

# **Audit of Fixed Assets Processes and Procedures**

**Project # 13-16** 

**Prepared by**Office of the Inspector General

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# SOUTH FLORIDA WATER MANAGEMENT DISTRICT

April 10, 2014

Audit and Finance Committee Members:

Mr. Jim Moran, Chair

Mr. Tim Sargent, Vice Chair

Mr. Glenn Waldman, Member

Mr. Juan Portuondo, Member

Re: Audit of Fixed Assets Processes and

**Procedures** 

Project No. 13-16

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. Our objective focused primarily on identifying industry best practices for potential improvements to be incorporated into District fixed assets practices. Gary Bowen and I prepared this report.

Sincerely,

J. Timothy Beirnes, CPA

Inspector General

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#### BACKGROUND

In accordance with the 2013 Audit Plan, we conducted an audit of the District's Fixed Assets Processes and Procedures. The audit focused on comparing District policies and procedures to industry best practices.

The District has established policies, procedures, and processes for acquiring, safeguarding, transferring, and disposing of fixed assets. The District's Administrative Policies has two parts; Part I – District Policies and Part II – District Procedures. The overall goal of the District's policy is to ensure a complete and accurate accounting for fixed assets and to ensure they are adequately safeguarded. The system of fixed asset accounting is intended to:

- Facilitate overall control and custody of the District's assets;
- Permit the assignment of direct responsibility for custody and proper use of specific fixed assets to individual public officials;
- Provide data essential to the proper costing of services and setting of rates and fees; and
- Provide data essential to the property management of fixed assets.

Fixed assets for purposes of this audit are defined as tangible personal property, or items of a non-consumable nature with a value that meets the current District and State of Florida threshold (\$1000 or greater) and which have a normal expected life of one year or more. It includes items such as motor vehicles, motorized equipment, office furniture and equipment, communications and data systems. It does not include buildings, infrastructure or real property. The District had approximately 10,500 personal property items with a combined original purchase price of \$149,499,000 and 740 surplus items (carried at zero value) as of the April 2012 inventory. As of June, 2013, there were 155 missing items with original book value totaling \$734,475, and net book value of \$246,058.

The Governing Board has the authority and responsibility for the custody of District fixed assets as set forth in Chapter 274 F.S - Tangible Personal Property Owned by Local Governments. The Governing Board has delegated control over the District's fixed assets to the Executive Director, who in turn has designated responsibility for physical custody of assets to Bureau Chiefs, Directors and/or Section Administrators.

The following table shows how the responsibility for fixed assets is assigned at the District in accordance with approved Administrative Policies:

TITLE	RESPONSIBILITY
Executive Director	Approval authority for all budgeted tangible
	personal property acquisitions and dispositions.
Finance Bureau Chief	Development and maintenance of policies,
	procedures, guidelines, and accounting records
	for fixed assets.
Bureau Chiefs of Real Estate, Engineering and	Acquisition, management, disposition and
Construction, and Land Management	transaction processing of District's Real
	Property.
Fleet Management	Development of technical specifications for the
	acquisition, coordination of physical control,
	declaration of surplus, assisting in the
	disposition, titling, registering and licensing
	fleet equipment.
Bureau Chief of Information Technology	Development of technical specifications for the
	acquisition and coordination of computer
	equipment, declaration of surplus, and assisting
	General Services in disposal and disposition of
	computer equipment.
Bureau Chiefs/Office Directors/Section	Delegated physical custody and stewardship of
Administrators	property assigned to their areas.

The District's Procedures are comprehensive and cover the following areas:

- Controlling and Safeguarding Fixed Assets
- Fixed Asset Reporting
- Records Maintenance
- Retirement and Disposal of Fixed Assets
- Transfer of Fixed Assets
- Physical Inventory

The policies and procedures incorporate requirements specified in the Florida Statutes and the Florida Administrative Code. Assets are recorded in the SAP system and periodic physical inventories are performed.

The District meets the definition of "governmental unit" as stated in Florida Statutes Chapter 274 – Tangible Personal Property Owned by Local Governments, and therefore, must comply with the Statute's requirements. The Statute defines property as equipment, fixtures, and other tangible personal property of a non-consumable and non-expendable nature. It states that "the State's Chief Financial Officer shall establish by rule the requirements for the recording of property in the State's financial systems and for the periodic review of property for inventory purposes." These rules are contained in Chapter 69I-73 F.A.C. (Florida Administrative Code).

The Project and Asset Management Section, within the Finance Bureau is responsible for oversight of the asset management function, ensuring that the assigning, distributing and recording of asset tag numbers to all fixed assets is completed. They also coordinate with District staff in the management, administration, and review of the District's tangible personal property. The Section ensures that the processes are in compliance with District policies and applicable State laws and regulations. They administer the annual fixed asset inventory process, and surplus asset sales, conduct training for staff on inventory procedures, asset tagging requirements, property transfers, research of unallocated and missing assets, and asset disposals and recordkeeping.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

The main objective of this audit is to identify best practices for potential improvements to incorporate into District practices. The audit provides an independent review of the District's asset management processes and procedures for fixed assets (tangible personal property) including a comparison of the District's procedures to industry best practices and applicable laws and codes in order to identify potential improvements.

### Scope and Methodology

To accomplish our objectives we performed the following:

- Obtained and reviewed District's fixed assets policies and procedures.
- Reviewed pertinent Florida statutes Chapter 274 Tangible Personal Property Owned by Local Governments.

- Reviewed State of Florida Chief Financial Officer administrative rules Chapter 69I-73
   Florida Administrative Code Tangible Personal Property Owned by Local Governments.
- Obtained and reviewed examples of other governmental organization's policies and procedures to determine the best practices.
- Interviewed staff to gain an understanding of District fixed asset processes.
- Reviewed the District's record keeping system to ascertain whether it is sufficient to comply with statutes and best practices.
- Compared District processes to best practices identified and conclude as to potential areas for improvement.

We did not perform audit tests to verify compliance with the District's Policies and Procedures as this was beyond our scope, but relied on discussions with appropriate personnel, review of documents, and general observations to gain an understanding of the processes.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

### **AUDIT RESULTS**

### **Executive Summary**

We identified best practices as well as state statutes and administrative codes applicable to the management of tangible personal property (see Appendix I and Appendix II). We found that the District has comprehensive policies and procedures in place which are consistent with many of the best practices used by governmental organizations and Florida statutes and administrative codes. These procedures include performing annual inventories, maintaining property records with required information, maintaining control accounts, assigning asset labels with bar codes for electronic identification, etc. We also found that the District has incorporated many of the best practices used by other similar government entities in its' policies and procedures, including a comprehensive training guide titled "Asset Management Training for Property Clerks", which provides detailed instructions for managing asset master data, performing the annual inventory, completing asset transfers, and designating surplus property.

We did, however, identify several potential opportunities for improvement. We noted that the District's policies and procedures need to be updated to properly reflect the responsibilities of the Asset Accounting Section which were previously assigned to the General Services Section. In addition, the policies and procedures should be updated to reference and reflect the requirements of Chapter 69I-73 Florida Administrative code.

Several best practices identified for potential improvement include:

- Establish policies and procedures to ensure contractors maintain adequate records and documentation to account for District property in their possession,
- Research and resolve missing inventory on a timely basis,
- Optimize re-use of surplus items,
- Separate the duties of property custodianship and of performing the annual inventory,
- Perform a limited inventory when there is a change of custodian,
- Document the asset condition on the inventory form, and
- Include asset sub groups in the annual inventory process.

# **District Policies and Procedures Need Updating**

The District's Administrative Policies and Procedures state that the General Services Section Administrator is responsible for: 1) the coordination and control over the physical inventory process, 2) the transfer and disposition of tangible personal property, 3) overseeing the assigning, distributing, and recording of asset tag numbers, and 4) the custody and disposition of surplus property. However, these responsibilities have been moved to the Finance Bureau under the Project and Asset Accounting Section.

#### Recommendation

1. Update the written policies and procedures to properly reflect the assignment of fixed asset responsibilities.

# **Management Response:**

Management concurs with the recommendation. The fixed asset policies and procedures are in the process of being updated for changes in responsibilities, changes in the organization, and changes in processes.

## **Responsible Division:**

Administrative Services/Finance

# **Estimated Completion:**

June 30, 2014

### **Cite Applicability of Florida Administrative Code in Policy**

The District's Administrative Policy cites Chapter 274, Florida Statutes as the guiding authority for its policy on Tangible Personal Property Owned by Local Governments. However, Chapter 69I-73 Florida Administrative Code (F.A.C.) - Tangible Personal Property Owned by Local Governments is also applicable to the District per Chapter 274.02(2) F.S. The administrative code issued by the Florida Chief Financial Officer establishes specific requirements including: 1) threshold amount for recording property, 2) recording of property and required information, 3) marking of property records, 4) procedures for disposing of property, and 5) procedures for inventorying property. While it was noted during the audit that the District is in compliance with most of the code requirements, the code is not referenced as authority in the District's policies and procedures.

#### Recommendation

2. Update the written policies and procedures to reference and cite the applicability of Chapter 69I-73 F.A.C. and document compliance with the code requirements.

# **Management Response:**

Management concurs with the recommendation. The District's Fixed Assets policy, Sec. 110-61 through Sec. 110-66, is in the process of being updated to include the District's responsibilities under Chapter 69I-73 F.A.C.

### **Responsible Division:**

Administrative Services/Finance

# **Estimated Completion:**

June 30, 2014

# **Address Third Party Custodianship of District Property**

Many government organizations were found to have established policies and procedures for tracking government owned personal property in the form of government furnished equipment or contractor acquired property on behalf of the government which are in the possession of contractors or subcontractors. These policies and procedures generally require the contractor to establish and maintain adequate control records for government property in their possession or control, and subjects contractor records to review. The property is required to be identified or marked as government property, be supported by appropriate documentation, and have an adequate transaction audit trail. The specific requirements are included in the contract to ensure their enforceability.

The District's written policies and procedures do not address procedures relating to District furnished equipment or contractor acquired property with District funds. Contractors are usually required to furnish all property necessary to perform District contracts. However, there have been occasions when contractors have acquired property and were reimbursed with District funds, or property and equipment were provided by the District, to complete repairs or installations to District facilities. Policies should be in place, and procedures should be implemented to ensure contract provisions are established to protect, account for, and maintain

District property in the custody a contractor in a manner consistent with District Policies and Procedures.

#### Recommendation

3. Establish policies and procedures to ensure contractors maintain adequate records and documentation to account for District property in their possession.

### **Management Response:**

Management concurs with the recommendation and is evaluating its options to determine the most effective and efficient way to implement this recommendation.

### **Responsible Division:**

Administrative Services/Procurement

### **Estimated Completion:**

September 30, 2014

### **Establish Division of Duties for Property Clerks**

Rules promulgated by the Florida Department of Financial Services Division of Accounting and Auditing in Chapter 69I-73.006(5) F.A.C, state that "The custodian delegate shall not personally inventory items for which they are responsible." The rule defines custodian's delegate as "person acting under the supervision of the custodian to whom the custody of property has been delegated by the custodian and, from whom the custodian receives custody receipts."

The District's Administrative Policy defines custodian as "the Bureau/Office Director who is delegated physical custody and stewardship responsibility for the property of the District assigned to the Bureau or Office." Property Clerk is defined as "the Custodian's designee to perform administrative duties as stipulated under the guidelines and procedures developed to administer this policy". The District's definition of Property Clerk seems to conform to the rules definition of custodian delegate and is therefore subject to the restriction on performing the annual inventory. The Property Clerks function at the District is to perform the annual inventory for property in their section for which they are responsible. Accordingly, the District's practice

of property clerks performing the annual inventory does not comply with State rules; nor is it a Best Practice as it does not conform to the internal control principle regarding segregation of duties.

#### Recommendation

4. Establish procedures to properly divide the duties of asset custodianship and annual inventories.

# **Management Response:**

Management concurs with the recommendation. While the conventional response would be to have someone from outside of the organizational unit perform, or observe, the inventory count, the District does not have the resources to devote to this. Instead, a decision was made to continue to allow the property clerks to take the inventory in their respective areas while using the asset tag scanners to provide a mitigating control. These scanners have been used in the past for inventory purposes but property clerks also had the ability to manually input asset information into the scanner thus diminishing the scanner as a control mechanism. However, the ability to manually input assets into the scanner has been taken away so the only way that an asset can be counted is by scanning the asset tag. Even with this change the risk still exists that a missing asset can be counted as long as the tag exists. This risk will be mitigated by 1) taking away the ability for property clerks to print duplicate tags and 2) randomly selecting assets prior to the inventory count and verifying that the assets have tags attached.

# **Responsible Division:**

Administrative Services/Finance

### **Estimated Completion:**

June 30, 2014

# **Research and Resolve Missing Property More Timely**

The District's Administrative Procedures Section 210-120.7(b)(3) states that all items identified as missing (from the physical inventory) are initially transferred to an un-located assets status and are reviewed periodically by Department Directors and the General Services Division until satisfactory resolution of their status has been made. Items will be held in this status not

more than two years. If these items are still unresolved, a request is made to the District's Governing Board for authority to remove them from the fixed assets records. Best Practices identified by the U.S. General Accounting Office (GAO) states that prompt completion of required research is key to identifying and correcting the causes of variances, or missing items. As the amount of time between the discovery of a difference in the inventory records and research increases, the more difficult it is to identify the cause of the discrepancy. A study performed by the GAO found that the majority of the leading edge organizations performed and completed research, either the same day as the original count, or by the end of the following day. This allowed for timely adjustments to the inventory records and immediate corrective action to prevent future discrepancies.

#### Recommendation

5. Adopt procedures to document the research of missing inventory items, identify causes for the missing items, and take immediate corrective action.

### **Management Response:**

Management concurs with the recommendation. The Fixed Asset procedures are being amended to require that the following steps be taken and documented when an asset is deemed missing:

- Continue to search for the asset.
- Make inquiries to determine where it was last seen and who had possession of it.
- Contact all known users to see if anyone has knowledge of its whereabouts.
- Speculate as to what may have happen to the asset in order to determine if internal controls need to be strengthened.
- If there was evidence that the asset was stolen contact District Security Management and the appropriate law enforcement agency
- Indicate in the fixed asset records that the asset is in missing status.
- If the asset isn't found after two subsequent inventory counts then propose writing it off.

#### **Responsible Division:**

Administrative Services/Finance

# **Estimated Completion:**

June 30, 2014

# **Optimize Re-use of Surplus Property**

A best practice is to establish and manage a surplus asset program designed to optimize the utilization of District resources. The goal of such a program is to identify usable surplus items within the organization and relocate them where a need exists. The District's policy states that "Should surplus items become available that could be redirected, the General Services Manager or delegate *may* periodically provide a list of available surplus property to Departments/Divisions. Department/Division Directors should survey available surplus property before requisitioning new or replacement property." Many surplus asset programs use internal websites to list available items which can easily be viewed by organization staff. Prior to purchasing personal property, procurement should investigate the availability of like or similar items on the surplus property website. This will help to assure the optimal use of District assets.

#### Recommendation

6. Establish procedures to promote redirection of surplus assets such as an internal website listing surplus items.

### **Management Response:**

Management concurs with the recommendation. Section 210-114(g)(3)d requires the Finance Bureau to periodically provide a list of available surplus property. Finance will publish its first such list by the end of March.

### **Responsible Division:**

Administrative Services/Finance

# **Estimated Completion:**

Completed

### Perform an Inventory When Changing Custodians

Chapter 69I-73.006(1) F.A.C states "Each governmental unit shall ensure a complete physical inventory of all property is taken annually and whenever there is a change of custodian or change of custodian's delegate." The District's policies and procedures do not require a physical inventory to be taken when there is a change in custodian or custodian's delegate.

### Recommendation

7. Establish procedures to perform an inventory whenever there is a change in custodian or custodian's delegate.

### **Management Response:**

Management concurs with the recommendation and will work with Human Resources to determine how Finance will be notified when there are changes in asset custodians.

# **Responsible Division:**

Administrative Services/Finance

### **Estimated Completion:**

June 30, 2014

# **Document Asset Condition on Inventory Form**

Chapter 69I-73.006(2)(e) sets minimum requirements for the content of inventory forms (the form used to record the physical inventory) for each property item. The required content includes the following items:

- Date of inventory
- Identification number
- Existence of property item (or not)
- Physical location
- Present physical condition
- Name and signature of employee attesting to the existence of the item
- In the case of a property group, the number and description of the component items comprising the group

The District complies with all of the above, except for the present physical condition. There is a field in the SAP database for physical condition, which can be updated through the "Trancollector" bar code scanner, however, the field does not appear on the actual inventory form printout used to conduct the physical inventory.

#### Recommendation

8. Include the physical condition data field on the inventory form, and update it during the annual inventory.

# **Management Response:**

Management concurs with the recommendation and will include the physical condition data field on the inventory form during the FY 2014 inventory count.

### **Responsible Division:**

Administrative Services/Finance

# **Estimated Completion:**

September 30, 2014

# **Inventory Asset Sub-Groups Annually**

Property groups, or sub-groups, may be accounted for in one record if the component items are separately identified in the asset record. However, all property group items must be inventoried according to Chapter 69I-73.003(2) F.A.C. Although the current 2013 Asset Management Training Manual states that sub-assets (component items) must be inventoried this year, they have not been inventoried in the past. The District's policies and procedures do not require the annual inventory of all property sub-groups.

### Recommendation

9. Update the policies and procedures to reflect the current practice of including subgroups in the annual inventory when practical.

### **Management Response:**

Management concurs with the recommendation and will update the procedures to require the counting of sub-groups in the annual inventory.

### **Responsible Division:**

Administrative Services/Finance

## **Estimated Completion:**

September 30, 2014

# Appendix I

# **Summary of Identified Best Practices**

- Written Procedures exist for all asset management activities including:
  - o Acquisition and Disposal
  - o Surplus
  - o Security
  - Utilization and Maintenance
  - o Performing Physical Inventory
  - o Requirements for asset classifying and recording fixed assets in the accounting records
- Purchases are initiated and approved by authorized personnel in accordance with established criteria.
- Transactions are properly accumulated, classified, and timely recorded in the accounting records.
- Responsibility for accounting and financial reporting is assigned to specific personnel to ensure complete, accurate, and timely reporting.
- Accounting functions are performed by personnel other than those responsible for their custody.
- Adequate project cost records are maintained and personal property acquired is recorded on detailed subsidiary records.
- Controls exist to ensure that changes in the status (disposals, change in location, missing, active, etc.) are reported timely to those responsible for fixed asset accounting and recordkeeping functions.
- Controls insure transfers, retirements, and disposals are authorized and approved.
- Adequate physical security is maintained to deter theft, damage, loss or improper use.
- Access to property is limited to authorized individuals with a business need.
- Assets are "tagged" with a unique indentifier.

# Appendix I

## (Continued)

- Annual physical inventory is performed to ensure accountability, completeness and accuracy
  of financial records.
- Physical inventory is performed by someone other than one responsible for custody of the assets.
- Proper maintenance is performed to prolong useful life.
- High risk assets are identified for more frequent routine inspections to confirm existence, condition, and valuation.
- Asset utilization is periodically evaluated to identify low performing or idle assets for consideration of surplus status.
- Insurance requirements are periodically reviewed and updated. If self-insured, exposure is periodically evaluated and determined if acceptable.
- Appropriate action is taken to investigate and document missing items.
- Upon suspicion of fraud, theft, or malicious damage, appropriate personnel are immediately notified (i.e. management, State Auditor's Office, law enforcement, Office of Inspector General).
- A list of surplus items is made available to the organization for possible reassignment to an area having a need for them, before disposing of the items.
- Direct sales outlet for surplus property. For example, PBC's Thrift store which is called "a
  municipal investment recovery cooperative involving 13 area municipalities". PBC Thrift
  Store has its own website with information on obtaining surplus property.
- Policies and procedures are established for tracking government owned personal property furnished to contractors or acquired by the contractor with government funds to ensure effective control and accountability is maintained.
- Promptly research missing property during the inventory process. Leading edge companies
  performed and completed research either the same day or by the next day the property was
  discovered as missing.

# **Appendix II**

# **Summary of Statutory Requirements**

- Threshold for recording property: cost or value of \$1000 or more with a useful life greater than one year.
- Individual records are required for each property item, except that individual items which
  constitute a single functional system may be designated as a group and accounted for in
  one record if the components are identified separately in the record.
- All property group items, the total value or cost of which is \$1000 or more must be inventoried. (This includes sub-groups in SAP.)
- Each property record must include the following information:
  - o ID number
  - o Description
  - Physical Location
  - Name of Custodian
  - o If Property group, number and description of components
  - o Name, make, or manufacturer if applicable
  - Year and/or model number
  - o Manufacturers serial number(s), and VIN and title certificate number if an auto
  - o Date acquired
  - o Cost or value at time of acquisition
  - Method of acquisition, and for purchased items, the voucher and check or warrant number
  - o Date of last inventory and the condition
  - o If disposed of, information prescribed in Rule 69I-73.005 F.A.C.
- Control accounts must be maintained, the entries to which are derived from documents evidencing transactions affecting the acquisition, transfer or disposition of property items and shall be posted contemporaneously with entries to the individual property records.

# **Appendix II**

## (Continued)

- Each property record must be permanently marked with an assigned ID number.
- Information required for disposition of property:
  - Date of disposition
  - o Authority for disposition (e.g., Board resolution)
  - Manner of disposition
  - o Identity of employee witnessing disposition if cannibalized, scrapped or destroyed.
  - Notation identifying any related transactions such as sales receipt, insurance recovery, or trade in
- For property certified as surplus, reference to documentation evidencing that such property was disposed of in the manner prescribed by 274.05 or 274.06 F.S.
- Each governmental unit shall ensure a complete physical inventory of all property is taken at least annually and whenever there is a change of custodian's delegate.
- Inventory shall be recorded on a form which displays for each property item the following information:
  - Date of inventory
  - o ID number
  - o Existence of property
  - Physical location
  - Present physical condition
  - o Name and signature of employee attesting to the existence of the item
  - o For property groups, the number and description of the component items comprising the group
- Electronic scanning format is acceptable only if the data is downloadable to a computer and is capable of generating a hard copy inventory report.
- Unrecorded property found during an inventory process, which meets the requirements, shall have an inventory form created, and an investigation to determine the ownership of the item.

# Appendix II

# (Continued)

- The custodian delegate shall not personally inventory items for which they are responsible.
- Upon completion of the physical inventory, the inventory records shall be reconciled to property records:
  - o The data listed on the inventory forms shall be compared to the individual property records; differences noted as to location, condition, and custodian shall be listed, investigated and corrected.
  - Items not located shall be promptly reported and investigated. If it is determined the item has been stolen, the property record shall be so noted, and a report filed with law enforcement.
- Governmental units should establish proper controls and procedures for adjusting the property records for unaccounted for property, and establish policy to determine when unaccounted for property is to be reported to the State of Florida Chief Financial Officer.