



COUNTY AUDIT DEPARTMENT

REPORT # 413

JANUARY 20, 2023

An Audit of:

SURPLUS ASSETS

INVENTORY CONTROLS



Cindy Stuart

CLERK OF COURT & COMPTROLLER
HILLSBOROUGH COUNTY

The Honorable Ken Hagan, Chair
The Honorable Donna Cameron Cepeda
The Honorable Harry Cohen
The Honorable Pat Kemp
The Honorable Gwen Myers
The Honorable Michael Owen
The Honorable Joshua Wostal

January 20, 2023

Dear Commissioners:

The Audit Team performed an audit of the Surplus Assets Inventory Controls (Audit Report #413, dated January 20, 2023). Responses to the Audit Team's recommendations were received from the Director of Facilities Management and Real Estate Services and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management with an independent, objective analysis, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I appreciate this opportunity to be of service to the Board of County Commissioners. I am happy to address any questions that you may have or furnish additional information if desired.

Sincerely,

Heidi Pinner

Heidi Pinner, CIA CISA CFE CRMA
Chief Audit Executive, Clerk of Court & Comptroller

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Hillsborough County Surplus Warehouse (the Warehouse) is responsible for managing the County's Surplus Assets Recycling Program. When County departments have assets they no longer need such as office furniture, computers, printers, monitors, or other equipment, the assets are transferred to the Surplus Warehouse and are stored as surplus for possible future County use. Surplus assets may also be donated to non-profit organizations, sold for scrap, recycled, discarded, or auctioned off through a third-party auction vendor.

The Warehouse is responsible for taking in surplus assets received from County departments and maintaining an inventory through the use of asset forms, bar code stickers, handheld scanners, shelf and floor locations, and a software application called the Fixed Assets Tracking System (FATS). The overall goal is to ensure a complete and accurate record for all tangible assets and to ensure that they are adequately safeguarded.

OBJECTIVE

The primary objective of the audit is to determine whether or not the Surplus Warehouse has effective controls and processes in place to ensure that the surplus inventory is stored, safeguarded, accurately tracked, and/or disposed of in an appropriate manner.

SCOPE

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

Audit procedures were performed on:

- The inventory of surplus assets that existed as-of May 27, 2022.
- A non-profit donation event held during February, 2022.
- Two (2) asset auctions during September, 2021 and January, 2022.

OVERALL EVALUATION

The Audit Team conducted interviews, site visits, observations, inventory tests, non-profit confirmations, documentation reviews, and assessed internal controls and procedures governing the Warehouse's operations. Asset transfer documentation, auction processes, and asset inventory data were tested to determine whether or not the Warehouse's processes were well controlled.

PROCESS STRENGTHS AND SUCCESSES

- **Appropriate mechanisms are in place for monitoring and tracking surplus assets.**
- **Satisfactory asset transfer documentation is maintained by the Warehouse.**
- **Non-profits are given equitable opportunities to obtain asset donations from the County.**

CONTROL IMPROVEMENT OPPORTUNITIES/RISKS

- **Non-profits registering for County donations could be more fully vetted to ensure the legitimacy of those organizations.**
- **Assets unable to be sold via third-party auction are not tracked and could be misappropriated.**

Full testing results are included on page 5 of this Report.

OPINION

Control Maturity Levels



The overall control environment relative to the management of the Surplus Warehouse’s Inventory Controls is at a formal (defined) maturity level. This means that management has generally established mechanisms to ensure there are effective controls over the tracking and inventorying of surplus assets. There is some reliance on non-profit attestations and the use of a third-party auction service and manual processes. However, controls are well-defined, an overall control awareness exists, and procedures/processes with a formal structure are in place.

The exit conference was held with the Surplus Warehouse and County leadership on December 5, 2022.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Heidi Pinner, CIA, CISA, CFE, CRMA, Chief Audit Executive
 Ben Everett, CPA, CIA, CFE, CISA, Audit Manager
 Tierra Cook, Internal Auditor

AUDIT COMMENT 1: INVENTORY VALIDATION

WAREHOUSE
53 SAMPLES TESTED
2 EXCEPTIONS

INVENTORY DATA
50 SAMPLES TESTED
4 EXCEPTIONS

RE-ISSUED ASSETS
50 SAMPLES TESTED
NO EXCEPTIONS

Surplus Assets are generally recorded properly in the Fixed Assets Tracking System (FATS) and proper documentation is maintained.

The objective was to determine whether or not surplus assets acquired by the Surplus Warehouse:

- Are accurately logged in the FATS system.
- Could be located in the warehouse.
- Had proper transfer documentation from the County departments.

Background

To transfer assets to the Surplus Warehouse, County departments must arrange for the delivery of the item(s) with the proper transfer documentation. Assets under a current threshold of \$5,000.00 (formerly \$1,000.00) are known as non-recorded assets and are transferred to the warehouse using a document called the Transfer of Surplus Property Form. Assets of \$5,000.00 or more (formerly \$1,000.00 or more) are known as recorded assets and are required to be documented on a Fixed Assets Action Request (FAACS) Form. The Warehouse retains these documents upon receipt of surplus assets.

The Surplus Warehouse uses handheld scanners to scan the item’s barcode number and input the necessary information associated with the item such as the floor and shelf location into the FATS system for tracking purposes.

When an asset is redistributed to another County department, the Warehouse staff will scan the asset out to the requesting department using the barcode scanner. The proper transfer documentation is completed by the Warehouse staff and the requesting County Department’s representative.

Test Procedure

The Audit Team obtained a complete list of assets from FATS as-of May 27, 2022 and visited the Warehouse to perform the following audit procedures:

- Physically selected a random sample of 53 assets from the Warehouse floor and traced them back to the FATS data and transfer documentation to ensure all the information matched.
- Selected another random sample of 50 assets from the FATS data, located them on the Warehouse floor, and traced them to the transfer documentation to ensure all the information matched.
- Selected an additional random sample of 50 assets listed in FATS as having been re-issued to a County department and reviewed the transfer documentation for appropriateness and accuracy.

TESTING RESULTS



All 53 samples physically selected from the Warehouse floor were successfully located within the FATS system data and had the appropriate supporting documentation completed with proper signatures.



Two data exceptions were observed in the inventory record for this sample:

- One (1) office credenza had a location in the FATS data that was different than the location it was physically picked from by the Audit Team.
- One (1) privacy wall door was showing in FATS as having been scanned out to the third-party auction vendor even though the asset was still at the warehouse.



All 50 assets (100%) selected from the FATS system were successfully located by the Audit Team and had the appropriate supporting documentation completed with proper signatures (100%).



Most also had matching information in FATS, however:

- Four (4) exceptions were observed for assets with differing recorded versus non-recorded statuses (8%).
- One (1) laptop computer was listed in FATS as a non-recorded asset even though it was a recorded asset.
- Three (3) desktop computers were listed in FATS as recorded when the actual assets were non-recorded.



For the additional sample of 50 re-issued assets, all 50 (100%) had the appropriate supporting documentation completed with proper signatures and matching information (item description, bar code number, department name, etc.). No discrepancies were found.

Overall, the Audit Team found well-organized documentation on-hand with an intuitive filing system that facilitated test procedures all throughout the audit.

RECOMMENDATION

Management should consider working with Warehouse staff to ensure accurate accounting for all future surplus assets in the Fixed Assets Tracking System.

CLIENT RESPONSE:

Concur

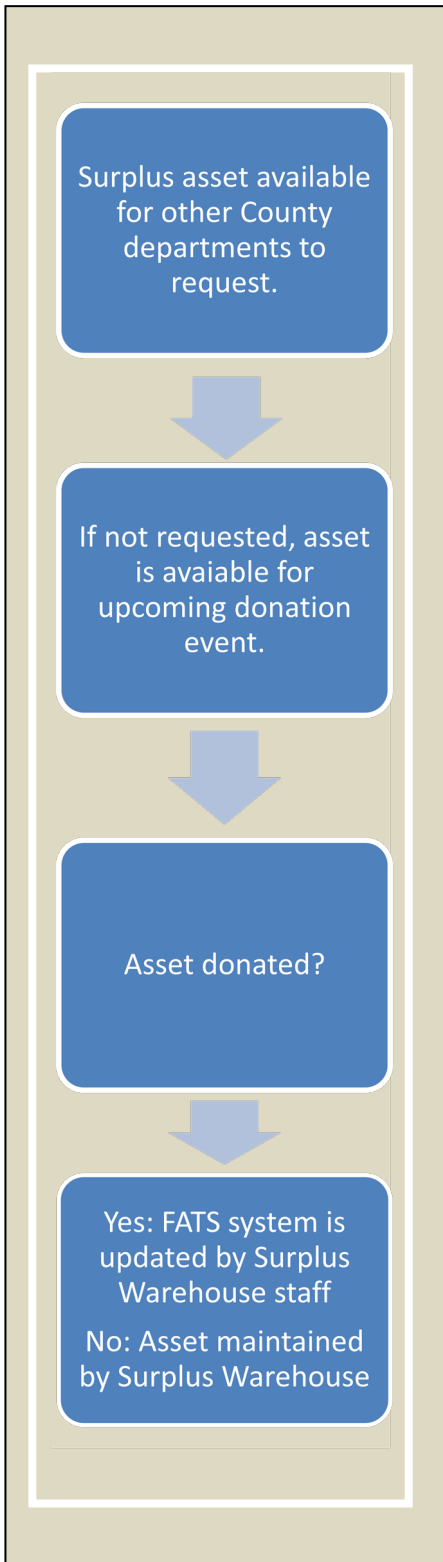
CORRECTIVE ACTION PLAN:

All Staff have reviewed the process and understand that accurate accounting is necessary. It was emphasized that all movements of items must be documented in the fixed assets tracking system. The manager will conduct quarterly spot checks to ensure compliance throughout the team and the results will be provided to department management.

TARGET COMPLETION DATE:

January 31, 2023.

AUDIT COMMENT 2: ASSET DONATION PROCESS



The non-profit organization donation process has effective documentation controls. However, non-profits could be researched online to further verify their authenticity.

The objective was to determine whether or not the Warehouse has effective controls to ensure accurate documentation of donated assets is maintained for the non-profit donation events.

Background

Twice a year, the Warehouse hosts a donation event to contribute surplus assets to non-profit organizations located in Hillsborough County. Non-profits may register for an e-mail list to receive announcements of future donation drives. The requirements include:

- Being a non-profit organization within Hillsborough County for at least one year.
- Being registered with the Division of Florida Corporations (Sunbiz).
- Having an active status.

Warehouse staff notifies non-profits of upcoming donation events via an e-mail announcement. Interested non-profits are required to submit a questionnaire stating what type and quantities of assets they’re looking for, as well as a notarized affidavit acknowledging potential legal penalties for submitting false information. However, non-profits are not normally vetted to verify their authenticity and existence. Appointments for asset pick-up times are typically scheduled over a two-week period and assets are rationed so that each non-profit has an equal opportunity to obtain an equal number of assets regardless of the appointment time.

Warehouse staff scan the assets selected by each non-profit and prepare a tally report from FATS that lists each item being donated. The tally report is signed by the Warehouse manager and the non-profit representative for record keeping purposes. A copy is provided to the non-profit and the original

is filed at the Warehouse. Seventy-one (71) non-profits participated in a donation event during February, 2022, which was reviewed by the Audit Team.

Test Procedure

The Audit Team visited the Warehouse during one of the scheduled donation days on February 16, 2022 and observed two different non-profits collecting donations of assets with the assistance of Warehouse staff. The following audit test procedures were performed:

Of the 71 participating non-profits, a random sample of thirty (30) was selected and researched online by the Audit Team to verify their authenticity by:

- Reviewing their questionnaire and affidavit for appropriateness.
- Confirming they were active for at least 1 year on Sunbiz.
- Searching for the organization's website or feedback reviews online.
- Locating them on an online street-level map view and confirming they exist in Hillsborough County.

Of the 71 participating non-profits, an additional random sample of fifteen (15) was selected and the following tests were performed to confirm that:

- The tally report was on file and signed by the non-profit representative and Warehouse staff.
- The tally report matches the related asset data in the FATS system.
- The non-profit contact person on the Warehouse's e-mail announcement list could verify that the non-profit received the items on the tally report.

TESTING RESULTS



The Audit Team successfully verified the existence of all 30 non-profits in the audit sample.



The additional 15 non-profits tested had no exceptions found:

- All 15 tally reports were on file and were signed by the non-profit representative and the Warehouse staff.
- All 15 tally reports matched the related asset data in the FATS system.
- The non-profit representative for all 15 organizations responded to the Audit Team's inquiry and confirmed the assets received.

Warehouse staff advised that although non-profits must complete the notarized affidavit, the Warehouse generally does not perform procedures to verify the authenticity of the non-profit organization. As-of the time of the audit, there were 215 non-profits on the e-mail

announcement list. The Audit Team's online research to verify the sample of 30 non-profits only required several minutes of time per non-profit.

RECOMMENDATION

Warehouse management should consider going through the e-mail announcement list and performing online research to verify the existence of all non-profits on the list. Management should also consider implementing a process to verify any new non-profit agencies requesting to be added to the list in the future.

CLIENT RESPONSE:

Concur

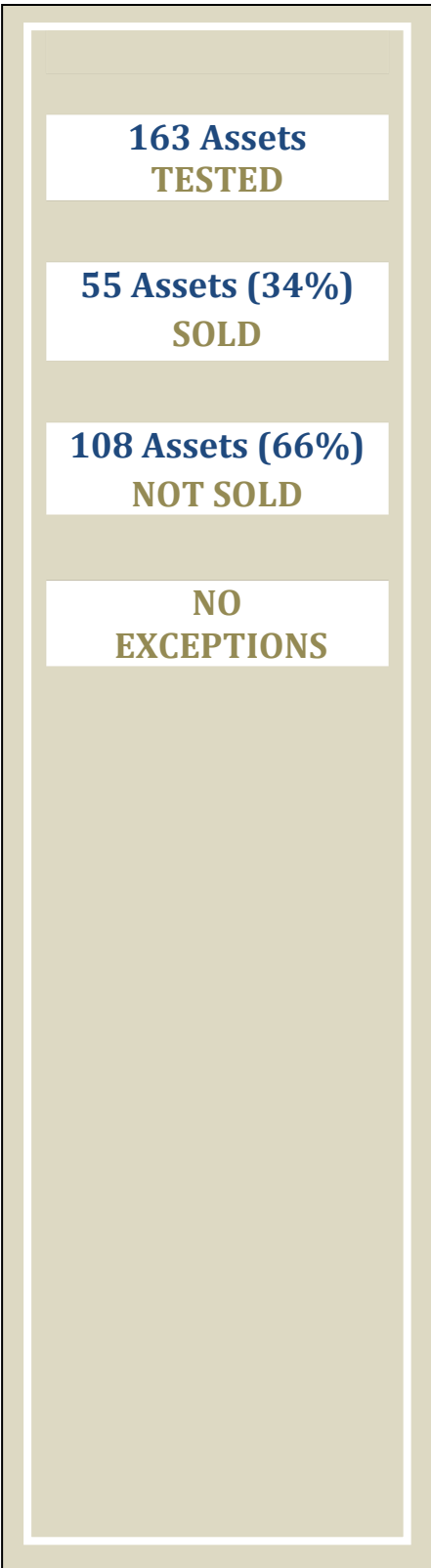
CORRECTIVE ACTION PLAN:

The manager has revised NPO online questionnaire to be more detailed. Organizations have to be operational for at least 12 months. All NPOs information is validated, and organizations must provide notarized documentation verifying their standing annually. Online checks through Sunbiz verify any name changes or updated locations. Additionally, the manager is maintaining a spreadsheet to track NPO information and their last verification date. Any new requests are routed to the questionnaire for consistency and validation.

TARGET COMPLETION DATE:

January 20, 2023.

AUDIT COMMENT 3: ASSET AUCTION PROCESS



The Warehouse’s liquidation disposal process has some residual risk but overall, has adequate controls in place.

The objective was to determine whether or not there are effective controls in place for liquidating unused surplus inventory through a third-party auction vendor.

Background

Liquidation is the process of selling off inventory to generate revenue. The Warehouse periodically liquidates assets that are not being requested by County departments for re-use. Hillsborough County maintains a contract with a local auction company that auctions off assets to the general public on behalf of the County. Assets are picked up by the auction company and are scanned out in FATS. A tally report is generated from FATS listing the assets being transferred to the auction vendor which is signed or initialed by the auction vendor and the Warehouse staff.

The auctioneer hosts most auctions on Saturdays and attempts to auction each asset to groups of bidders. The auctioneer may attempt to sell the assets through several auctions, but will eventually dispose of items that cannot be sold to make room for newer items. The sale proceeds are paid to the County via a check, less a 10% commission kept by the auction vendor. The auction vendor provides a consignment sales report that lists each item sold with the selling price and total amounts at the bottom. The consignment sales report, tally report, and a copy of the check are kept on file at the Warehouse.

Test Procedure

- Prior to meeting with the auction vendor, the Audit Team conducted an unannounced visit to the auction facility and observed live auctions on two (2) different Saturdays to gain familiarity with the process.

- The Audit Team selected two (2) prior tally reports dated September 7, 2021 and January 24, 2022 and reviewed the assets listed on each report. There were 76 and 87 assets respectively, totaling 163 items to be auctioned off. Earlier dates were chosen to allow sufficient time for the auction process and corresponding payments to be made to the County prior to audit testing.

For all 163 assets, the Audit Team reviewed the corresponding consignment sales reports and check payments from the vendor and performed the following tests:

- Traced each asset on the tally reports to subsequent consignment sales reports to determine if the asset had been sold.
- Verified the selling price by contacting the auction vendor and reviewing copies of their individual customer invoices showing the item sold, selling price, and cash or credit card payment slip to determine if the amounts matched the consignment sales report.
- Re-calculated the dollar amounts on each consignment sales report to ensure that the total dollar amount was accurate and matched the check paid to the County, less the 10% commission.
- Visited the auction vendor's facility and asked to see the remaining assets that had not been sold during the auctions.
- Reviewed the tally reports to ensure they were signed and each asset was documented in the FATS system as having been issued to the auction vendor.

TESTING RESULTS

Fifty-five (55) of the 163 assets tested (34%) were sold at their respective auctions.

The Audit Team contacted the auction vendor and visited their facility to request copies of the individual customer sales invoices to confirm the accuracy of the selling prices on the consignment reports. All 55 assets had appropriate supporting customer invoices with payment amounts that matched the consignment reports.

During the site visit, the Audit Team toured the auction storage areas and inquired with the auction vendor as to the status of the other 108 unsold assets. The unsold assets were not on-hand at the facility and the auctioneer advised they dispose of assets that they are unable to sell after several auction attempts. The auction vendor does not provide a reconciliation or listing of what items were sold or unsold to the Warehouse staff and Warehouse staff does not perform their own reconciliation. Many of the assets sell for small dollar amounts of less than \$50. The auction vendor has determined that it is not cost effective to expend staff time tracking each unsold asset. This does leave some residual risk as assets not sold at auction are not accounted for by the auction vendor or the Warehouse.

The Audit Team verified that all assets listed on the tally reports matched up with the FATS data and each tally report contained the appropriate signatures.

RECOMMENDATION

The limited residual risk in the process and cost inefficiencies of additional controls make implementing further controls unreasonable. Therefore, the Audit Team does not have a recommendation for corrective action.

CLIENT RESPONSE:

As an extra measure of caution, the Logistics Section manager, the warehouse manager, or designated representative will attend auctions quarterly to verify and take note on items that do not sell. Staff will take pictures and maintain a list of items sent to the auction. The auction house will be required to identify items not sold and will need to provide a reconciled list of sold & unsold items. Additionally, staff will continue to work with the vendor to identify assets that have a low likelihood of sale and will look for other sources for recycling these items.