



Inventory Audit

Audit Report Number 14-A002

February 25, 2015

Executive Summary

The Division of Emergency Management (Division), Office of Inspector General, conducted an audit of the Division's property to determine whether it is controlled and accounted for as required by statute and rule. The audit included tangible property as well as disaster supplies and equipment held at the State Logistics Response Center (SLRC) in Orlando.

Our audit disclosed the following issues related to the Division's tangible property:

- Receiving forms were not completed for some property items and many receiving forms for property items did not contain all of the information required by the Property Management and Accountability Policy.

We recommend the Bureaus of Response and Finance ensure that receiving forms are completed for all property received and all required information for property received is recorded on the receiving form.

- The accountable property form has not been consistently used to issue tangible property.

We recommend the Bureau of Response ensure that the accountable property form is consistently used to issue tangible property.

- The Division does not always record all property information required by Rule 69I-72, Florida Administrative Code (F.A.C.) completely and accurately into the Florida Accounting Information Resource (FLAIR) Property Subsystem for tangible property acquisitions.

We recommend the Bureau of Finance establish internal controls to ensure that property acquisitions are accurately and completely recorded into FLAIR.

- The Division is duplicating FLAIR property records in the Division's Property Accountability System (an Access database).

We recommend the Bureau of Response discontinue duplication of FLAIR property records in the Division's Property Accountability System.

- Division did not consistently report missing items identified during the inventory process to the custodian, conduct an investigation or file reports with the appropriate law enforcement agency.

We recommend the Bureaus of Response and Finance update the Division's Property Management and Accountability policy to comply with Rule 69I-72, F.A.C., and develop a process to ensure that items not located during the inventory are reported to the custodian and a thorough investigation is conducted.

- Division's Property Management and Accountability policy does not reference or include the requirements of Chapter 273, Florida Statutes (F.S.), and Rule 69I-72, F.A.C., relating to recording property, surplus property, disposition of property and inventory.

We recommend the Bureaus of Response and Finance ensure the policy update reflects requirements of Chapter 273, F.S., and Rule 69I-72, F.A.C.

- The inventory process extended significantly past June 30th and the inventory listing was not properly finalized with regard to missing items.

We recommend the Bureaus of Finance and Response update the Property Management and Accountability Policy to include instructions for conducting and finalizing the physical inventory.

Our audit also disclosed the following issues related to the disaster supplies and equipment held at the SLRC:

- The Division lacks documented procedures for SLRC operations. Specifically, procedures for safety, access to the SLRC, shipping, receiving, and tracking of disaster supplies and equipment are not documented.

We recommend the Bureau of Response develop written procedures for SLRC operations, including procedures for safety, access to the SLRC, shipping, receiving, and tracking of disaster supplies and equipment.

- During observation of the physical inventory, significant damage to the racks was observed throughout the SLRC. The damage appeared to have been caused by forklifts hitting the racks. Many of the aisles in the SLRC are not wide enough to accommodate proper forklift operation.

We recommend the Bureau of Response conduct an assessment of the SLRC to identify if any corrective actions are necessary to address the damage to the racks and the adequacy of the aisle widths.

We would like to thank and acknowledge the cooperation and assistance of Division staff during this audit.

Introduction and Background

The Division's Office of Inspector General, conducted an audit of Division property, including tangible property, and disaster supplies and equipment held at the SLRC, to determine whether Division property is controlled and accounted for as required by statute and rule. This audit was conducted as part of Office of Inspector General's annual work plan.

Tangible Property

Department of Financial Services rules require State agencies to maintain records of all State-owned tangible personal property in their custody with a value or cost of \$1,000 or more and a projected useful life of one year or more. FLAIR is the primary tool used by state agencies to create and maintain a Property File that contains detailed records for accounting and management of tangible property items. Rule 69I-003, Recording of Property, F.A.C., requires each property record to include the following information:

- (a) Identification number.
- (b) Description of item or items.
- (c) Physical location.
- (d) Name of custodian or custodian's delegate with assigned responsibility for the item.
- (e) Class Code.
- (f) In the case of a property group, the number and description of the component items comprising the group.
- (g) Name, make or manufacturer, if applicable.
- (h) Year and/or model(s), if applicable.
- (i) Manufacturer's serial number(s), if any, and if an automobile, vehicle identification number (VIN) and title certificate number, if applicable.
- (j) Date acquired.
- (k) Cost or value at the date of acquisition for the item or the identified component parts thereof.
- (l) Method of acquisition and, for purchased items, the statewide document (voucher) number obtained from the State's financial system.
- (m) Date the item was last physically inventoried and the condition of the item at that date.
- (n) If certified as surplus, the information prescribed in Section 273.05(5), F.S.
- (o) If disposed of, the information prescribed in Rule 69I-72.005, F.A.C.
- (p) Any other information on the individual property record that the custodian may care to include.

Each agency has a Property Custodian tasked with keeping track of assets and maintaining the Property Pending and Property Master Files, ensuring that assets have complete accounting and non-accounting information. Each custodian shall ensure that a complete physical inventory of all property is taken at least once each fiscal year. Rule

69I-006, Inventory of Property, F.A.C., requires the form used to record the physical inventory to display, at a minimum, for each property item the following information:

- (a) Date of the current inventory.
- (b) Name and signature of the person who conducted the current inventory.
- (c) Identification number.
- (d) Existence of item (or indication that the item was not located).
- (e) Description of the item or items.
- (f) Present condition of the item or items.
- (g) Physical location.
- (h) The name of the custodian or the custodian's delegate with assigned responsibility for the item.
- (i) State standard class code.
- (j) In the case of a property group, the number and description of the component items comprising the group.
- (k) Name, make or manufacturer, if applicable.
- (l) Year and/or model(s), if applicable.
- (m) Manufacturer's serial number(s), if any, and if an automobile, vehicle identification number (VIN) and title certificate number, if applicable.
- (n) Date acquired.

Upon completion of a physical inventory, the data listed on the inventory forms shall be compared with the individual property records. Noted differences shall be investigated and corrected. Items not located during the inventory process shall be promptly reported to the custodian and the custodian shall cause a thorough investigation to be made.

Disaster Supplies and Equipment

In response to the hurricane seasons of 2004 and 2005, House Bill 7121 provided legislative findings with respect to the compelling need for improvements in the state's infrastructure in order to better protect the residents of Florida. The Legislature found that improved logistical staging and warehouse capacity for commodities would help ensure that adequate supplies, equipment, and commodities would be available and accessible for responding to disasters. The Legislature appropriated \$6.5 million to increase storage capacity, improve technologies to manage commodities, and enhance the state's ability to maintain, in a safe and secure manner, an inventory of supplies, equipment, and commodities that would be needed in the immediate aftermath of a disaster.

To implement the findings from House Bill 7121, the Division established the SLRC. The SLRC serves as an alternative emergency operations center and warehouse to store an inventory of disaster supplies and equipment that may be needed in the immediate aftermath of a man-made or natural disaster. The inventory at the SLRC includes food, water, medical supplies, and other items.

Findings and Recommendations

Tangible Property

Finding 1 – Receiving Documentation

The Property Management and Accountability Policy states “...the Accountable Property Officer (APO) and the Property Analyst (PA) will complete the receiving form. The receiving form at a minimum must include the property item, description of the item which includes the model number, manufacturer, serial number, and location (which will include the building and room number)...the receiving form must be signed by both the APO and the PA for tangible property in Tallahassee. For tangible property in other locations, the receiving form must be signed by the APO designee and a witness...”

Receiving documentation was reviewed for a sample of 25 tangible property items. The receiving documentation for some of the property items did not include a receiving form. Many of the receiving forms for items in the sample did not contain all of the information required by the Property Management and Accountability Policy. Review of the sample identified the following deficiencies:

- 3 of the items were missing a receiving form;
- 22 of the forms were missing the room number;
- 10 forms were missing the description, model number and manufacturer; and
- 7 forms were not signed by both the APO and the PA.

Recommendation

We recommend the Bureaus of Response and Finance ensure that receiving forms are completed for property received. The receiving forms should contain all information required by the Property Management and Accountability Policy and be signed by the APO and PA.

Management Response

Bureau of Finance - We concur with the recommendation. Within our working group between the Bureaus of Finance and Response, we are updating our Property Receiving Form to capture the missing information and reviewing the policies to state that the information shall be listed if known at the time of purchase and receipt. We are also revising the procedures to allow the receiver and/or a supervisor from either Finance or Response to act as a delegate for the PA or the APO as needed in receipt of property.

Bureau of Response – We concur with the recommendation. We will work with Finance and Legal to update the Property Receiving Form and ensure that the forms are properly completed and signed.

Finding 2 – Property Issuance Process

The Property Management & Accountability Policy requires the Division’s accountable property form to be used to record the issuance of all tangible property. The accountable property form requires all personnel receiving property to attest to their responsibility to maintain proper security over property in their possession, report damage, loss or theft of the property to the APO and their immediate supervisor, and to return the property to the Division upon completion of their assignment or termination.

The accountable property form has not been consistently used to issue tangible property. The most common type of equipment that was issued without completing an accountable property form was computers. Without a completed accountable property form, it may not be possible to enforce accountability for damaged, lost or stolen property.

Recommendation

We recommend the Bureau of Response ensure that the accountable property form is consistently completed.

Management Response

Bureau of Response – We concur with the recommendation. We will update the Property Management and Accountability Policy to ensure that accountable property forms are consistently completed.

Finding 3 – Master File

Rule 69I-72.002, F.A.C., states “all tangible personal property with a value or cost of \$1,000 or more and having a projected useful life of one year or more shall be recorded in the state’s financial system as property for inventory purposes.” Rule 69I-72.003, F.A.C., states “each property record shall include the following information: identification number, description of item, physical location, name and manufacturer, year and year model, serial number, and date acquired.”

The Division does not always completely and accurately record all required property information into FLAIR for tangible property acquisitions. A sample of 25 items was reviewed; many of the items reviewed were missing information:

- Serial numbers were missing for 11 of the items;
- 1 item had an incorrect serial number; and
- 1 item had an incorrect tag number.

Recommendation

We recommend the Bureau of Finance establish internal controls to ensure that property acquisitions are accurately and completely recorded into FLAIR in compliance with Rule 69I-72, F.A.C.

Management Response

Bureau of Finance - We concur with the recommendation. Within our working group between the Bureaus of Finance and Response we are working to establish a monthly check by the Finance Supervisor to ensure that all received items are tagged properly and given the correct serial number. These may also be spot checked at any time and this will also be reflected as we update the Policy.

Finding 4 – Multiple Property Systems

Rule 69I-72.002, F.A.C., states, “All tangible personal property with a value or cost of \$1,000 or more and having a projected useful life of one year or more shall be recorded in the state’s financial system as property for inventory purposes.” Section 215.93(2), F.S., provides that agencies do not have the authority to establish or maintain additional subsystems which duplicate any of the information in Subsystems of the Florida Financial Management Information System.

The Division is duplicating FLAIR property records in the Division’s Property Accountability System (an Access database). Duplicated property records include:

- Asset description;
- Serial number;
- Grant funding source; and
- Acquisition date.

Recommendation

We recommend the Bureau of Response discontinue duplication of FLAIR property records in the Division’s Property Accountability System.

Management Response

Bureau of Response – We concur with the recommendation. We will update the Property Management and Accountability Policy to prevent unnecessary duplication of FLAIR property records in the Division’s Property Accountability System.

Finding 5 – Missing Tangible Property

Rule 69I-72.006, F.A.C., states, “Items not located during the inventory process shall be promptly reported to the custodian ... and the custodian shall cause a thorough

investigation to be made. If the investigation determines that the item was stolen, the individual property record shall be so noted and a report filed with the appropriate law enforcement agency describing the missing item and the circumstances surrounding its disappearance.”

The Division’s Property Management and Accountability policy does not address items not located during the inventory. The Division did not consistently report missing items identified during the inventory process to the custodian, conduct an investigation or file reports with the appropriate law enforcement agency.

Recommendation

We recommend the Bureaus of Response and Finance update the Division’s Property Management and Accountability policy to comply with Rule 69I-72, F.A.C., and develop a process to ensure that items that are not located during the inventory are reported to the custodian and a thorough investigation is conducted.

Management Response

Bureau of Finance - We concur with the recommendation. Within our working group between the Bureaus of Finance and Response we are collaborating on updating the procedures to address missing items accordingly and also establish a delegate custodian who will follow up the investigation of missing property as reported.

Bureau of Response – We concur with the recommendation. We will work with Finance to update the procedures to address missing items accordingly and also establish a delegate custodian who will follow up the investigation of missing property as reported.

Finding 6 – Property Management and Accountability Policy

Chapter 273, F.S., and Rule 69I-72, F.A.C. provide guidance for the inventory process and documentation. While the Division currently complies with many of these requirements, the Division’s Property Management and Accountability policy does not reference or include the items listed below:

- Section 273.05 (2)(3)(4)(5), F.S. Surplus property.
 - (2) Each custodian shall appoint one or more review boards to examine and make recommendations on approval or disapproval of classification of property as surplus.
 - (3) Property determined to be surplus shall be certified as such by the custodian.
 - (4) Each custodian shall promulgate rules or guidelines regarding the certification of surplus property.
 - (5) Custodian shall maintain records of property that is certified as surplus with information indicating the value and condition of the property.
- Section 273.055(4), F.S. Disposition of state-owned tangible personal property.

- (4) Each custodian shall adopt guidelines or administrative rules and regulations pursuant to chapter 120.
- Rule 69I-72.003(3)(5), F.A.C. Recording of Property.

(3) Property records do not contain all the specific items contained in 69I-72.003(3).

(5) Depreciation shall be recorded to meet financial reporting requirements relating to the depreciation accounting.
 - Rule 69I-72.005(2)(4), F.A.C. Disposition of Property.

(2) Required information needs to be recorded on the individual property record, such as; date of certification, reason for certification; date of review board; and reference to location of documentation.

(4) Methods of Disposition- Property within these rules may be lawfully disposed of as provided in Sections 273.04, 273.05, and 273.055, F.S.
 - Rule 69I-72.006(2)(3)(4)(6)(7), F.A.C. Inventory of Property.

(2) The form used to record the physical inventory shall display the list of items.

(3) Any property item found during the conduct of an inventory which is not included on the inventory items forms, shall have an inventory form created for the item when located.

(4) The custodian's delegate shall not personally inventory items for which they are responsible.

(5) In some instances, it may not be cost effective to make a physical inventory of property that has been temporarily assigned to another custodian at an off-site location.

(6) The data on the inventory forms shall be compared with the individual property records and items not located during the inventory process shall be promptly reported to the custodian or custodian's designee.

(7) For items identified as unaccounted for, recording the items as disposition or otherwise removing the items from the property records shall be subject to approval of the State's Chief Financial Officer.

Recommendation

The Bureaus of Response and Finance are currently in the process of updating the Property Management and Accountability Policy to reflect current practices and requirements. We recommend the Bureaus of Response and Finance ensure the policy update reflects requirements of Section 273, F.S., and Rule 69I-72, F.A.C.

Management Response

Bureau of Finance - We concur with the recommendation. Within our working group between the Bureaus of Finance and Response we are updating the Policy and will incorporate the missing requirements to address deficiencies as noted by Section 273, F.S., and Rule 69I-72, F.A.C.

Bureau of Response – We concur with the recommendation. In practice we comply with the requirements of Section 273, F.S., and Rule 69I-72, F.A.C. We will update the Property Management and Accountability Policy to include the requirements of Section 273, F.S., and Rule 69I-72, F.A.C.

Finding 7 – Inventory Process

The Property Management and Accountability Policy states, “Division Finance shall conduct an independent annual inventory of all property in the FLAIR Property Subsystem as close to June 30 as practicable ...”

The inventory process extended significantly past June 30th and the inventory listing was not properly finalized with regard to missing items as discussed in finding 5.

Recommendation

We recommend the Bureaus of Finance and Response update the Property Management and Accountability Policy to include instructions for conducting and finalizing the physical inventory.

Management Response

Bureau of Finance - We concur with the recommendation. Within our working group between the Bureaus of Finance and Response we will review the current procedure and ensure that the final report is submitted to the Finance Administrator and Deputy Director. In addition we are revising the Policy to provide more definitive details for this procedure.

Bureau of Response – We concur with the recommendation. We will update the Property Management and Accountability Policy to include instructions for conducting and finalizing the physical inventory.

State Logistics Resource Center

Finding 8 – SLRC Procedures

Sections 20.05(1)(a) and (e), F.S., state that it is the duty of the head of the department to plan, direct, coordinate, and execute the powers, duties, and functions vested in the department and to promulgate rules pursuant and limited to those powers, duties, and functions.

The Division lacks documented procedures for SLRC operations. Specifically, procedures for safety, access to the SLRC, shipping, receiving, and tracking of disaster supplies and equipment are not documented.

Recommendation

We recommend the Bureau of Response develop written procedures for SLRC operations, including procedures for safety, access to the SLRC, shipping, receiving, and tracking disaster supplies and equipment.

Management Response

Bureau of Response – We concur with the recommendation. We are in the process of updating Annex 11 of the Logistics Plan, SLRC Operations, to readdress the concerns addressed in the finding. While Annex 11 already addresses safety, activation checklists and forklift operations, we are in the process of updating and elaborating on those guidelines as well as other protocols. Subsequent to audit fieldwork, we provided forklift training for all staff operating forklifts and will continue to do so on a formal basis.

Finding 9 – SLRC Racking System

Prior to the physical inventory, Division staff became aware of and examined damage to a rack that had been struck by a forklift. Appropriate corrective actions were not taken and the rack later collapsed. This may have been prevented if a policy requiring regularly scheduled inspections and repair of significantly damaged racks had been in place.

During observation of the physical inventory, significant damage to the racks was observed throughout the SLRC. The damage appeared to have been caused by forklifts hitting the racks. The primary forklift used in the SLRC is a sit-down counter-balanced forklift that measures 11 feet 6 inches from the tip of the fork to the back of the forklift. Many of the aisles in the SLRC are not wide enough to accommodate proper operation of the forklift. Some aisles are as narrow as 10 feet 10 inches wide. The industry standard aisle width for this type of forklift is 12 feet.

The damaged racks were manufactured by Interlake Mecalux, Inc. The Interlake Mecalux, Inc. user manual states, “Allow adequate aisle spacing. Make certain that aisle widths are compatible with the corresponding equipment. Aisles that are too narrow can result in excessive forklift damage to the rack system and lifting equipment, which may decrease the rack’s capacity to carry load.” The user manual also recommends performing a regularly scheduled maintenance program. At a minimum this program should:

- Inspect for damaged or missing components;
- Ensure that all bolts and fasteners are properly tightened; and
- Take corrective actions to repair or replace damaged or missing components.

Recommendation

We recommend the Bureau of Response conduct an assessment of the SLRC to identify if any corrective actions are necessary to address the damage to the racks and the adequacy of the aisle widths. We also recommend the Bureau of Response implement a policy for regular inspection and maintenance of the racking system.

Management Response

Bureau of Response – We concur with the recommendation. We contracted with an engineering firm for an assessment of the SLRC to identify if any corrective actions are necessary to address the damage to the racks and the adequacy of the aisle widths. We are in the process of implementing the corrective actions recommended by the engineering firm. We have implemented weekly and monthly documented inspections of the entire facility effective March 1, 2015. We are also in the process of updating Annex 11 to the Logistics Plan, SLRC Operations, to address safety and security in greater detail than the current document. This update is expected to be completed by March 1, 2015.

ATTACHMENT 1 - Purpose, Scope and Methodology

Pursuant to Section 20.055, F.S., the Division's Office of Inspector General conducts audits to promote accountability, integrity, and efficiency in government. This audit was performed as part of the Office of Inspector General's annual work plan.

The purpose of the audit was to determine whether Division property is controlled and accounted for as required by statute and rule.

The scope of this audit included Division-owned tangible property and disaster supplies and equipment held at the SLRC.

Our methodology included:

- Reviewing applicable laws, rules, regulations and procedures;
- Reviewing prior audits and monitoring reports;
- Reviewing processes for property receiving and issuance;
- Reviewing the Division's inventory process;
- Testing the physical inventory;
- Testing FLAIR property records;
- Interviewing appropriate Division staff; and
- Observing the Division's inventory of SLRC supplies and equipment.

ATTACHMENT 2 - Audit Team and Statement of Accordance

Audit Team

Pace Callaway, Auditor

Mandi Cohen, Auditor

Ronnie Atkins, CPA, CIA, CMA, CIG, Deputy Inspector General

Statement of Accordance

Our audit was conducted under the authority of Section 20.055, F.S., and in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, and Principles and Standards for Offices of Inspector General, published by the Association of Inspectors General.

ATTACHMENT 3 - Addressee and Distribution List

Bryan Koon, Director

Copies distributed to:

Michael DeLorenzo, Assistant Director

Leo Lachat, Response Bureau Chief

Kevin Smith, System Project Analyst

Phyllis Vaughn, Fiscal Administrator

Melinda M. Miguel, Chief Inspector General

David W. Martin, Auditor General