



*Date:* June 19, 2009  
*To:* Bob Morgan, Interim City Manager  
*From:* Internal Audit Division  
*Subject:* Review of Capital Assets

The Internal Audit Division has performed a limited review of Capital Assets maintained by the City of Greensboro. Attached you will find our review report; the departmental response; and our replies to their responses. We feel that our recommendations have been sufficiently addressed as we move forward. If you have any questions or need additional information, please let us know. Thanks.

A handwritten signature in black ink, appearing to read 'Len Lucas', with a long horizontal flourish extending to the right.

Len Lucas  
Internal Audit Director

Cc: Andy Scott, Interim Assistant City Manager for Economic Development  
Rick Lusk, Director of Financial & Administrative Services



# City of Greensboro

Date: May 27, 2009  
To: Rick Lusk, Director of Financial & Administrative Services  
From: Internal Audit Division  
Subject: Review of Capital Assets

We have conducted a limited review of the City's capital asset inventory process. Capital assets are defined by the City as specific items of property that are tangible in nature, have a useful life greater than one year, and a significant value of \$5,000 or more. They include property, plant, equipment, infrastructure assets (e.g. roads, bridges, sidewalks and similar items), and intangible assets. Our review was limited to assets classified as machinery and equipment.

The objectives of our review were to determine if:

- Capital assets are accurately recorded in the appropriate accounting period.
- Depreciation charges are computed and recorded accurately in the appropriate accounting period.
- Capital assets disposals are valid and are recorded accurately, completely, and in the proper accounting period.
- The transfer and disposal of assets are appropriately approved by management in accordance with established City policy.
- Profits or losses on the disposal of assets are accurately and promptly classified and reported.
- Amounts charged to maintenance and repair should be capitalized.
- Capital assets are adequately safeguarded.
- Adequate segregation of duties maintained within the process.

We requested a detailed list of all assets classified as machinery and equipment at May 15, 2008 from the City's Capital Accountant. The list reported assets with a cost basis of \$174,204,895.91, and a book value of \$61,394,124.13. From this list, we selected a sample of 20 assets to perform various review procedures.

Throughout our review, we examined supporting documentation from July 1, 2007 to May 15, 2008, with the exception of when we conducted a physical verification of selected assets; fiscal year 2008-2009's information was used.

During our review, we noted the following:

Maintenance and Repair:

We obtained from Accounting a Lawson report listing all charges to maintenance and repair accounts from July 2006 to June 2007. We thoroughly reviewed documentation supporting all charges to the "Maintenance & Repair – Equipment" account (.5621) to ensure that no charges should be accounted for in the Asset Management system. We noted the following:

Finding: On 7/28/06, the City purchased two (2) Scotsman Air Cooled Ice Machines for the Coliseum to replace existing machines, and \$10,456 was charged to General Ledger account 521-7535-06.5621. The initial purchase of the existing machines was not capitalized. Section 2.4 (A) of the Capital Asset Manual states:

**"[Replacement items] These purchases are generally not considered capital asset additions. For instance, if a roof is replaced and the cost of the original roof cannot be specifically identified, the new roof is considered maintenance."**

Since the cost of the new ice machines can be specifically identified and met all other criteria of a capital asset, they should be capitalized.

Recommendation: We recommend that the costs of the new ice machines be added to the Asset Management database and depreciated accordingly.

Verification of Capital Assets:

Each year (around mid-February to early March), the Capital Accountant distributes a Capital Asset Inventory list to each Department Head. An annual physical inventory is conducted by departmental personnel from the inventory list to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations. At the same time, departments are asked to review their list to identify assets that have been disposed of, scrapped, or are obsolete and need to be removed from inventory.

Departments requesting permission to write-off capital assets from the master file data must complete an Asset Disposal Form explaining the loss of the assets. Written approval by a member of City Management must be obtained by the requesting department, and an approved copy of the form must be submitted to the Capital Accountant **prior** to the removal of assets from the inventory database. Assets which have been disposed are not deleted from the Lawson subsystem, but are retained in

historical tables in the database and can be retrieved by running special Lawson reports designated for that purpose.

We requested copies of each department's 2008-2009 Capital Asset Inventory list distributed to the Department Heads on March 4, 2009. From these lists, we selected a sample of 46 items to verify their existence, assess their overall physical condition, and ensure security of the assets. We also requested copies of completed 2007-2008 Capital Asset Inventory lists from the Capital Accountant to compare with current lists.

Finding:

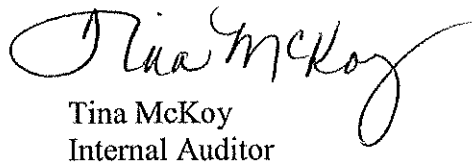
In reviewing the Libraries' 2007-2008 Capital Inventory list, we noted that staff had indicated that several assets had been disposed of in previous years; and should be removed from the inventory database. We compared this list to the 2008-2009 Capital Inventory list and noted that these same assets were listed. After further research, we found that Asset Disposal Forms were prepared by Library Administration in 2004, 2005, and 2006 to write off the assets; however, the copies we obtained were not properly authorized by the City Manager's Office. Therefore, they were not removed from inventory by the Capital Accountant.

Recommendation:

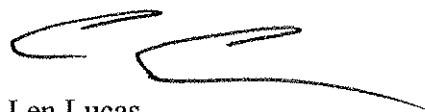
The Capital Accountant should investigate any discrepancies between the physical inventory and the inventory record and attempt to resolve issues on a timelier basis. Although most items were fully depreciated and no financial impact resulted from carrying the asset to 2009, the Capital Accountant should strive to maintain a current database.

We met with Library Administration to explain the process for proper removal of the assets from the inventory database. We were notified on April 3, 2009, by the Capital Accountant, an Asset Disposal Form with proper approval was received during our review.

We would like to thank the Financial & Administrative Services staff for their courtesy and cooperation shown during this review. We ask that you please make your responses for corrective actions to our findings by Wednesday, June 10, 2009. If you have any questions or concerns, please contact us at 373-4528.



Tina McKoy  
Internal Auditor



Len Lucas  
Internal Audit Director

Cc: Andy Scott, Interim Assistant City Manager for Economic Development

**McKoy, Tina W**

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**From:** Smith, Susan  
**Sent:** Wednesday, June 17, 2009 5:18 PM  
**To:** Druga, Marlene; Lusk, Rick  
**Cc:** McKoy, Tina W; Lucas, Len  
**Subject:** RE: Capital Asset Review  
**Attachments:** Response to Findings on Review of Capital Assets 2009 05 18.doc

Please find the requested response attached.

**Thanks,**  
**Susan C. Smith**  
**City of Greensboro**  
**Accounting Division**  
**(336) 373-2819**

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**From:** Druga, Marlene  
**Sent:** Monday, June 15, 2009 1:42 PM  
**To:** Lusk, Rick  
**Cc:** McKoy, Tina W; Lucas, Len; Smith, Susan  
**Subject:** RE: Capital Asset Review

Rick, The draft response is complete and has been reviewed and should be submitted shortly. M

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**From:** McKoy, Tina W  
**Sent:** Monday, June 15, 2009 1:26 PM  
**To:** Lusk, Rick  
**Cc:** Lucas, Len  
**Subject:** Capital Asset Review

Hi Rick,

What is the status of your response to our Capital Asset Review? Thanks!

*Tina W. McKoy*  
*Internal Auditor*  
*City of Greensboro*  
*Internal Audit Division*  
*P.O. Box 3136*  
*Greensboro, NC 27402-3136*  
*Phone: (336) 373-4528*  
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## **Response to Findings on Review of Capital Assets**

Much work has been done in FY 2008 and FY 2009 to improve the processes used to capture the value of capital assets and maintain correct accounting for them. In FY 2008, a thorough review was made of all amounts in CIP to: 1) determine if assets had been placed in service and should be capitalized, 2) book the correct amount of accumulated depreciation and 2) prepare a detailed reporting of those amounts remaining in CIP by account and project. Contract monitoring is done throughout the year to determine if a project is near completion in order to capture those projects correctly. Lines of communication with contract administrators in the City departments have been strengthened with their feedback about the progress of their projects. Purchase orders issued each day are scrutinized to determine if purchases of assets are being charged incorrectly to M & O accounts. All discrepancies reported between the physical inventory taken by each department and the capital assets assigned to them are resolved by year end.

### **Finding #1**

The description on the first item of the purchase order for the ice machines was worded as "repair icemaker," and no further review of the other lines was done to determine if that description was valid or if there was evidence to the contrary. The daily PO review process has now been changed to include a more thorough review of the details on PO's encumbered against M&O accounts that could possibly be a capital purchase disguised as repairs. If necessary, departments are contacted to provide additional information about the nature of the purchase to verify the classification as an M&O expense or a capital purchase.

### **Finding #2**

The Capital Accountant now sends email reminders to those departments that have not completed their physical inventories to get them completed in a timely manner. This is done to ensure that there is sufficient time to follow up on any discrepancies in assets noted by the departments. Assistance is also provided to departments having trouble complying with the inventory review. This assistance ranges from providing further details about the asset purchase if the records are available or researching possible sale of assets at City auction. If necessary, the City Manager's office is contacted to encourage them to expedite the approval process for those assets that must be removed from inventory for some valid reason. All discrepancies reported between the physical inventory taken by each department and the capital assets assigned to them are resolved by year end.



# City of Greensboro

Date: June 18, 2009  
To: Rick Lusk, Director of Financial & Administrative Services  
From: Internal Audit Division  
Subject: Review of Capital Assets – Reply to Response dated June 17, 2009

The Internal Audit Division has reviewed your response to our review and we feel that the procedures you have implemented will adequately address our findings. If you have any questions or require further assistance, please do not hesitate to contact us at 373-4528.

Tina McKoy  
Internal Auditor

Len Lucas  
Internal Audit Director

Cc: Bob Morgan, Interim City Manager  
Andy Scott, Interim Assistant City Manager for Economic Development