

**SEMINOLE COUNTY
AUDIT OF
TANGIBLE PERSONAL PROPERTY**

REPORT NO. - 020906

February 2006

Prepared by:
Internal Audit Division
Clerk of the Circuit Court

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Seminole County Audit of Tangible Personal Property

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed an audit of county-owned tangible property.

PURPOSE

The objective of the audit was to determine if the system of internal administrative controls over tangible personal property is adequate and operating in accordance with county policy; specifically, if assets purchased were properly authorized, recorded, and safeguarded in accordance with county policy.

BACKGROUND

Seminole County owns and maintains three different types of property. They are:

1. **Tangible Personal Property** - Property that is identifiable, which has a value of \$1,000.00 or more, and an expected life of one year or more. Included in this category are such items as office equipment, office furniture, tools, equipment, vehicles, and heavy industrial equipment. It also includes specialized tools that the county uses in its day to day operations. As of September 30, 2005, county financial records reported \$87,792,423.39 in tangible personal property;
2. **Low-priced Items (Operating Expense)** – Property valued at less than \$1,000.00. These items are considered an “operating expense” to the county and therefore not capitalized. Moreover, these items are not individually tracked on the county property ledgers;
3. **Real Property** – Property that includes real estate owned by Seminole County, (i.e. land, buildings) and also property to which “value” is being added, in other words, construction in progress. The costs incurred to build a road for example or major building. As of September 30, 2005, county financial records reported \$808,800,744.25 in Real Property.

Seminole County Purchasing maintains the tangible personal property database. In addition, the department oversees the sale and disposal of the tangible personal property. Department directors or designee update asset inventory record information by submitting approval forms posted on the intranet. These forms are submitted to Purchasing for approved appropriate actions. Only the

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property administrator has access to the tangible personal property data base in JD Edwards. County Finance is responsible for updating the asset records in the county's general ledger and to depreciate assets.

SCOPE OF WORK

All procedures, policies and laws affecting internal controls over tangible personal property were subject to the audit. The following divisions were selected to conduct physical inventories of the assets: Telecommunications, Utilities, and Roads. Other divisions will be tested during a follow-up audit.

The audit included:

- Review of applicable policies and procedures, Florida statutes, including the rules of the Auditor General, and county ordinances;
- Sampling of property maintenance records;
- Review of physical inventory listings;
- Interviews with county personnel; and,
- Any other procedures considered necessary under the circumstances. These included physical inspection of selected assets.

The audit was performed by Gail Joubran and Bill Carroll.

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OVERALL EVALUATION

It is our opinion that the system of internal administrative controls is adequate and operating in accordance with county policy. However, we found several conditions that warrant management's attention:

- There exists no comprehensive policy and procedures manual regarding tangible personal property, real property and other assets, other than the County Manager's Internal Policies and Procedures ;
- Some assets might be considered obsolete and no longer needed;
- Some assets are not being serviced in accordance with Fleet Management Division's preventative maintenance schedule;
- Assets identified during inventory are not properly labeled or marked;
- The county does not supervise the auction of surplus and obsolete property; and,
- Some property records are not kept in accordance with the rules of the Auditor General's Office.

FINDING NO. 1

There exists no comprehensive policy and procedure manual regarding tangible personal property, real property and other assets.

Policies and procedures regarding tangible personal property are addressed in the "County Managers Internal Policy and Procedure Guide to Purchasing" Article XIII and Article XIV. Since publication of this guide on August 20, 2002, Florida Statute 274.02 has been updated to include a new definition of property:

"...fixtures and other tangible personal property of a non-consumable nature the value of which is \$1,000.00 or more and the normal expected life of which is 1 year or more."

The county inventory lists 161 items valued at \$750.00 or less (with a combined total value of \$43,784.62) that should be omitted from the inventory in light of the update of FS 274.02.

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An inventory check by Internal Audit revealed some assets that had either been lost or stolen; the division responsible could not provide backup paperwork (i.e. lost or stolen property reports, police reports). Management stated the missing items were reported to the county insurance administrator.

<u>Missing Items</u>	<u>Asset Number</u>	<u>Dollar Value</u>
Generator	03195	\$1,450.77
Computer (Apple)	12806	\$1,900.00
Radio/Scad Unit	19967	\$6,221.00
RTU	21145	\$5,547.00
Generator	21409	\$1,500.00
Camera/Cues	24234	\$6,709.00

Without documentation, we could not ascertain **if, when or, how the items had been properly reported stolen.** A written procedure should address the question of how lost and stolen property should be accounted.

No written procedure has been established as to the process of reconciling the general ledger with the county's tangible property data base. As of September 30, 2005 the county general ledger reported \$87,792,423.39 in tangible personal property, while the property records maintained by county purchasing did not show a specific value (readily available) to report for September 30, 2005. There also are no guidelines for divisions to determine the useful life of assets for financial reporting purposes.

Current Status

Subsequent to our inventory check, Environmental Services has remitted a Property Loss Form to Purchasing so that the two generators noted in the above list can be removed from the inventory record.

Recommendation

Develop a comprehensive procedure manual to be used by all departments in the acquisition, disposition, and financial reporting of tangible personal property, real property and other assets. Following are some of the topics the manual should address:

- Reporting lost or stolen property (i.e. when to file a police report, who files the various reports, and how are the reports disseminated to the divisions);
- Changes in physical location of property (i.e. move orders, when are move orders required, who is responsible for updating property files, how to report when equipment or assets are moved);
- Guidelines on reporting estimated useful lives for financial reporting purposes;

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- Guidelines on reconciling the property records maintained by purchasing with the general ledger maintained by County Finance; and,
- Documentation requirements maintained at the division level.

Management Response

There are effective policies and procedures in place regarding tangible personal property, which are located in the County Manager's policies and procedures on pages 70 to 73 (Articles XIII and XIV). As stated on page 70, "Property control records are set up to comply with Florida Statute 274.02 and the Rules of the Auditor General". Although the Manual does list \$750.00 threshold for a tangible personal property, the next revision to the County Manager's policies and procedures will remove this threshold. Since our policies are set up to comply with the Florida Statutes, staff has not captured purchased fixed assets below \$1,000.00 since July 1, 2005 when this amount was changed by Florida Statutes. Staff was waiting for the FY 04/05 financial records to close out before removal of existing items valued \$750.00 to \$999.99 from inventory. When the County conducts an annual inventory of fixed assets, instructions are provided to each Department on the inventory process. If items are missing, lost, or stolen, each Department is required to document the removal of items from inventory by using standard forms. At anytime during the year, the Departments can be filled out these reports and forward them to the Property Administrator. Subsequent to this audit report the missing items listed in this audit have this current status:

<u>Missing Items</u>	<u>Asset Number</u>	<u>Status</u>
Generator	03195	Documentation Received
Computer (Apple)	12806	Documentation Received
Radio/Scad Unit	19967	Investigating
RTU	21145	Investigating
Generator	21409	Documentation Received
Camera/Cues	24234	Investigating

Staff will be updating the County Manager's Policies and Procedures that will strengthen the following areas:

- Developed procedures for police and insurance reporting for items that can no longer be located.
- Changes of the location within the Department.
- Continue to remind the Department to dispose obsolete items.

The County will continue to work with Finance to reconcile all property records. There is currently no requirement to maintain documentation at Division level especially when policies and procedures indicate that the Department Directors are responsible for the inventory and submitting the list of tangible fixed assets items to be surplus.

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Audit Comment

A comprehensive procedure manual ensures employees understand their responsibilities.

FINDING NO. 2

Some assets may be obsolete and no longer needed.

As part of the audit, we selected a sample of assets to verify physical existence. According to custodians at Five Points, four of the fifteen items selected were either broken or used sparingly, if at all. Also, two of the four items were still being sent to Fleet Maintenance for scheduled maintenance.

The four items sampled that may be candidates for surplus are as follows. This list of items has been forwarded to the Public Works Department.

<u>Item</u>	<u>Description</u>	<u>Date Acquired</u>	<u>Cost</u>
17991	Hypro Sprayer	4/28/92	\$3,542.00
19689	Jack Hammer	7/26/94	849.85
20352	Blade Trencher	5/23/95	2,880.00
21596	Yahama Pump	9/30/96	9,118.17

Recommendation

1. Comply with proper disposal procedures in accordance with Florida Statute sections 274.04, 274.05, and 274.06.
2. Fixed asset inventory procedures questionnaire should be developed to accompany all inventory taking. (See sample attached)
3. Expand the responsibilities of the division to include the condition of the assets on the inventory listing during the annual inventory.

Management Response

Each Department is responsible for the operation and repair of Departmental equipment. When equipment is no longer needed or consider obsolete by the Department, an intranet form is completed by the Department for each item and it is forwarded to the Property Administrator for the surplus process in accordance to established procedures. The fact that the County successfully surplused 874 items in FY 04/05 indicates that the policies and procedures are effective and in accordance with Florida State Statutes when dealing with obsolete and no longer needed items. The recommended sample for additional guidance during the inventory is a help and will be used.

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Audit Comment

We continue to recommend that responsibilities be expanded to ensure that the annual inventory is as beneficial to the county as possible.

FINDING NO. 3

Some assets are not being serviced in accordance with Fleet Maintenance Division's preventative maintenance schedule.

From the preventative maintenance schedule provided by Fleet (via Serco), a list was compiled of all assets not serviced for the year 2005. Sixteen items were identified as not being serviced in 2005.

<u>Asset No.</u>	<u>Description</u>	<u>Last Service Date</u>
20231	1994 Massey 4x4 Tractor	June 2004
24355	1999 Specialty Refuse Trailer	October 2004
24356	1999 Specialty Refuse Trailer	March 2004
24358	1999 Specialty Refuse Trailer	February 2004
24359	1999 Specialty Refuse Trailer	March 2004
455	1999 East Refuse Trailer	November 2004
458	1999 East Refuse Trailer	February 2004
464	1999 East Refuse Trailer	May 2004
466	1999 East Refuse Trailer	June 2004
1635	2000 Cat 966 Loader	November 2004
2896	2002 Mack	May 2004
4943	2003 Manac	April 2004
3128	2002 Pemberton	May 2004
16401	1989 K.N.D. Utility Trailer	September 2004
19463	1988 Ford F-150	August 2004
16333	1989 Kubota Tractor	April 2004

Internal Audit forwarded a list of such equipment to department management and notified the fleet manager for follow up. Fleet Maintenance does have a procedure to follow up on delinquencies, but it still remains a division responsibility to ensure equipment is serviced in accordance with policy.

Recommendation

1. For the assets identified above, schedule the maintenance as soon as possible.
2. During the course of the annual inventory, identify those assets that require maintenance or disposal.

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Corrective Action

Since Internal Audit completed field work, management has corrected or is scheduled to correct the maintenance of the above 16 items.

Management Response

In the past, the preventative maintenance schedule was lacking on equipment that was not brought into Fleet to be serviced by Serco. Fleet has since implemented procedures that require preventative maintenance to be performed on equipment listed in the database. Of the assets identified in the audit, preventative maintenance has since been performed on all except the following:

<u>Asset No.</u>	<u>Comment</u>
3128	This is a bucket for an excavator which gets maintained daily by operator as part of the excavator PM, and does not have its own PM schedule.
19463	This is a pickup truck that was totaled in the summer of 2004. It was left on active status to enable documentation required for FEMA claim.
16333	This was turned in for surplus in 2005.

The determination of maintenance interval is done at the time of acquisition and at time of inventory. The determination of maintenance due date is tracked by the fleet maintenance software system. The determination of condition requiring disposal via surplus/trade-in cannibalization is done during a combination of regular maintenance, repair incidents and budget replacement review and planning.

FINDING NO. 4

Assets identified during inventory are not properly labeled or marked.

On an annual basis, the property administrator furnishes a listing to department management of the tangible personal property assigned to each division for verification of the asset's physical existence.

Inventory instructions state:

“The individual who is physically taking the inventory needs to inventory each item, verify the location (if the inventory sheet reflects a project number) verify this information to be correct by placing a RED CHECK mark next to each item.”

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There is no requirement, however, for the employee taking the inventory to label or mark an item as inventoried/inspected. It is a common industry practice for assets to be labeled during an inventory as proof that the items were actually inventoried. For example, it would not be unusual to have a colored label stating **“2005 Inventory - Seminole County”**.

By not labeling the assets, there is no proof that the item was actually inventoried. Our concern is that an employee might simply place a check mark on each item on the listing indicating that it was actually inventoried when it wasn't.

In addition, instructions encourage the inventory takers to locate the items that are on the list and do not necessarily direct a complete “sweep” of an area to identify items that may not be on the inventory lists. In other words, instructions require the inventory takers to find items on the list provided. The purpose of this procedure is to identify items that were never labeled (i.e. items that were never labeled during the acquisition process). By not adhering to this practice, a doubt is raised as to whether the county is in compliance with the Florida Statutes and the Rules of the Auditor General's Office.

Recommendation

Update inventory instructions to include a requirement for those taking inventory to place a sticker on each asset, identifying when the item was last inventoried.

Management Response

There is neither a requirement nor Florida Statute that requires inventory items to be labeled at time of inventory/inspection. This is a recommendation that could increase the accuracy of the inventory process. Staff prefers to use scanning technology with a bar code reader to validate the inventory process. Staff is working with the J.D. Edwards consultant to implement a bar code scanning system in conjunction with the annual inventory. If the bar coding scanning cannot be implemented in time for inventory, then this recommendation will be provided to the Departments for inventory.

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FINDING NO. 5

The county does not supervise the auction of surplus and obsolete property.

It has been the practice at Seminole County to turn over surplus and obsolete property to the contracted auctioneer (Gideon Auctioneers) for public auction. The auctioneer holds the auction and then mails a check to the county for the net proceeds. **The county does not supervise nor attend the auction, which raises several concerns:**

- The sale of surplus county property involves the transfer of property for “cash”, which in itself poses a financial risk. We believe it is always to the county’s advantage to monitor the auction process to ensure that the award price is the same as the cash that is reported on the sales report.
- There are also administrative issues involved with the sale of surplus property. By overseeing the auction, the county could ensure that all property is accounted for, a reconciliation is made, and a reasonable effort is made to sell all property in the custody of the auctioneer.
- The county does not have physical control of funds at the conclusion of the auction. Sole responsibility is in the hands of the auctioneer.

Recommendation

A representative from Seminole County should attend the auction to oversee the process, account for all funds, and ensure that all reasonable efforts are made to sell all surplus property.

Management Response

The recommendation is currently being implemented and the County will have a representative periodically attend these auctions. The auctioneer is a contracted service which the Property Administrator conducts an audit to account for all items that were picked up by the auctioneer and reviews the itemized list of the proceeds against this pickup list.

Audit Comment

We are very encouraged that the County will have a representative at the auctions to ensure that all funds are accounted for and all reasonable efforts are made to sell all of the Seminole County property.

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FINDING NO. 6

Some property records are not kept in accordance with the rules of the Auditor General's Office.

There are certain recordkeeping requirements that are dictated by the State of Florida's Auditor General's Office. The specific guidelines are in Rules of the Auditor General Chapter 10.400. Seminole County has established the required format in its property data base for compliance with said requirements.

The county's data base has roughly 10,216 records; 1,408 of the 10,216 (13.7%) records are missing certain information regarding the manufacturer of the equipment. For the most part, the record is simply missing the manufacturer's serial number. The 1,408 records noted above are net after taking into account those records that do not require manufacturer's serial numbers (i.e. desks, workstations etc.).

Per the rules of the Auditor General 10.450 (3):

Each property record shall, as applicable, include the following information:

- ***name, make, manufacturer,***
- ***year, and/or model,***
- ***manufacturers serial number, and***
- ***date acquired***

Since it is a mandatory requirement for each division to physically inventory assets annually, we believe there is **ample opportunity for inventory takers to formally notify the property administrator of missing information on the record.** This practice will keep the county property records in compliance with the rules of the Auditor General and the Florida statutes.

Recommendation

Divisions should notify the property administrator of missing information on the equipment listings as applicable.

Management Response

There are missing data fields in the database but this missing data has not affected the identification of items during the inventory process. In the future, staff will notify Departments for assistance in completing the missing information in the database.

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