Electra Theodorides-Bustle
Executive Director

2900 Apalachee Parkway
Tallahassee, Florida 32399-0500
www.flhsmv.gov

A SAFER FLORIDA
HIGHWAY SAFETY AND MOTOR VEHICLES

Charlie Crist
Governor

Bill McCollum
Attorney General

Alex Sink
Chief Financial Officer

Charles H. Bronson
Commissioner of Agriculture

June 10, 2009

Ms. Electra Theodorides Bustle, Executive Director
Department of Highway Safety and Motor Vehicles
2900 Apalachee Parkway B443
Tallahassee, Florida 32399-0500

Re: Auditor General Report No. 2009-089
Department of Highway Safety and Motor Vehicles
Tangible Personal Property Operational Audit
For the Period July 2006 through February 2008

Dear Ms. Theodorides-Bustle:

In accordance with Section 20.055(5)(h), Florida Statutes, we are providing an assessment of the implementation or current status of the recommendation in the Auditor General's Report No. 2009-089. If you need additional information, please contact me at 617-3104.

Sincerely,

Laurence W. Noda

Laurence W. Noda, CPA
Inspector General

c: Ms. Kathy Dubose, Staff Director
Joint Legislative Auditing Committee

Attachment

Finding No. 1: Detailed Tangible Personal Property Records

The Department is required to maintain records to provide accountability for all State-owned tangible personal property. According to DFS rules,[1] the detailed property records are required to include a description of the property item, the item's physical location, the class code, the date acquired, the cost or value at acquisition, the acquisition method, and the last physical inventory date and condition of the property item at that date. Pursuant to Section 273.05, Florida Statutes, the custodian shall, for property certified as surplus, maintain records that indicate the value and condition of the property.

Our audit included an analysis of the detailed property records, as of May 2008, for 28,457 active furniture and equipment items, with acquisition costs totaling $133,268,630, and 40 surplus property items, with acquisition costs totaling $940,065. Our tests disclosed that the detailed property records were not always complete, included out-of-date information, and contained information that was not always consistent with supporting documentation. For example:

- Approximately 18 percent of the 28,457 property items had recorded last inventory dates of 2005 or earlier. In addition, as of May 2008, 5,722 property items, with acquisition costs totaling $39,728,782, had no recorded inventory date. The absence of a current inventory date indicates that either a current inventory of these items had not been conducted or an inventory had been conducted and the date was not recorded.
- The physical location, acquisition method, class code, or condition of the property was not included in the detailed property records for 1,750 property items, with acquisition costs totaling $6,080,478. Additionally, for 98 of these property items, with acquisition costs totaling $336,630, the description field in the detailed property record was left blank.
- For 5,066 property items, with acquisition costs totaling $30,409,485, the condition of the item was listed as "new" as of May 2008, although the items' recorded acquisition dates ranged from December 1975 to June 2005.
- The date the item was acquired was not included in the detailed property records for 32 property items, with acquisition costs totaling $78,386.

Accurate, complete, and up-to-date detailed property records are necessary to provide accountability for all State-owned property and to enable Department management to make informed decisions regarding the acquisition, disposition, and insurance of TPP.

Recommendation: We recommend that the Department maintain accurate, complete, and up-to-date detailed property records as required by law and rules. The results of our analysis were made available to the Department so that the record errors could be further investigated and corrected.

Response: A new handheld scanning system was implemented in FY 2006-07. The devices did not work as expected and, as a result, the FLAIR property file was not always properly updated. By the completion of the FY 2007-08 inventory most of the implementation issues had been corrected. The handheld scanning system does not electronically update the "condition" of the asset which was a deficiency identified in the audit report. Without an electronic update, each inventory item has to be manually updated. The Department has requested that the vendor update the handheld scanning system to include the condition of the asset.

[1] DFS Rule 69I-72.003, Florida Administrative Code.

Six-Month Response:

The handheld scanning system is now working correctly to ensure that the Department maintains accurate and complete property records. The vendor was unable to add the ability to electronically update the "condition" of the asset. Assets recorded as new were manually updated to good when appropriate and Department personnel will periodically update the condition of new assets to change their condition from new to good.

Finding No. 2: Annual Physical Inventory

To ensure proper accountability for and safeguarding of TPP, rules adopted by the Chief Financial Officer require that State agencies complete an annual physical inventory of property. As part of an annual physical inventory, State agencies are required to compare the results of the physical inventory to the detailed property records, identify and investigate discrepancies, and make adjustments to the detailed property records as necessary.

Property items not located during the physical inventory process are to be promptly reported to the custodian and a thorough investigation made. Items not located after the investigation are to be reported to the appropriate law enforcement agency. A State agency must seek approval from DFS to remove missing property from the detailed property records and, upon such approval, make the appropriate adjustments.

As part of our audit, we reviewed the physical inventory records for the 2006-07 and 2007-08 fiscal years for 1,968 property items with acquisition costs totaling approximately $20.5 million, in 40 Department locations. As discussed below, Department personnel did not always comply with the above-noted rules regarding physical inventories and reconciliation processes. Specifically:

- The physical inventory and reconciliation processes were not completed for all locations within the Department's headquarters (Neil Kirkman Building) for the 2006-07 and 2007-08 fiscal years. As of May 2008:
    - For 4 locations within the Neil Kirkman Building there was no record that 95 property items, with acquisition costs totaling $1,450,608, had been located during the physical inventory or identified as missing property.
    - Property items, with acquisition costs totaling $164,435, at another location were not subject to inventory and were identified as unlocated in May 2008.
- As indicated in Finding No. 1, the Department's inventory processes did not always include property record adjustments to include inventory dates and updated information concerning location and condition.
- For the 2006-07 fiscal year physical inventory, there was no documentation that 31 motor vehicles and a laser printer, with acquisition costs totaling $716,523, reported as temporarily in locations other than the locations identified in the detailed property records, had been located and observed by those conducting the inventory.
- The detailed property records showed that 3 property items, including a computer and computer equipment, with acquisition costs totaling $4,817, had been accounted for in the 2007-08 fiscal year inventory, although according to Department Transfer Forms, these items had been replaced in 2005. These property items were deleted from the detailed property records subsequent to our audit inquiry.

- For 9 locations, the detailed property records were not always timely adjusted to account for property transfers and dispositions noted during the 2006-07 and 2007-08 fiscal year physical inventories. For example, for one property item, with an acquisition cost of $1,816, the transfer was not recorded in the detailed property records until 10 months after the inventory date.

Annual physical inventories are necessary to ensure accountability and to safeguard State-owned assets. Absent performance of the physical inventory and reconciliation processes, there is reduced assurance that the loss of assets and record errors will be timely detected and corrective actions taken.

Recommendation: We recommend that the Department ensure that the annual physical inventory and reconciliation processes are completed as required and that the detailed property records are accurately and timely updated. Additionally, we recommend that the Department maintain documentation to evidence the inventory results and subsequent Department actions.

Response: The FY 2007-08 annual physical inventory and reconciliation was completed for all locations within the Department headquarters subsequent to the auditor's May 2008 cutoff. Additionally, updated Department procedures to simplify the transfer process will be implemented by April 1, 2009. Documentation will be maintained as required. As noted in the Finding No. 1 response, we are working with our vendor to include the asset condition in the next system release.

Six-Month Response: Updated procedures have been implemented to ensure that all documentation is being maintained as required. Training on the new procedures has been developed and provided to Department personnel. Department personnel will periodically manually update the condition of assets.

Finding No. 3: Surplus and Disposition of Tangible Personal Property

Property determined to be surplus is to be certified as such by the custodian as provided in Section 273.05, Florida Statutes, and pursuant to Section 273.055, Florida Statutes, certified surplus property shall not be disposed of without prior written authority of the custodian.

The Department had implemented procedures for the surplus property certification process. Under those procedures, the employee responsible for the property item was to submit a letter to the Surplus Property Review Board stating the reason(s) the property item was no longer needed and the recommended disposition method. Approval from the Surplus Property Review Board, which was composed of the custodian's delegate, the immediate supervisor, bureau chief, and division director, or their designees, was necessary to certify a property item as surplus and to initiate disposition of the property item. Members of the Surplus Property Review Board were to initial the documentation to record approval of the surplus request.

The custodian is also to maintain records to identify each property item as to disposition, and agency records for property certified as surplus and subsequently disposed of are to comply with rules issued by the Chief Financial Officer and the Auditor General.[2] The Department established Policy No. 10.01, *Accounting, Control, Transfer and Disposal of Department Property*, that specifies the procedures and documentation applicable to property disposal, including the sale, donation, scrapping, or cannibalization of property items.

[2] DFS Rule 69I-72.005, Florida Administrative Code, and Chapter 10.350, Rules of the Auditor General.

According to the above-noted rules and Department policy, the detailed property record of each property item certified as surplus and subsequently disposed of shall include the date of certification, reason for certification, date of review board recommendation on certification, date of disposition, authority for disposition, manner of disposition, and, if the property item was cannibalized, scrapped, or destroyed, the identity of the employee witnessing the disposition. For property that is scrapped or cannibalized, the Department requires that a scrapping facility receipt be obtained that includes the signatures of two Department employees along with the signature of a scrapping facility representative.

Department records indicated that the acquisition cost of surplus property disposed of during the period July 2006 through February 2008 was approximately $40.3 million. As part of our audit, we tested Department records relating to the certification and disposition of 40 property items determined to be surplus and that had acquisition costs totaling $940,065. Our audit disclosed that the Department's surplus property disposition process did not always ensure that property was approved as surplus by the custodian's delegate and the Surplus Property Review Board prior to disposition or that all required information and documentation, such as the reasons for certifying an item as surplus, the disposal method, and scrapping facility receipts with signatures by the custodian delegate and a Department witness were maintained. A summary of the specific deficiencies noted for 24 of the 40 items tested is included as EXHIBIT A.

Absent appropriate approvals and complete records to document and support the disposition of property items, the Department cannot demonstrate that property items were accounted for in the manner required by law and rule.

Recommendation: To ensure compliance with the requirements of laws, rules, and other guidelines, we recommend that the Department more closely monitor staff compliance with procedures for certification and disposition of surplus property.

Response: The Department is currently modifying the disposition procedure to simplify and ensure compliance with the requirements of laws, rules, and other guidelines, as well as incorporate other agency best practices. The new procedure will be implemented April 1, 2009. Staff will be monitored to ensure compliance with the new procedure.

Six-Month Response: The Department's surplus procedures have been modified and posted on the Department's intranet site. Staff is monitored to ensure compliance with the new procedures.

Finding No. 4: Disposition of Excess Motor Vehicles and Aircraft

According to Department of Management Services (DMS) Rules, Chapter 60B-3, Florida Administrative Code, an agency is required to report to the DMS, Division of Motor Pool, within 45 days, any motor vehicle, watercraft, or aircraft that has been replaced by other equipment, determined by the custodian to be excess to agency needs, or determined to be economically unfit for continued use in normal service. DMS is to consider the excess units reported and may authorize an interagency transfer or designate the disposal method and procedures to be followed. Excess units determined by DMS to be surplus to State needs are to be approved for public sale or auction or for other appropriate disposal.

Deliveries of new FHP motor vehicles are processed through a central installation center. Large shipments of vehicles are often received at this location. The installation center is responsible for preparing vehicles for FHP use by installing decals and equipment, such as lights, electronics, and interior partitions. In addition, prior to the disposal of excess units, the center is responsible for removing FHP decals and equipment.

Our audit included review of Department records for 25 FHP motor vehicles and two FHP aircraft, with total acquisition costs totaling $1,240,024, that were replaced during the period July 2006 through February 2008. We noted that, for the two aircraft and 11 of the 25 motor vehicles, the Department's request for disposal was not made within 45 days after replacements were received. The number of days that elapsed between the dates the replacement vehicle or aircraft were received and the dates the Department sent the disposal request to DMS ranged from 50 to 259 days for the 11 vehicles and were 485 and 535 days for the two aircraft. Such delays impair the ability of DMS to make timely decisions concerning the appropriate disposition of motor vehicles and aircraft.

Recommendation: We recommend that the Department enhance procedures related to the surplus of replaced FHP motor vehicles and aircraft to promote compliance with the DMS 45-day reporting requirement.

Response: Before the Department can request disposal of a patrol vehicle, it must provide the trooper a spare vehicle and have the vehicle being replaced stripped of FHP equipment (lights, electronics, partitions, etc.) and decals. As new vehicles are delivered in groups, Department personnel cannot always complete this work on each vehicle and notify the Department of Management Services (DMS) within the prescribed 45-day timeframe. Department personnel have requested an extension of the notification requirement from DMS. Until approval is granted, Department personnel will explore any viable process improvement that does not compromise patrol presence on the State's highways.

Six-Month Response: Due to the operational impact on the Patrol, the Department of Management Services approved our request for an extension for 45 to 120 days. The Department will comply with the new deadlines without compromising the operational effectiveness of the Patrol.

Finding No. 5: Tangible Personal Property Coding and Acquisitions

Our audit included the examination of 213 transactions, totaling $5,351,266, which were recorded as TPP purchases. As discussed below, our tests disclosed that acquisitions were not always properly coded or recorded for budgeting and accounting purposes. Specifically:

- The funds for the replacement of the air conditioning system at the Neil Kirkman Building were appropriated in the fixed capital outlay (FCO)[3] category. However, costs relating to the replacement of the air conditioning system, totaling $993,025, during the 2007-08 fiscal year, were recorded as a TPP purchase, rather than as FCO. As a result, operating capital outlay expenditures (OCO) were overstated, the OCO budget balance was understated, and the FCO budget balance was overstated. Further, adjustments were not made to record the air conditioning system items as assets in the accounting records.

[3] FCO includes real property (land, buildings, fixtures, and fixed equipment) and additions, replacements, major repairs, and renovations to real property that materially extend its useful life or materially improve or change its functional use, including furniture and equipment necessary to furnish and operate a new or improved facility, when appropriated by the Legislature in the FCO appropriation category.

- The acquisition costs of two replacement airplane engines, totaling $52,256, that extended the life of two fully depreciated airplanes; computer hardware installation charges, totaling $12,000; and miscellaneous shipping and installation charges for TPP, totaling $6,505, were not recorded in the Department's FLAIR general ledger asset account and detailed property records because the related transactions were inappropriately deleted from the FLAIR Property Pending File. We found that Department procedures did not provide for supervisory review of deletions from the Property Pending File.
- Property item acquisition costs totaling $882,265 were coded as OCO expenditures, although the respective items did not meet the definition of TPP. Specifically, we noted:
    - The acquisition cost for 146 items was less than $1,000; therefore, the purchases should have been coded as materials and supplies rather than OCO. These items included modular furniture, with acquisition costs totaling $149,371, and other items such as printers, monitors, docking stations, software licenses, and miscellaneous computer supplies, with acquisition costs totaling $21,424. The recorded acquisition costs for the 146 items ranged from $1 to $665.
    - Expenditures relating to several of these items, totaling $8,531, were inappropriately capitalized as TPP in the detailed property records.

Absent proper coding of items acquired and supervisory review over Property Pending File deletions, the reliability and usefulness of Department records for budgetary control, management oversight, and financial reporting purposes is reduced.

Recommendation: We recommend that the Department take steps to ensure that all transactions are charged to the correct appropriation and appropriately recorded in accounting and detailed property records.

Response: Department procedures were redesigned and implemented on April 22, 2008 to ensure that tangible personal property and improvements to real property are appropriately recorded in accounting, budgetary, and detailed property records.

Six-Month Response: The updated procedures are monitored by Department management to ensure that tangible personal property is appropriately recorded in accounting, budgetary, and detailed property records.