



April 30, 2008

Audit Report Number 08013

Surplus Property Disposition Process Lacks Adequate Safeguards and Accountability

SUMMARY

The purpose of this audit was to evaluate the surplus property disposition process to determine the adequacy of the associated controls.¹

Our evaluation determined that the current surplus property disposition process:

- does not ensure designated property is approved as surplus prior to disposition,
- lacks adequate safeguards to protect against fraud and abuse, and
- does not ensure accurate recordkeeping.

We included six recommendations to provide assurances that:

- property is certified as surplus prior to disposition;
- designated information technology property is routed through DIS prior to disposition;
- specified surplus determination criteria is utilized for designated information technology property;
- untagged property is logged when classified as surplus;
- FLAIR recordkeeping responsibility is restricted to staff without access to surplus property; and
- FLAIR reflects the actual property transfer and disposition dates.

¹Controls are tools used by management to ensure department goals and objectives are accomplished within acceptable levels of risk.

BACKGROUND

The Department is responsible for the safeguarding and accountability of tangible personal property under its custody. Department property can be classified as either tagged or untagged.² Tagged property is controlled and tracked throughout its Departmental life cycle and includes all property items that cost \$1,000 or greater and have a projected life of more than one year. Tagged property also includes "attractive" items such as firearms, desk top and laptop computers, regardless of cost. As of June 30, 2007, the Department had custody of 11,772 tagged property items, with an acquisition value of \$61.6 million. Each of these tagged property items is controlled and tracked through The Florida Accounting Information Resource System (FLAIR).

Property that does not meet the criteria for tagged property is classified as untagged property. Untagged property items are not specifically inventoried or tracked prior to entering the surplus property disposition process.³

To assist in fulfilling the responsibility of accounting for and safeguarding of property, Division Directors are required to appoint property coordinators to help manage and

²Tagged property is assigned a BPIN number and tracked in the FLAIR property system by this number.

³The total value of untagged property was undetermined, but aggregated in FLAIR as operating expenses.

control property under their custody. Division property coordinators are specifically responsible for day-to-day accountability, control, and transfer of tagged property.

Surplus property is statutorily defined as property that has been determined to be; obsolete, inefficient or uneconomical to use, or of no useful purpose.⁴ To ensure that only property meeting the surplus criteria is disposed of by state agencies, Florida Statute also requires that each state agency designate one or more review boards to examine and approve or disapprove of property as surplus.⁵ To meet this statutory requirement, DFS has established a Surplus Property Oversight Committee consisting of a chairman and six-member panel.

Department procedures require eligible tagged property be certified as surplus by the Property Administrator and approved by the Surplus Property Oversight Committee prior to final disposition by DOA. Property may be disposed of through various methods, including trading with a vendor, donating to a designated nonprofit, transferring to another government entity, or scrapping it to a recycling center or landfill. Upon completion of the surplus property disposition process, FLAIR is updated to reflect the disposition date and delete status of each tagged property item.

As shown in Appendix 1, for both tagged and untagged property, the surplus property disposition process requires that property must be transferred to the Division of Administration (DOA) for final disposition. However, property containing data is first required to be transferred to Division of Information Systems prior to disposition. DIS is responsible for determining whether properties should remain under Department custody or be disposed as surplus. For property determined to be surplus, DIS is responsible for removing stored data prior to transfer to DOA for disposition.

Untagged property is also required to be transferred to DOA for final disposition. Since this property is not specifically controlled and tracked, approval and certification as surplus is not required prior to final disposition. However, as a result of a recent theft of untagged property, DOA began logging in untagged surplus property when transferred from other Divisions into an Excel database. This Excel database was designed to help ensure that surplus untagged property is properly safeguarded.

AUDIT ISSUES

Surplus Property Disposition Lacks Adequate Safeguards

In Fiscal Year 2006-2007, most tagged property disposed of was not approved by the Department's Oversight Committee and certified by the Property Administrator prior to disposition. Our review of documentation for FY 06-07 found thirty-two out of thirty-five (91%) Oversight Committee surplus property approvals occurred after the property was disposed of by the Department. For those property items with approval occurring after disposition, Oversight Committee approval averaged 117 days after disposal, ranging from three days to 598 days. Florida Statute requires Oversight Committee approval prior to disposal to ensure proper stewardship of State assets.

Our examination also found there are no documented criteria specifically identifying the types of property that should be transferred by property coordinators to DIS before surplus certification and disposal. Lack of documented criteria limits assurances that DIS performs its associated surplus disposition activities for all applicable tagged property. Transfer of property to DIS, which requires no DIS action provides no value and subjects the Department to additional risk of theft.

⁴As specified in [Section 273.05, Florida Statutes](#).

⁵As specified in [Section 273.05\(2\), Florida Statutes](#).

Recommendation 1: To provide assurances that tagged property is approved as surplus prior to disposition, we recommend documentation of Oversight Committee approval accompany the Property Transfer Form when relinquishing Department custody.

Recommendation 2: We recommend that Department AP&P 2-6 be revised to include a listing of property that is required to be sent to DIS as part of the surplus property disposition process.

Recommendation 3: We recommend the Department consider eliminating the requirement to obtain specific Oversight Committee approval for disposal of all property designated for routing through DIS. Oversight Committee should provide standard criteria for DIS to use in their surplus property determination. DIS should then provide written certification that Oversight Committee authorization criteria were used in their surplus determination as a condition of transfer to DOA for final disposition. Implementation of this recommendation will serve to streamline the surplus disposition process, while continuing to provide assurances that only surplus property is disposed of by the Department. DOA should continue to obtain Oversight Committee approval for tagged property that is submitted directly from the Division Property Coordinator to DOA.

Recommendation 4: To provide additional assurances that property is not suitable for use elsewhere in the Department, we recommend DOA notice the availability of this property on the Department's intranet site for a specific period of time to allow for inspections by Division Property Coordinators on a DOA specified schedule.

Current Surplus Property Disposition Process Lacks Adequate Separation of Duties

Currently, employees with physical access to surplus property also update property records in FLAIR. To reduce the risk of fraud occurring in the surplus property disposition process, these duties should be separated. Separation of these duties reduces access to more than one phase of the process, thus mitigating the ability to commit theft, without detection.

Recommendation 5: We recommend employees with FLAIR property update capability do not also have access to surplus property.

FLAIR does not Accurately Reflect Property Custody

Our review of surplus property custody transfers conducted in FY 2006-2007 found the FLAIR recordkeeping for property transfer and disposition dates are not accurate. The recorded dates in FLAIR often reflect the date the information was entered into the system versus the actual disposition date as documented on the Property Transfer Form. Currently, the disposition date in FLAIR defaults to the date of entry if the actual disposition date is not entered. For example, our review of FLAIR recordkeeping for property identified as surplus during FY 2006-2007 found the disposition date identified in FLAIR was on average 113 days after the actual disposition, ranging from four to 599 days.

Recommendation 6: We recommend the actual transfer and disposition dates, as reflected on the associated Property Transfer Form, be required to be recorded in FLAIR. This will enhance the accuracy of the property recordkeeping in FLAIR and help to improve accountability over the surplus property disposition process by allowing for monitoring of the time to process each surplus property item.

DISTRIBUTION AND ATTESTATION

Information Distribution:

This report is distributed electronically with all attachments to:

Alex Sink, Chief Financial Officer
Jim Cassady, Chief of Staff
Diana Flagg, Director, Division of Administration
David W. Martin, CPA, Auditor General

File:

The original report has been placed in the Audit File.

The Department of Financial Services' mission is to safeguard the people of Florida and the State's assets through financial accountability, education and advocacy, fire safety, and enforcement.

The Department's vision is to be known as the most ethical, professional and proactive state agency in Florida.

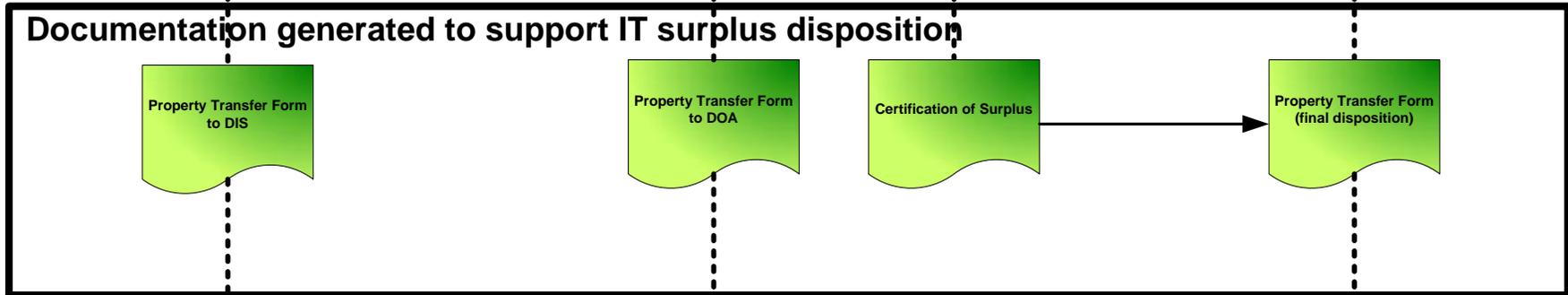
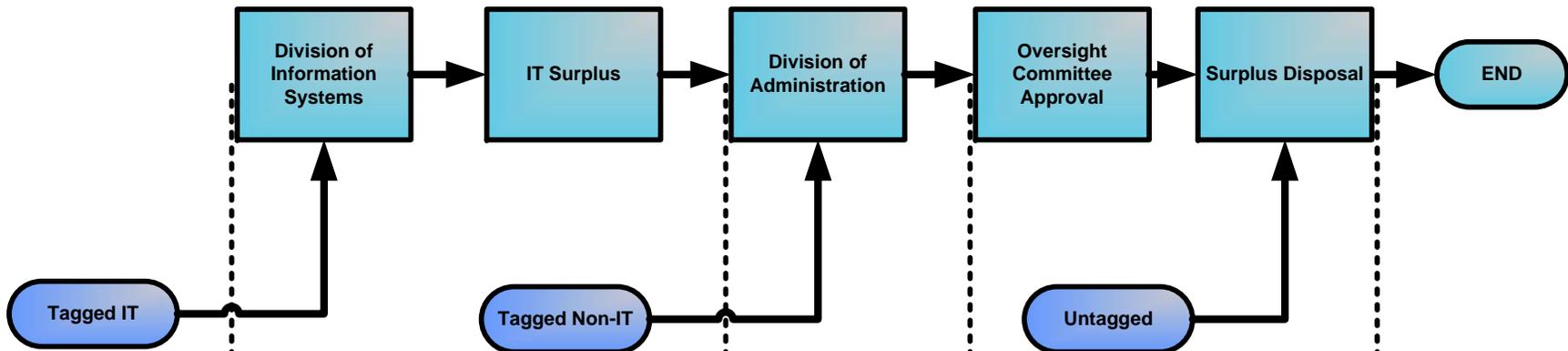
The mission of the Office of Inspector General is to promote integrity, accountability and process improvement in the Department.

The Office of Inspector General's vision is to be a key and indispensable player of the Department's team; championed by our customers, benchmarked by our counterparts, and dedicated to quality in our products and services.

This audit was conducted pursuant to Section 20.055, Florida Statutes, in accordance with applicable Principles and Standards for Offices of Inspectors General as published by the Association of Inspectors General and International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors, Inc. This audit was conducted by Patricia Lee and was supervised by Chuck Hefren, Audit Director. Please address inquiries regarding this report to the DFS Office of Inspector General at (850) 413-3112.

Current Surplus Property Disposition Process

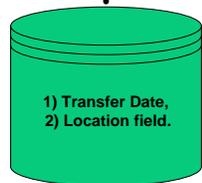
APPENDIX 1



FLAIR



FLAIR



FLAIR





REPRESENTING
ALEX SINK
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

RECEIVED
APR 22 2008
DFS OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

TO: Bob Clift

FROM: Diana Flagg 

DATE: April 18, 2008

SUBJECT: Audit of the Surplus Property Disposition Process

Attached is the Division of Administration's response to findings reported in the March 24, 2008 Preliminary and Tentative Audit Issues Report of the Surplus Property Disposition Process.

Please let me know if you need additional information or have any questions.

Response to Audit of the Surplus Property Disposition Process

AUDIT ISSUE: Surplus Property Disposition Lacks Adequate Safeguards

Recommendation 1: To provide assurances that tagged property is approved as surplus prior to disposition, we recommend documentation of Oversight Committee approval accompany the Property Transfer form when relinquishing Department custody.

We concur. Tagged property will be approved as surplus by the Oversight Committee prior to disposition. Documentation of the approval will be placed in the file with the Property Transfer Form.

The Bureau of General Services will review the requirements with the property coordinators of each Division to remind them of the procedures and to assist them with this process. Administrative Policy and Procedure (AP&P) 2-06 must be revised and approved prior to review and communication with the divisions. This will be completed, implemented and communicated by 10/01/08.

Recommendation 2: We recommend that Department AP&P 2-6 be revised to include a listing of property that is required to be sent to DIS as part of the surplus property disposition process.

We concur. AP&P 2-06 will be revised to include a mutually agreed upon list of property to be sent to DIS as part of the surplus property disposition. The list is currently under review with DIS and will be completed, implemented and communicated to the Divisions by 10/01/08.

Recommendation 3: We recommend that the Department consider eliminating the requirement to obtain specific Oversight Committee Approval for disposal of all property designated for routing through DIS. Oversight Committee should provide standard criteria for DIS to use in their surplus property determination. DIS should then provide written certification that Oversight Committee authorization criteria were used in their surplus determination as a condition of transfer to DOA for final disposition. Implementation of this recommendation will serve to streamline the surplus disposition process, while continuing to provide assurances that only surplus property is disposed of by the Department. DOA should continue to obtain Oversight Committee approval for tagged property that is submitted directly from the Division Property Coordinator to DOA.

We concur. Elimination of the requirement to obtain specific Oversight Committee approval for disposal of property routed through DIS will serve to streamline the surplus disposition process. Standard criteria for surplus items will be developed and approved by the Oversight Committee. DIS will provide written certification that the authorized criterion has been utilized. This process will be completed and implemented by 10/01/08.

Recommendation 4: To provide additional assurances that property is not suitable for use elsewhere in the Department, we recommend DOA notice the availability of this property on the Department's intranet site for a specific period of time to allow for inspections by Division Property Coordinators on a DOA specified schedule.

We concur. A notice including a property list has been posted on the DFS intranet site.

AUDIT ISSUE: Current Surplus Property Disposition Process Lacks Adequate Separation of Duties

Recommendation 5: We recommend employees with FLAIR property update capability do not also have access to surplus property.

We concur. Employees with FLAIR property update capability should not have access to the surplus property. The FLAIR property update responsibility will be shifted to a resource within the Bureau of General Services who does not have access to surplus property. This will require knowledge transfer and training which will be completed by 7/1/08.

AUDIT ISSUE: FLAIR does not Accurately Reflect Property Custody

Recommendation 6: We recommend the actual transfer and disposition dates, as reflected on the associated Property Transfer Form, be required to be recorded in FLAIR. This will enhance the accuracy of the property recordkeeping in FLAIR and help to improve accountability over the surplus property disposition process by allowing for monitoring of the time to process each surplus property item.

We concur. The transfer and disposition dates reflected on the associated Property Transfer Form will be included as part of the required procedure and entered into FLAIR. The Property Section Supervisor will run periodic reports to monitor and validate that the information is being correctly entered into the system. This process will be implemented by 5/1/08.