

CITY AUDITOR'S OFFICE



Audit of Management Oversight of Fixed Assets

Report No. CAO 0611-1415-03

November 18, 2014

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES	1
SCOPE AND METHODOLOGY	1
CONCLUSIONS, FINDINGS AND RECOMMENDATIONS.....	2
1. Enhancements Needed to the Policy and the Procedure.....	3
2. Improvement Needed for Equipment and Machinery Management .	4
3. Non-Compliance with the Fixed Asset Procedure for Sensitive Items	7
4. Improvements Needed in Recording Asset Retirements	8
5. Improvements Needed for Assets Purchased with Federal Awards...	9
MANAGEMENT RESPONSE	12

Audit of Management Oversight of Fixed Assets CAO 0611-1415-03

BACKGROUND

The city of Las Vegas (City) Fixed Asset Policy (FN201.2) and Procedure (FN210a.2) (the Policy and the Procedure) provide guidance of City purchased machinery and equipment (including vehicles). In accordance with the policy, fixed assets (assets) have a purchase price of \$5,000 or more, life expectancies of two years or more, are capitalized, and accounted for in the fixed asset system (FA System). The Department of Finance provides oversight of the FA System and the bi-annual inventory process. Sensitive items have a purchase price under \$5,000 and are expensed when purchased. Departments are responsible for requesting property tags and completing bi-annual inventories of sensitive items within their possession.

The City's fiscal year ended June 30, 2013 Comprehensive Annual Financial Report shows the historical cost of machinery and equipment assets, net of depreciation, as:

Machinery and Equipment	\$19,783,343
Vehicles	\$14,308,803

OBJECTIVES

The audit objectives were to ascertain whether:

- Appropriate management controls were in place over the assets identified in the Policy and the Procedure.
- City personnel complied with the Policy and the Procedure.

SCOPE AND METHODOLOGY

The audit scope was limited to the assets and sensitive items identified in the Policy and the Procedure. The audit scope included assets in general ledger (gl) account number 810800, Machinery and Equipment (M&E) classification and gl account number 811000 Vehicles. The audit scope did not include a review of IT related devices with a purchase price of less than \$5,000 (e.g., cellular phones, personal computers). The last date of audit fieldwork was May 5, 2014.

Our audit methodology included:

- Research of applicable guidelines,
- Interviews of city employees,
- Physical verification of selected assets, and
- Analysis and detail testing of available data.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. 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.

The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no effect on the audit or the assurances provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

The following conclusions of the audit objectives are noted:

Appropriate management controls were in place over the assets identified in the Policy and the Procedure.

The Policy and the Procedure do not provide adequate guidance for department personnel to follow. (Finding #1)

The Policy and the Procedure do not provide adequate guidance over assets and sensitive items purchased with federal awards. (Findings #5)

City personnel complied with the policy and the procedure.

We were unable to positively identify the physical existence of 29 of 80 assets included in the FA System. We physically observed 50 assets located at city sites. We were unable to locate 14 of these assets in the FA System. (Finding #2)

Department representatives are not aware that the Policy and the Procedure include requirements for departments to monitor sensitive items. (Finding #3)

Improvements are needed to retire assets from the FA System when assets are sold. (Finding #4)

Further information on these issues is contained in the sections below. Other issues were identified and discussed with management, they were not deemed reportable for this report.

1. Enhancements Needed to the Policy and the Procedure

Criteria

Effective policies and procedures provide clear and understandable direction for city personnel to follow.

Condition

A review of the Policy and the Procedure found that they have not been updated for current technology considerations and do not provide adequate guidance for department personnel to follow. They:

- include machinery and equipment categories that are no longer relevant (e.g., modems, personal digital assistants).
- indicate that assets have useful lives of two years or more; however, are silent when defining the useful lives of sensitive items.
- indicate that the purchase cost for sensitive items is inclusive of shipping and handling; however are silent as to what should be included in the cost of assets. The Guide to Implementation of Governmental Accounting Standards Board (GASB) Statement 34 on Basic Financial Statements states that “the cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees.”
- do not provide guidance on requesting additional property tags when multiple items are purchased and only one property tag is issued (e.g., component purchases, multiple purchases of the same item).
- do not provide guidance on what to do when property tags cannot be physically attached to an item because of size, impairment of operation, or impracticality.
- do not provide guidance when assets are purchased through methods such as purchases through gl account numbers other than the fixed asset account number 810800 and purchases through capital project funding when assets are not individually processed. (See Finding #2)
- do not provide guidance on monitoring assets and sensitive items purchased with federal awards. (See Finding # 5)

Cause

- Outdated policy and procedure.
- Incomplete policy and procedure.

Effect

- Inconsistencies among departments in following the Policy and the Procedure.
- Inadequate guidance given to department personnel.

Recommendation

- 1.1 Department of Finance management should evaluate and update the City's Fixed Asset Policy and Procedure to clarify items identified above and ensure they accurately reflect their expectations of department oversight.
- 1.2 Once the Fixed Asset Policy and Procedure have been updated, Department of Finance management should provide training to the appropriate department personnel of the revised requirements.

2. Improvement Needed for Equipment and Machinery Management

Criteria

Nevada Administrative Code 354.750 Inventory of capital assets: Requirement; guidelines; identifying number

1. *The governing body of every local government shall take an inventory at least once every 2 years of all its equipment and other personal property which constitute capital assets.*
2. *Each item of property subject to the inventory must be assigned an identifying number and be labeled as belonging to the local government.*

Fixed Asset Policy FN210.2

Machinery and equipment with a value of \$5,000 or more and having a useful life of two years or more are considered fixed assets of the City and are capitalized.

Capitalized machinery and equipment shall be issued a City property identification number tag and recorded in the Department of Finance and Business Services' Asset System.

Each Department shall be responsible for fixed assets in their possession and any items added to or removed from their inventory. Fixed asset inventory reviews shall be conducted in accordance with State and City requirements.

Condition

Audit procedures included judgmentally selecting and verifying the physical existence of assets included in the FA System. The following conditions contributed to the inability to positively identify the existence of 29 of 80 (36%) assets tested, as follows:

- 10 assets were no longer on hand. The current depreciated value of these items is \$1,290.71. Discussions with department personnel and reviews of documentation showed that the assets were sold through the Central Stores or the Public Surplus Auction processes, replaced with a new asset, destroyed, or donated. Adequate communication had not been completed to ensure that these assets were retired from the FA System. (See Finding #4)
- For 15 of 25 assets without property tags, although department personnel represented that the items were the assets, we did not have serial numbers or other identifiable references to trace into the FA System, and therefore we could not positively identify the assets. The depreciated value of these assets is \$276,936.05. Ten of 25 assets without property tags were verified by tracing the assets to their serial number in the FA System. The depreciated value of these assets is \$102,038.71.
- For 2 assets, department personnel indicated the asset consisted of multiple components. However, since only one of the components was affixed with a property tag, we were unable to determine whether we located all of the components. The depreciated value of these assets is \$17,685.65.
- For 2 assets, although department personnel indicated the item was the asset we were verifying; the serial number or asset identifier was different than the numbers listed in the FA System. The current depreciated value of these items is \$7,154.46.

Note: The depreciated values listed above are taken from the February 2014 Depreciation Schedule.

Audit procedures also included judgmentally selecting 50 assets located at various city work sites and verifying they were recorded in the FA System. For all of these assets, department personnel represented that the initial cost exceeded \$5,000 and the useful life exceeded two years. The following were noted:

- 14 of 50 (28%) of these assets could not be traced into the FA System.
- 12 of 50 (24%) of these assets did not have property tags.

A query of purchase requisitions for gl account number 670200 Small Tools and Equipment for the fiscal year ended June 30, 2013 was completed. Audit procedures identified eight equipment purchases which individually cost more than \$5,000 and had useful lives greater than two years. The combined purchase price of these eight assets was \$53,765.25. Since these items were recorded in gl account number 670200 Small Tools and Equipment instead of gl account number 810800 Fixed Assets, they were not identified as assets when purchased and established as assets in the FA System. These purchases were expensed and not depreciated over the life of the machinery and equipment (7 to 10 years).

Audit of Management Oversight of Fixed Assets

CAO-0611-1415-03

November 18, 2014

In researching individual transactions in the FA System, we found that:

- department personnel processed transactions of summarized purchases used to make facilities operational. These summarized transactions often include machinery and equipment purchases that individually cost more than \$5,000 and have useful lives greater than two years. Since the purchases were included in the summarized transactions in the FA System, the assets were not individually identified as assets when purchased, established as assets in the FA System and verified during the bi-annual inventory process.
- included in the summarized transactions were items, if purchased separately, would have been expensed when purchased. These items did not meet the capitalization criteria since they individually cost less than \$5,000.
- department personnel capitalized instead of expensed purchases of items such as pool heaters and cooling tower sweepers that would not extend the useful life or increase the value of the building.

Cause

- Lack of understanding of the Policy and the Procedure by department personnel.
- Lack of understanding by department personnel of how purchasing practices affect the tracking of assets in the FA System.

Effect

- Non-compliance with the Policy and the Procedure.
- Certain purchase practices exist that do not trigger the process for establishing individual assets in the FA System. When this occurs, property tags are not issued and the assets are not identified for verification during the bi-annual inventory process in accordance with NAC 354.750.

Recommendation

- 2.1 In conjunction with the bi-annual inventory process, Department of Finance management should provide formalized guidance to department personnel responsible for the oversight of assets.
- 2.2 Department of Finance management should provide periodic training on the Fixed Asset Policy and Procedure to those department personnel responsible for the purchase and oversight of assets.

3. Non-Compliance with the Fixed Asset Procedure for Sensitive Items

Criteria

Fixed Asset Procedure (FN210a.2)

Sensitive Items

Department/Division Representative

1. *Items with a purchase cost inclusive of shipping and handling that exceed \$5,000 per item should be coded to 810800. All items under the \$5,000 threshold should be coded to the appropriate account (office supplies, small tools and equipment, etc.)*
2. *Tag all sensitive items, regardless of the value with a City of Las Vegas property tag to deter potential theft. Request tags from the Fixed Asset Analyst.*
3. *Inventory only those sensitive items that exceed \$200 on a bi-annual basis.*

Fixed Asset Analyst in the Accounting Operations Division

1. *Issue inventory tags for all sensitive items over \$200.*
2. *Upon request from Departmental/Division Representative, provide property tags for sensitive items under \$200.*

Department/Division Representative

1. *Affix the tag to the machinery/equipment in a visible location for inventory and auditing purposes. Since tags placed behind or under an item usually are not visible or easily accessible, most tags are placed on the side of the items.*
2. *For those sensitive items over \$200, complete the Fixed Asset Property form and return the form to the Fixed Asset Analyst within 10 calendar days of receipt of the tag. For sensitive items under \$200, no further action is required once the asset has been tagged.*

Government Finance Officers Association

Best Practice: Ensuring Control over Non-Capitalized Items

Care must be taken to ensure that adequate control is maintained over any such items that fall within the following categories:

- *Items that require special attention to ensure legal compliance. Legal or contractual provisions may require a higher than ordinary level of accountability over certain capital-type items (e.g., items acquired through grant contracts);*
- *Items that require special attention to protect public safety and avoid potential liability. Some capital-type items by their very nature pose a risk to public safety and could be the source of potential liability (e.g., police weapons);*
- *Items that require special attention to compensate for a heightened risk of theft (“walk away” items). Some capital-type items are both easily transportable and readily marketable or easily diverted to personal use. (e.g., sound equipment)*

Condition

Discussions with nine department representatives during audit fieldwork found that the representatives were not aware that the Procedure included requirements for departments to

monitor sensitive items. Departments have not established processes to identify, request property tags, and monitor sensitive items. Although many city work units have developed basic inventory management practices, a bi-annual inventory of sensitive items has not been implemented in all work units in accordance with the Procedure.

Cause

- Lack of understanding of the Procedure by department personnel.
- Inadequate procedure. (See Finding #1)
- Lack of adequate direction from Finance personnel on how to appropriately comply with the Procedure.

Effect

- Non-compliance with the Procedure.
- Lack of adequate monitoring of sensitive items.

Recommendation

- 3.1 Department of Finance management should provide periodic training to those department employees responsible for the purchase and oversight of sensitive items.
- 3.2 In conjunction with the bi-annual inventory of assets, Department of Finance management should provide formalized guidance to the department employees responsible for the oversight of sensitive items.

4. Improvements Needed in Recording Asset Retirements

Criteria

Fixed Asset Procedure (FN201a.2)

Disposition of Surplus Property Procedure

Accounting Operations is responsible for:

- *Retiring the asset from the database, if applicable*

Condition

Audit procedures included selecting 25 items sold through the Public Surplus website auction process to determine whether the sales were authorized by city management, the city received payment for the sales, and the items sold with identifying asset references were retired from the FA System. Audit procedures found that all of the sales were authorized by city management and the city was paid for all items sold.

Ten of the items selected did not have a verifiable reference to the FA System; therefore, we were unable to determine whether these items were assets that should have been retired from the FA System. The remaining 15 items were identified as assets and traced to the FA System. Of these 15 assets, 1 of 15 (6.7%) was not retired from the FA System. This asset was fully depreciated.

To ascertain whether this represented an isolated exception, all the assets sold in September 2012 were also selected for testing. Seven additional assets were identified and traced to the FA System. We found exceptions with 2 of 7 assets (28.5%) selected. One of these assets was not retired from the FA System. Procedures were not completed for the other asset to determine whether the sale represented the whole or a portion of the asset and whether the asset should be retired or remain in the FA System. The current depreciated value of these two assets is \$3,179.15.

Cause

Inadequate procedures to ensure that all assets sold were retired from the FA System.

Effect

Assets were not retired from the FA System when they were sold.

Recommendation

- 4.1 Department of Finance management should document and implement a process to verify that all assets sold through the Public Surplus Auction process are retired from the FA System.

5. Improvements Needed for Assets Purchased with Federal Awards

Criteria

*State of Nevada, Nevada Department of Public Safety
Division of Emergency Management Office of Homeland Security
Grant Management Guide
Equipment Management*

Federally funded equipment records must contain description (including serial number or other identification number, source, who holds title, acquisition date and cost, percentage of federal participation in the cost, location, condition, and disposition data.

Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the federal awarding agency. However before items are sold, please contact the SAA or GAR for instructions.

Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the federal awarding agency shall have a right to an amount

calculated by multiplying the current market value or proceeds from sale by the Federal awarding agency's share (the Federal percentage of participation) of the equipment.

Policies and procedures must be in place for responsibilities of recordkeeping and authorities for disposition.

Equipment Marking

Applicants are advised that, when practical, any equipment purchased with DHS grant funding shall be prominently marked as follows:

“Purchased with funds provided by the U.S. Department of Homeland Security.”

OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments

C General Guidelines

1. *Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:*
 - e. *Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.*

The above criteria are representative of equipment standards used for federal grant awards but are not all inclusive. Care must be taken to determine the specific guidelines applicable to each grant award.

Condition

The Policy and the Procedure do not provide adequate oversight of assets purchased with federal awards, as follows:

- The Nevada Department of Public Safety Division of Emergency Management Grant Management Guide states that “when practical, any equipment purchased with DHS grant funding shall be prominently marked as follows: Purchased with funds provided by the U.S. Department of Homeland Security.” During our physical verification of equipment, we found three vehicles purchased with DHS grant funding that did not include the required marking.
- Federal guidelines state that equipment purchased with federal awards should meet the minimum management requirements: “Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and the cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.” The following information is not tracked in the FA System: who holds title, the percentage of federal participation in the cost of the property, the use and condition of the property, and disposition data. The Policy and the Procedure do not provide guidance on what and how information should be maintained for equipment purchased with federal awards.

Audit of Management Oversight of Fixed Assets

CAO-0611-1415-03

November 18, 2014

- Federal guidelines state that when equipment purchased with federal awards are disposed of or sold and the fair market value of that equipment is \$5,000 or greater, the awarding federal agency has a right to a share of proceeds from the sale. The department must consult with the Grantor to determine the proper distribution of the proceeds from the asset disposal or sale. The Policy and the Procedure do not provide guidance on how to comply with these federal requirements.
- In accordance with OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments, for costs to be allowable, there must be consistency with policies, regulations, and procedures and applied uniformly to both federal awards and other activities of governmental unit. The Policy and the Procedure also include guidance for sensitive items. Sensitive items are defined as machinery and equipment purchases under \$5,000. The City purchased machinery and equipment that cost less than \$5,000 with federal awards. As noted above under Finding #3, the Policy and the Procedure are not being followed.

Cause

- Inadequate policy and procedure. (See Finding #1)
- Inadequate oversight of assets purchased with federal grant awards.

Effect

Potential non-compliance with federal grant award requirements.

Recommendation

- 5.1 Finance management should update the Fixed Asset Policy and Procedure governing machinery and equipment purchases to ensure compliance with federal grant award requirements.

MANAGEMENT RESPONSE

1.1 Enhancements Needed to the Policy and the Procedure

Recommendation

- 1.1 Department of Finance management should evaluate and update the City's Fixed Asset Policy and Procedure to clarify items identified above and ensure they accurately reflect their expectations of department oversight.

Management Plan of Action

Final Draft completed July 2014

Estimated Date of Completion

Final Approval of Policy December 2014

1.2 Enhancements Needed to the Policy and the Procedure

Recommendation

- 1.2 Once the Fixed Asset Policy and Procedure have been updated, Department of Finance management should provide training to the appropriate department personnel of the revised requirements.

Management Plan of Action

Training documents to be prepared based on policy/procedure training will be schedule starting in August after draft copy of policy and procedure is competed.

Estimated Date of Completion

June 2015

2.1 Improvements Needed for Equipment and Machinery Management

Recommendation

- 2.1 In conjunction with the bi-annual inventory process, Department of Finance management should provide formalized guidance to department personnel responsible for the oversight of assets.

Management Plan of Action

Guidance was provided in conjunction with bi-annual inventory as recommended.

Estimated Date of Completion

Completed

2.2 Improvements Needed for Equipment and Machinery Management

Recommendation

- 2.2 Department of Finance management should provide periodic training on the Fixed Asset Policy and Procedure to those department personnel responsible for the purchase and oversight of assets.

Management Plan of Action

Training scheduled outlined in 1.2 above. All items identified in the audit were located and identified by departmental asset custodians. However, it is recognized that controls need to be strengthened to ensure assets are properly tracked and identified upon initial inspection. Ongoing communication will continue with Departmental contacts. An emphasis in communication of policies and procedures will coincide with bi-annual inventory each year. Spot checks of inventory by going on site and confirmations electronically via exchange of identifying information will be completed on a recurring basis.

Estimated Date of Completion

June 2015

3.1 Non-Compliance with the Fixed Asset Procedure for Sensitive Items

Recommendation

- 3.1 Department of Finance management should provide periodic training to those department employees responsible for the purchase and oversight of sensitive items.

Management Plan of Action

Training schedule outlined in 1.2 above. The policy and procedure have been updated to reflect best practices recommended by the Government Finance Officers Association (GFOA).

Estimated Date of Completion

June 2015

3.2 Non-Compliance with the Fixed Asset Procedure for Sensitive Items

Recommendation

- 3.2 In conjunction with the bi-annual inventory of assets, Department of Finance management should provide formalized guidance to the department employees responsible for the oversight of sensitive items.

Management Plan of Action

Guidance was provided in conjunction with bi-annual inventory as recommended. Training will be ongoing to include any updates to policy/procedure.

Estimated Date of Completion

Completed

4.1 Improvements Needed in Recording Asset Retirements

Recommendation

- 4.1 Department of Finance management should document and implement a process to verify that all assets sold through the Public Surplus Auction process are retired from the FA System.

Management Plan of Action

Implementation of other recommendation, will improve the ability to identify individual assets upon retirement. Implementation of processes that include additional verification and comparison of items that are part of the surplus process to the retired transactions, will also correct this.

Estimated Date of Completion

December 2014

5.1 Improvements Needed for Assets Purchased with Federal Awards

Recommendation

- 5.1 Finance management should update the Fixed Asset Policy and Procedure governing machinery and equipment purchases to ensure compliance with federal grant award requirements.

Management Plan of Action

Final Draft completed July 2014

Estimated Date of Completion

Final approval December 2014