as it relates to 2 of the 4 sold assets remaining in the inventory listing.

Management determined the remaining 12 assets, or 6.8% of the 177 total Auction assets, were "Unaccounted for Property" since it could not physically find the assets or find documentation to clarify each asset's status. This was the first year the 12 assets were reported missing. Management stated it was still in the process of researching the status of each asset and would make a determination by the time the next annual physical inventory occurs in 2023.

The table below lists the 12 unaccounted for Auction assets along with details.

Asset Description	Manufacturer	Serial Number	Tag Number	Current Cost*	Net Book Value*
Medical Equip	Erchonia	BST-00318	77660	\$ 25,400	\$ -
VCR	Sony	100794	93569	15,455	-
Camera	Ikegami	BA1400	93583	52,098	-
Copier	Imagistics	15090319	96672	5,793	-
Theodolite	Leica	632266	107800	23,638	-
Receiver	OMNI Digital	34U050026	107867	5,877	-
Detector Gas RDSTF	Drager	ARWB-0050	108750	5,393	-
Terminal	E J Ward Inc.		111897	13,632	-
Meter	Cerlic Environmental	019-298	114337	8,305	-
Storage	Compellent	SHU0946164L 61VH	115524	8,614	-
Laptop	Hewlett Packard	CNU140157F	118598	17,177	-
Server System B	Hewlett Packard		124330	18,417	3,070

*Rounded to nearest dollar.

The Finance Division's FA 300 course guidelines state an inventory record keeper is responsible for maintaining accurate inventory records, and an inventory contact person is responsible for verifying the location and details of a department's inventory. In addition, the Finance Division's FA 300 course guidelines state an inventory record keeper is responsible for researching unaccounted for assets pending departmental audit (PDA). PDA status means the asset is missing, and the status will be removed when the asset is located.

The Finance Division's FA 300 course guidelines define the role of a primary and alternate custodian as follows:

"The Custodians bear the responsibility for safeguarding County assets and are authorized to sign various forms and documents regarding the acquisition, transfer and disposition of capital assets. Custodians must not perform the annual inventory because they act as reviewers of the process."

If assets cannot be located, a record keeper should follow the Finance Division's FA 300 course guidelines for missing assets, which state the following:

"Attach Unaccounted [U/A] for Property Form if marked:

- U/A 1st year - explain why it is not presumed stolen*
- U/A 2nd year - request removal from inventory"*

The Pinellas County "Unaccounted For Property Form" states the following:

"Assets that cannot be located during the annual physical inventory are considered 'Unaccounted for Property' and are given a status of PDA (Pending Departmental Audit). If the asset is not located by the next inventory, this form must be completed...."

*If investigation determines that the asset was stolen or destroyed, **do not complete this form.** Complete the Stolen or Destroyed Property Form and file a report with the appropriate law enforcement agency, if applicable."*

Management did not determine the cause of the 12 missing assets. The status of each asset was PDA at the time of our testing.

Assets that are unaccounted for create the risks of inaccurate inventory records and the misappropriation of assets. Assets the County sold at auctions that did not have the requisite documentation generate the risk of revenue loss.

We Recommend Management:

- Give each of the 12 identified assets a status of 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.
- Implement procedural changes to ensure accountability over assets and to prevent future loss of Surplus assets.

Management Response:

- A. **Management Concurs.** Management will identify the 12 assets for the 2022 inventory report as “pending departmental audit” (PDA). Management is in the process of finalizing its research to locate documentation related to the 12 missing assets; preliminary results indicate that these 12 assets are most likely lost or stolen, in which case law enforcement will be contacted to file a report.
- B. **Management Concurs.** Management is training administrative staff who will provide audit functionality of the inventory process and work performed by the Property and Stores Clerk. Management is researching software options, including barcoding software to provide an automated matching system of intake and disposition records against physical inventory. The Budget and Analytics Manager will provide formal, monthly oversight of the inventory and record-keeping process.

3. Surplus Inventory Records Were Inaccurate.

During our audit, we identified Surplus had inaccurate asset records for four assets recorded in the Warehouse and Auction asset locations. In preparation for the initial site visit, we obtained a PIN FA Custom Inventory Report from Oracle. Our process of testing the Surplus fixed assets inventory compared to the PIN FA Custom Inventory Report included the following four total tests for the Warehouse and Auction asset locations: two book-to-floor and two floor-to-book. The PIN FA Custom Inventory Report we obtained on June 21, 2022, had 177 Auction fixed asset records and 3 Warehouse fixed asset records. We randomly selected 18, or 10.2%, of the Auction fixed assets for each test and 2, or 66.7%, of the Warehouse fixed assets for the book-to-floor test. Due to the small number of assets in the Warehouse asset location at the time of test planning, there was only one asset remaining we could use for the floor-to-book test.

The Custodian and Record Keeper attended our first site visit on June 27, 2022. The Record Keeper reviewed the asset samples and noticed they included inaccurate asset records. The Record Keeper stated Surplus sold asset tags #97253 and #119995 from the Auction book-to-floor sample. The Record Keeper stated Surplus scrapped asset tags #119929 and #119930 from the Warehouse testing samples via Trademark Metals Recycling. All 4 assets, or 2.2% of the 180 total assets in the Auction and Warehouse asset locations, no longer existed, but their asset records were still on the inventory report under the Auction or Warehouse asset locations.

Part of Surplus’s responsibility is to auction and scrap assets it receives from other County departments. Surplus performs auction events for the County each year and scraps assets for the County, as necessary. Finance Fixed Assets is responsible for retiring asset records from Surplus inventory locations once it receives documentation stating assets have been disposed of by Surplus.

We requested the Record Keeper produce the sales documentation for the assets with tags #97253 and #119995 following our site visit on June 27, 2022. On July 18, 2022, we asked Finance Fixed Assets about its progress in updating the County's inventory records to retire asset records of assets Surplus had sold. Finance Fixed Assets stated it would complete the task of retiring the Auction location asset records planned for retirement by the end of July 2022 and provided us lists of these assets. During our review of each list, we did not find asset tags #97253 and #119995, indicating Finance Fixed Assets was not planning to retire those asset records from the Auction location inventory.

On September 21, 2022, we returned to Surplus for a meeting with the Record Keeper. The Record Keeper gave us two bills of sale for asset tags #97253 and #119995. Surplus sold asset tag #97253 individually on April 15, 2022. Asset tag #119995 was part of a bundle of assets Surplus sold on August 5, 2022. Based on the sale date of asset tag #119995, the asset had already been packaged together with the other assets in preparation for the upcoming auction but had not been sold as of July 2022. Moreover, according to the paid date for tag #97253, Finance Fixed Assets should have included this asset record on the list of records it planned to retire by the end of July 2022.

As of September 13, 2022, all four assets were still recorded in the Oracle asset records as assigned to the Auction or Warehouse asset locations.

The Finance Division's FA 300 course guidelines state:

"It is the responsibility of the department to help ensure that asset records are complete and accurate...."

Primary and Alternate Record Keeper

Record Keepers are responsible for assigning and affixing physical asset tags, replacing lost tags, and maintaining accurate and complete capital asset records. They must make sure Oracle asset records are correct, initiate external transfers in iAssets, prepare internal and surplus transfers and may assist with and/or perform the annual inventory....

As a result of the Inventory process, the details of the Fixed Asset records are verified for accuracy and any necessary adjustments and corrections are made."

The Florida Administrative Code, Rule 69I-73.006(6)(a) states:

"The data listed on the inventory forms shall be compared with the individual property records. Noted differences such as location, condition and custodian shall be investigated and corrected as appropriate or alternatively, the item shall be relocated to its assigned location and custodian in the individual property record."

Management did not communicate with Finance Fixed Assets to ensure the asset records of the assets it sold and scrapped were retired from the inventory report. In addition, during 2022, since Finance Fixed Assets underwent organizational changes in its managerial and professional staff, it experienced a delay in retiring asset records from the Surplus inventories.

Inaccurate inventory records reflect poorly on the record-keeping efficiency of the primary and alternate record keepers. 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 Recommend Management 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.

Management Response:

Management Concur. The department will perform quarterly audits of its records related to sold or scrapped inventory against Oracle records to identify and resolve discrepancies in a timely manner so that Finance Fixed Assets may, in turn, accurately and timely retire asset records.

We appreciate your staff's cooperation during this audit.

MD/SP