

# City of Greensboro

Date: May 24, 2004  
To: Ed Kitchen, City Manager  
From: Internal Audit  
Subject: Capital Assets Inventory

Attached you will find a copy of the Capital Asset Inventory we completed, a response from the responsible department and our reply to those responses. We agree with the corrective actions to be taken and feel no other actions are necessary at this time. If you need additional information, please let us know. Thanks.

Len Lucas  
Acting Internal Audit Director

Cc: Mitchell Johnson, Deputy City Manager  
Ben Brown, Assistant City Manager for Economic Development



# City of Greensboro

March 8, 2004

Date: March 8, 2004  
To: Ed Kitchen, City Manager  
From: Internal Audit  
Subject: Capital Assets Inventory

The Internal Audit Division has audited selected capital assets listed in the City's Capital Asset Inventory System. These assets are under the custody of various City Departments. The audit centered on capital assets classified as Equipment (e.g. furniture, equipment and vehicles). Items classified as Land, Land Improvements, Buildings, Infrastructure, and Construction in Progress were not tested. Detailed source documentation listing the City's capital asset inventory was obtained from the Finance Department.

The purpose of this audit was to determine if:

- Assets maintained in the capital asset accounting system actually existed.
- Custodial accountability for capital assets was being maintained by the City Departments indicated in the accounting records.
- Capital asset dispositions were properly documented and approved in accordance with established policy.

## Introduction

The Capital Accountant (Finance Department) is responsible for the oversight and record keeping of the City's capital asset accounting system. Department Heads are responsible for the physical accountability of the capital assets they purchase, and for reporting asset disposals, transfers, loans and missing items. Capital assets are defined as "specific items of property that are tangible in nature, have a useful life greater than one year, and a significant value." The City measures significant value on the basis of items having a cost of \$5,000 or more.

The responsibilities of the Capital Accountant include the oversight of all capital asset additions, transfers, dispositions and related depreciation. Designated Property Control Coordinators in each City department oversee and assist in the safeguarding of assets, preparation of documentation, and aid in the annual physical inventory.

## Statistics

### Total Capital Assets - Governmental and Business-Type Activities (Net of Depreciation - in thousands of dollars)

Description	FY 2002	FY 2001	% Increase/(Decrease)
Land	\$81,165	\$81,164	-
Land Improvements	15,390	15,535	(1.0)
Buildings	178,400	175,630	1.6
Furniture, Fixtures, Machinery and Equipment	49,727	48,570	2.3
Infrastructure	342,175	340,810	0.4
Construction in Progress	<u>85,064</u>	<u>57,662</u>	<u>32.2</u>
Total Capital Assets	<u>\$751,921</u>	<u>\$719,371</u>	<u>4.3</u>

*Source: Comprehensive Annual Financial Reports for Fiscal Year Ending June 30, 2002  
(Table C-1, p. 1-q)*

#### 1) Methodology: From the Accounting Records to the Capital Asset

The audit centered on capital assets of furniture, equipment and vehicles. Buildings, improvements, land and construction in progress were not tested. Our sample included 162 items from the "Furniture, Fixtures, Machinery and Equipment" category, with initial capital values recorded totaling \$11,275,069. This represents approximately 22% of the amount reported for this category in FY 2002.

Testing was accomplished on a non-statistical random basis because of how the capital asset database was formatted in the Capital Asset Inventory Report. Assets were listed by department based on location within the department; asset identification numbers were not in numerical order. This precluded the use of a statistical random sample.

Using the Capital Asset Inventory Depreciation Schedule provided by Finance, these assets were selected based on one or more of the following factors: 1) initial capital value, 2) items providing both work and home uses, 3) items posing a high risk of theft or misappropriation (e.g., computer equipment, audio-visual equipment, etc.), and 4) multiple purchases (two or more) of the same asset. After our selection was made, we attempted to physically view each asset.

## Results

An attempt to physically inspect the 162 capital assets selected for testing yielded the following results:

- 110 items, with initial capital values totaling \$8,539,169.23, were located and properly tagged with the correct City serial number and/or equipment number.
- 28 items, with initial capital values totaling \$1,073,083.85, were located, but did not display its City serial number or equipment number (if any).
- 5 items, with initial capital values totaling \$1,320,515.13, were located, but it was undeterminable as to whether they contained the proper City serial number because of the asset's physical position (i.e., hoist platform and electronic scoreboard at the Coliseum; three (3) Sony Beta Recorders at Channel 13).
- 4 items, with initial capital values totaling \$202,843.07, had been sold at City Auctions. Finance indicated that any assets sold during fiscal year 2002-2003 would be updated and removed from the Capital Asset Inventory listing dated June 30, 2003.
- 2 items, with initial capital values totaling \$13,403.91, were located, but the attached City serial numbers did not correspond with the numbers listed in the accounting records.
- 7 items, with initial capital values totaling \$59,028.03, were listed on the Capital Asset Inventory System, but could not be physically located by the Department listed as custodian of the assets.
- 4 items, with initial capital values totaling \$54,081.67, were either replaced with similar assets, out for repairs, or physically located in areas making observing the asset difficult.
- 1 item, with an initial capital value of \$5,999.00, was returned to the vendor for nonperformance.
- 1 item, with an initial capital value of \$6,932.00, was no longer used by the Department, but kept only for replacement parts.

## Recommendations

- Although 110 (67%) of the 162 capital items selected appeared to adhere to the policies and procedures established, the Finance Department should regularly inform Departments and the Asset Coordinators of their responsibilities for safeguarding assets, and the proper steps to be taken when an asset cannot be located, returned, or no longer in use. Ultimately, it is the Departments' responsibility to produce all assets in their custody. Also, they are ultimately responsible for contacting the Purchasing Division prior to disposal of any City property, including assets that are scrapped.
- All City of Greensboro assets that require property identification tags should have them affixed accordingly or should have the property identification number engraved on the asset. It is important that Departments adhere to this policy.

Internal Audit will periodically perform audits of City Departments' asset inventory records. The Finance Department should further investigate variances discovered during this audit to ensure that items not located are properly removed from the financial records.

## **2) Methodology: From Capital Asset to the Accounting Records**

We selected 50 capital assets (by assigned equipment numbers) from various areas of the City to trace to the Capital Asset Inventory System. Using the "Equipment List for Insurance and Service Purposes" published by the Purchasing Department, we looked up the equipment number to find its corresponding City serial number. Then we traced that serial number to the Capital Asset Inventory Report.

### **Results**

All 50 capital assets selected were successfully traced to the Capital Asset Inventory Report.

### **Recommendations**

None.

## **3) Asset Disposal Forms**

We selected eight Asset Disposal Forms dated between the periods of March 14, 2001 to March 28, 2002, to ensure that the asset dispositions were properly documented and approved in accordance with established policy.

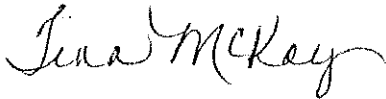
### **Results**

One of the eight forms tested did not include the required approval of the City Manager's Office.

### **Recommendations**

The Capital Accountant should ensure all disposals of capital assets are properly authorized in accordance with established policy prior to the removal of the assets from the inventory records.

We would like to thank Finance and the various City Departments for the courtesy and cooperation extended to us during this audit. If you have any questions or concerns regarding the details of this audit, please call us at 373-4528.



Tina McKoy  
Internal Auditor



Len Lucas  
(Acting) Internal Audit Director

Cc: Mitchell Johnson, Deputy City Manager  
Ben Brown, Assistant City Manager for Economic Development  
Bob Morgan, Assistant City Manager  
Rick Lusk, Finance Director  
Susan Wuchae, Accounting Manager

**Lucas, Len**

**From:** Lusk, Rick  
**Sent:** Tuesday, April 13, 2004 6:02 PM  
**To:** Kitchen, Ed  
**Cc:** Johnson, Mitchell; Brown, Ben; Morgan, Robert (Bob); Wuchae, Susan; Lucas, Len; McKoy, Tina W  
**Subject:** Capital Asset Inventory - response to Internal Audit report dated March 8, 2004

The Internal Audit Division tested the City's capital asset records maintained by the Accounting Division regarding equipment items under the custody of various City departments as of June 30, 2002, with a total value of \$11,275,069. All items reviewed have either been located, properly disposed of or are no longer in use. City departments were informed of inventory exceptions and corrective actions required. Asset records have been corrected to the extent noted in the audit.

In order to effectively maintain asset records of the City, which are relied upon in fairly representing the City's financial position, it is important for the Accounting and Internal Audit Divisions to regularly interact with City departments to assist them in fulfilling their custodial responsibilities for and accountability over capital assets assigned to their operations. In view of recommendations by the Internal Audit Division involving regular communications with City departments, the Accounting Division will initiate the following steps:

- send quarterly reminders regarding capital asset inventory control to department heads and the designated staff in their departments assigned this responsibility
- post the Capital Asset Manual on the Finance intranet site for quick reference by departments (we are currently updating the manual with respect to Lawson system access)

We will continue to provide technical assistance to departments on inventory control procedures and provide notice of required annual physical inventories to be performed by departments during the first quarter of each calendar year (*beginning in Feb. 2004 notices were sent via e-mail with capital asset inventories attached in an excel spreadsheet for ease in updating each department's inventory*). Periodic audits of City departments' asset inventory records by Internal Audit will continue to ensure a high level of confidence in departments' records and facilitate record keeping by the Accounting Division.

We would like to thank the Internal Audit Division, and in particular, Tina McKoy, for her thorough review of departments' records and coordination with the Accounting Division in this audit.

Rick Lusk  
Finance Director



Date: May 24, 2004  
To: Rick Lusk  
From: Internal Audit  
Subject: Capital Assets Inventory -- Reply to Audit Response dated April 13, 2004

The Internal Audit Division has reviewed your responses to our audit of the City's Capital Asset Inventory System. We agree with the corrective actions the Accounting Division will initiate, which includes more frequent communication with the City departments and posting the Capital Asset Manual on Finance's intranet site. In the future, the Internal Audit Division will conduct "spot-checks" of capital assets when performing departmental audits. For example, we are currently conducting audits in the Parks and Recreation Department. A "2004 Fiscal Year Capital Asset Inventory" listing has been obtained from the Accounting Division, and samples will be taken from this listing to trace to the capital asset. This will to provide assurance in the departments' records and aid the Accounting Division with recordkeeping.

We appreciate your responses to our recommendations. If you have any questions or concerns, please do not hesitate to call us at 373-4528.

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Internal Auditor

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