

**DEPARTMENT OF HIGHWAY SAFETY
AND MOTOR VEHICLES**

TANGIBLE PERSONAL PROPERTY

Operational Audit

July 2006 through February 2008



EXECUTIVE DIRECTOR OF THE DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES

Pursuant to Section 20.24, Florida Statutes, the head of the Department of Highway Safety and Motor Vehicles is the Governor and Cabinet, which consists of the Governor, Attorney General, Chief Financial Officer, and Commissioner of Agriculture. Pursuant to Section 20.05 (1)(g), Florida Statutes, the Governor and Cabinet is responsible for appointing the Executive Director of the Department of Highway Safety and Motor Vehicles. The Executive Directors who served during the audit period are shown below:

Executive Director	Dates of Service
Fred O. Dickinson	July 1, 2006 through March 6, 2007
Electra Theodorides-Bustle	From March 7, 2007

The audit team leader was Kathy Simmons, and the audit was supervised by Marcella Strange, CPA. Please address inquiries regarding this report to David R. Vick, CPA, Audit Manager, by e-mail at davidvick@aud.state.fl.us or by telephone at (850) 487-4494.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES

Tangible Personal Property

SUMMARY

This operational audit of the Department of Highway Safety and Motor Vehicles focused on the administration and management of tangible personal property. Our audit also included a follow-up on selected prior audit findings and covered the period July 2006 through February 2008 and selected actions through May 2008. The audit disclosed deficiencies in the Department's oversight of tangible personal property as described below:

DETAILED TANGIBLE PERSONAL PROPERTY RECORDS

Finding No. 1: Detailed property records were not always complete, included out-of-date information, and contained information that was not always consistent with supporting documentation.

ANNUAL PHYSICAL INVENTORY

Finding No. 2: The Department did not always reconcile physical inventory results to the detailed property records, make adjustments to the detailed property records as necessary, and maintain all required documentation for accountability of tangible personal property.

SURPLUS AND DISPOSITION OF TANGIBLE PERSONAL PROPERTY

Finding No. 3: The authorization to dispose of tangible personal property and the required related disposition information were not always documented.

DISPOSITION OF EXCESS MOTOR VEHICLES AND AIRCRAFT

Finding No. 4: The Department did not always make requests for disposal of replaced motor vehicles and aircraft within the required time frame.

TANGIBLE PERSONAL PROPERTY CODING AND ACQUISITIONS

Finding No. 5: Acquisitions of tangible personal property and improvements to real property were not always appropriately recorded in Department accounting, budgetary, and detailed property records.

BACKGROUND

Department responsibilities include promotion of highway safety through traffic law enforcement, safety programs, and the traffic crash investigation process; administration of the driver license program; provision of title and registration services for motor vehicle and vessel owners; protection of consumers through various licensure and inspection programs; and maintenance of comprehensive records of driver and vehicle status and traffic crashes. The Department is comprised of three operational areas: the Florida Highway Patrol (FHP), the Division of Driver Licenses, and the Division of Motor Vehicles, and two administrative areas: the Division of Administrative Services and Information Systems Administration. The Department has offices located throughout the State.

According to Department records, during the period July 2006 through February 2008, the Department expended approximately \$29 million of OCO appropriations for the acquisition of tangible personal property (TPP).¹ These acquisitions included furniture, equipment, motor vehicles, and aircraft.

At June 30, 2008, Department records indicated that the value of TPP assets totaled approximately \$132 million. Chapter 273, Florida Statutes, Department of Financial Services (DFS) Rules, Chapter 69I-72, Florida Administrative Code, and Chapter 10.350, Rules of the Auditor General, provide standards necessary to adequately control, safeguard, and account for State-owned TPP.² Also, DFS has established a written Statewide Financial Statement Capital Asset Policy to promote consistency when accounting for State-owned capital assets, including TPP. The Policy identifies capital asset categories and threshold amounts, describes capital asset reporting, and defines capital assets by category.

The Department uses various Florida Accounting Information Resources Subsystem (FLAIR) capital asset general ledger accounts and the FLAIR Property Subsystem to record applicable acquisitions and to facilitate financial reporting and asset accountability. The FLAIR Property Subsystem includes a property file containing a detailed property record for each property item. The property file is referred to as the detailed property records throughout this report. The Fixed Asset Section within the Division of Administrative Services is responsible for recording into the detailed property records TPP acquired by the Department.

FINDINGS AND RECOMMENDATIONS

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,³ 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

¹ TPP is defined in Chapter 273, Florida Statutes, and DFS Rules as equipment, fixtures, and other tangible personal property of a nonconsumable and nonexpendable nature, the value or cost of which is \$1,000 or more, and the projected useful life of which is one year or more. Also, any hardback book with a value or cost of \$25 or more and having a useful life of one year or more that is circulated to students or the general public and any hardback book with a value or cost of \$250 or more that is not circulated is to be recorded as TPP in the FLAIR Property Subsystem.

² Effective July 1, 2006, Sections 273.02, 273.025, and 273.055, Florida Statutes, require the Chief Financial Officer (CFO) to establish rules related to the recording, reporting, and inventory of State-owned property and the maintenance of property disposition records. Until DFS Rules, Chapter 69I-72, Florida Administrative Code, became effective on January 13, 2008, CFO Memorandum No. 2 (2006-07) required agencies to continue to comply with related Rules of the Auditor General. Auditor General rules (Chapter 10.350, Rules of the Auditor General) govern agency records for State-owned TPP certified as surplus.

³ DFS Rule 69I-72.003, Florida Administrative Code.

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.

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.

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.⁴ 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.

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

⁴ DFS Rule 69I-72.005, Florida Administrative Code, and Chapter 10.350, Rules of the Auditor General.

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.

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.

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)⁵ 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.
- 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.

PRIOR AUDIT FOLLOW-UP

As part of our audit, we determined that Department staff had corrected, or were in the process of correcting, findings included in audit report No. 2007-076 and selected findings in audit report No. 2007-026.

⁵FCO 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.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

This operational audit focused on the Department's administration and oversight of TPP and included a follow-up on selected prior audit findings. The overall objectives of the audit were to:

- Evaluate the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- Evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.
- Determine whether management had corrected, or was in the process of correcting, selected deficiencies disclosed in prior audit report Nos. 2007-026, and 2007-076.

We conducted this operational audit in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period July 2006 through February 2008, and selected actions through May 2008. In conducting our audit, we:

- Interviewed Department personnel.
- Obtained an understanding of internal controls and tested key processes and procedures related to the recording, accountability, and disposition of TPP.
- Reviewed the information technology controls related to employee access to detailed property records and the general ledger control account.
- Reviewed Department detailed property records and documentation of the reconciliation of such records to the general ledger control account.
- Tested 213 TPP transactions, totaling \$5,351,266, to determine whether the transactions and the costs of the related property items were accurately and timely recorded in the FLAIR accounting records and the detailed property records in compliance with applicable laws and rules.
- Reviewed Department records for 25 motor vehicle and two aircraft purchases, with acquisition costs totaling \$1,240,024, to determine whether the Department reported replaced equipment in compliance with DMS rules.
- Verified that the actual location of 20 TPP items, with acquisition costs totaling \$568,462, agreed with location listed in the detailed property records.
- Reviewed the accuracy of the detailed property records for 20 TPP items, with acquisition costs totaling \$621,985, observed in various Department locations.

- For 40 locations, with recorded TPP totaling \$20,515,757, determined whether an annual physical inventory of TPP was performed and that the results were reviewed by a supervisor and reconciled to the detailed property records and that any differences were properly investigated.
- Tested the disposal records for 40 TPP items, with acquisition costs totaling \$940,065, for documentation of the required surplus certifications and approvals; compliance with controlling laws, administrative rules, and other guidelines; and the effectiveness of controls over the disposal proceeds.
- Reviewed Department procedures for the maintenance of required building content insurance coverage, for TPP totaling \$40,743,755, at 15 locations.
- Evaluated Department actions taken to implement recommendations included in report Nos. 2007-026 and 2007-076. Specifically, we:
 - Evaluated Department efforts to document that contracts were properly reviewed and approved and to invest Highway Safety Operating Trust Fund interest earnings.
 - Evaluated the extent of Department utilization of MFMP and Department MFMP procedures to determine whether the procedures addressed the management of confidential attachments and duplicate payments. The results of our survey of Department MFMP utilization will be disclosed in our operational audit report issued on the Department of Management Services.
- Performed analytical procedures and various other auditing procedures as necessary to accomplish the objectives of the audit.

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AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a response letter dated January 9, 2009, the Executive Director of the Department of Highway Safety and Motor Vehicles concurred with our audit findings and recommendations. The Executive Director's response is included as Exhibit B.

EXHIBIT A
SCHEDULE OF DEFICIENCIES NOTED FOR SELECTED
TANGIBLE PERSONAL PROPERTY SURPLUS CERTIFICATIONS AND DISPOSITIONS

No.	Property Item Description ⁽¹⁾	Acquisition Cost ⁽¹⁾	Deficiency Type ⁽²⁾					
			A	B	C	D	E	F
1	5090 Duplicator System	\$ 101,400		X		X		X
2	Z-Server WL	89,328		X			X	X
3	CAD Server	71,898		X			X	X
4	C.P. Bourg MDL #AE46S P2 Collator	68,938	X	X	X	X	X	X
5	BCM1100-M Battery Monitor with Rack	63,507					X	X
6	Web Server	33,274		X		X		X
7	Advisory Radio System	28,108		X				
8	Message Sign FHP 2061	26,100		X		X	X	X
9	Computer	23,468		X		X		X
10	IVR Server	22,245		X	X		X	X
11	Logging Recorder	18,430		X			X	X
12	Mail Processor with Scale	15,276	X	X	X	X		X
13	Conf 4 Baseline	14,697					X	X
14	Printer with Ringdale	10,080	X	X	X	X	X	X
15	Document Scanner System	8,435		X				X
16	Projection System	7,960	X	X	X	X		
17	LCD Data Projector	7,474		X		X		X
18	PC Workstation CPU	5,524		X				X
19	Equinox Modem	4,793		X		X		X
20	Personal Computer	4,754		X		X		X
21	Laptop Computer	4,527		X				X
22	VHS Duplicator	3,492		X				
23	In-Car Video Camera	4,061		X			X	X
24	Firstsaver AED (Defibrillator)	3,226		X			X	X
	Totals	\$ 640,995	<u>4</u>	<u>22</u>	<u>5</u>	<u>11</u>	<u>11</u>	<u>21</u>

- (1) Information obtained from Department detailed property records.
- (2) Specific types of record deficiencies included the following:
 - A Documentation that the custodian's delegate certified the property as surplus was not available.
 - B Documentation did not show the reason the item was surplus.
 - C Documentation did not show a recommended disposal method.
 - D The certification of the property as surplus was not approved by the Surplus Review Board.
 - E A receipt was not obtained from the facility that scrapped the property item which included a signature from the person receiving the item.
 - F Receipt from the scrapping facility did not contain the signatures of two Department witnesses.

**EXHIBIT B
MANAGEMENT'S RESPONSE**

Electra Theodorides-Bustle
Executive Director

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Tallahassee, Florida 32399-0500
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Charlie Crist
Governor

Bill McCollum
Attorney General

Alex Sink
Chief Financial Officer

Charles H. Bronson
Commissioner of Agriculture

January 9, 2009

Mr. David W. Martin, CPA
Auditor General
Claude Pepper Building, G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, enclosed is a copy of this agency's response to the preliminary and tentative audit findings regarding your operational audit of:

Department of Highway Safety and Motor Vehicles
Tangible Personal Property

The professionalism exhibited by your staff during this audit was evident and appreciated. If you should need additional information, please contact Mr. Laurence W. Noda, Inspector General, at 617-3104.

Sincerely,

Electra Theodorides-Bustle
Executive Director

ETB/ed
Enclosure

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Department of Highway Safety and Motor Vehicles
Tangible Personal Property Operational Audit
For the Period July 2006 through February 2008

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.

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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.

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

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Department of Highway Safety and Motor Vehicles
Tangible Personal Property Operational Audit
For the Period July 2006 through February 2008

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.

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.

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EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Department of Highway Safety and Motor Vehicles
Tangible Personal Property Operational Audit
For the Period July 2006 through February 2008

- 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.

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

EXHIBIT B (CONTINUED)
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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.

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.

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

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

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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.

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

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.

EXHIBIT B (CONTINUED)
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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.

- 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.

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