



**CITY AUDITOR** 345 6<sup>th</sup> Street, Suite 600, Bremerton, WA 98337-1873 & Phone (360) 473-5369

March 10, 2011

Honorable Patty Lent, Mayor  
Members of the City Council

The City Auditor has completed the attached performance audit of Fixed Asset Records. Four recommendations were made. They are summarized as follows:

- Establish a capitalization threshold greater than \$2,500
- Improve fixed asset records to provide sufficient detail
- Establish written procedures for disposal of old and obsolete items
- Provide city departments with annual fixed asset inventory forms and require an explanation of missing items

This review included assets in all departments of the city except Public Works & Utilities. There was an error rate of 16.5% for the assets reviewed. These errors included items no longer present, items listed at incorrect locations, and incorrect detail.

The assistance of all of the departments in helping find and identify assets is greatly appreciated. The departments are quite willing to keep accurate records.

Sincerely,

Gary W. Nystul

cc: City Attorney  
Director of Financial Services

# **REVIEW OF FIXED ASSET RECORDS**

## **Purpose**

The Office of the City Auditor reviews various phases of city operations for compliance and performance. This review of Fixed Asset Records was scheduled on the 2010 work plan.

## **Scope**

This is a review of the fixed assets which were recorded in the financial accounting system at December 31, 2009. Seventeen departments, most of which are in the General Fund, were included.

## **Statement of Auditing Standards**

This performance/compliance audit was conducted in accordance with Generally Accepted Government Auditing Standards, except Standard 3.50 requiring an external quality control review. Those standards require that the auditor plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

## **Objective**

The objective of this audit was to:

- Compare fixed assets listed in the accounting system to actual fixed assets in the departments
- Review the city policies for recording and disposing of fixed assets
- Compare city practices to generally accepted accounting principles
- Observe and report on items noted for economy, efficiency or effectiveness

## **Summary of the Results**

- Of 744 items inventoried, with a value of \$72,402,272, errors were noted for 123 items (16.5%) with a value of \$4,271,921.
- There is no policy and procedure for the records and approvals required for disposal of obsolete items or reporting the loss of assets.

- Many fixed asset records lack adequate supporting detail or sufficient information in the files to properly identify the item.
- The capitalization threshold has not been updated since 1997 although a new level is now used for budgeting but without updating the policy.

## Methodology

A printout was obtained of the assets in the accounting system for each department that was inventoried. A representative of each department provided assistance to us in identifying many of the items. Attempts were made to verify some assets using the detail paper records in the Department of Financial Services. However, these fixed asset records were often incomplete. The primary emphasis was to determine that the item was on hand or could be located. No effort was made to review the historical cost data. Land parcels that were listed were not verified to ensure they were for the correct parcel or that they include all parcels for each location.

## Results

The Departments whose fixed assets were reviewed and their department number are listed in the following table. The value of the 744 items reviewed in these departments is \$72,402,272. The value of the 123 problem items noted is \$4,271,921. In the table the number of items is the number of assets assigned to that department. The number of these items that had errors such as location codes, descriptions, or no longer present are listed in the column Problems Noted.

DEPARTMENT	Items	Problems Noted
11 City Council	3	0
12 Executive	2	1
16 Building and Planning	1	1
17 Municipal Court	6	0
20 Police	60	13
25 Fire	121	54
43 Parking	13	1
45 Equipment Services	23	7
51 Parks	411	34
55 Conference Center	10	0
56 Conference Center Operations	24	1
57 Parks Construction	2	0
59 Parks Construction	7	0
63 Block Grant	2	0
76 Information Services	13	4
84 BKAT	16	2
511 Information Technologies	25	2

## **ACCOUNTING PRINCIPLES**

Generally accepted accounting principles define capital assets as follows: “The term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.”

Cities have a fiduciary duty to properly record capital assets in the accounting system and keep track of them. They have a duty to ensure that those who are accountable for city property exercise reasonable care of the assets. There is a duty to be sure the assets are properly protected and properly managed.

## **FINDINGS**

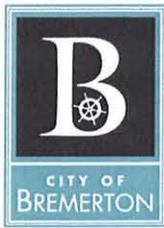
The following are examples of the problems noted with the accounting records and the supporting documents.

1. City policies and procedures are inconsistent for the administration and recording of fixed assets. Policy 1-20-01, last revised in 1997, establishes the capitalization threshold of \$2,500. The Capital Improvement Program Overview section of the city budget for 2010 and 2011 states that the threshold for capitalizing assets is \$10,000. OMB Circular A-87, issued by the federal government for use in grant administration, uses a \$5,000 value.
2. The city has not updated the fixed asset records for several years. For example, items assigned to the Information Technology department were still listed as being at the old city hall which has been sold and demolished. Thirty five items of Fire Department equipment are still listed at the old station location on Pacific Avenue although they have been in the new station since June 2005.
3. The records supporting the fixed asset entries in the financial statements often lack sufficient identifying information. For example, an asset described as audio visual equipment which cost \$283,316 does not have any detail describing this equipment. The record has the cost and the vendor is listed as “various”. It is impossible to verify this asset.
4. The records say the mayor’s office is accountable for a model of the USS Missouri. It went to the museum when the city moved out of the old city hall. The records have not accounted for this transfer.

5. A “storage building” is listed as an asset acquired in 2003 for \$4,663. This “building” is actual metal siding and roofing purchased to repair the warehouse building that was remodeled for the Special Operations Group. It is not a building.
6. A sprinkler system for a park is listed at a cost of \$81,992 for 9,750 square feet. This is obviously an error. The detail record in the file is one sheet of paper with only the a date acquired, total cost, location and size of area information.
7. There is not a policy or procedure for disposing of old, worn out equipment. Standard procedures should provide a means to report the disposal to those keeping the asset records. The policy should also say who has the authority to approve of the disposal.

## **RECOMMENDATIONS**

1. The capitalization threshold should be updated. The present policy of \$2,500 is too low. OMB Circular A-87 uses \$5,000 which is more reasonable. The policy should be applied through the city.
2. Fixed asset records must be improved so that sufficient detail is available to identify the assets that are capitalized. Many records were created several years ago and may not be able to be corrected. Records created currently should provide adequate information.
3. Written procedures should be established for disposal of old and obsolete items. This includes the level of authority to approve the disposal and the method to notify those accounting for the assets.
4. The Department of Financial Services should provide departments with annual inventories for all city assets. Departments should be required to explain missing items.



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## MEMORANDUM

**Date:** March 7, 2011  
**To:** Gary Nystul, City Auditor  
Cc: Mayor Lent  
**From:** Becky Hasart, Director Financial Services  
**RE:** Response to Fixed Asset Records Audit Report

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Gary,

Thank you for your efforts regarding the city's fixed asset records. Please find my response below:

Recommendations 1 thru 3 – The finance department will work to update and/or establish a written policy regarding fix assets. This policy will comply with BMC 2.76, BMC 2.78, and internal city policy 1.20.03. This policy will include an appropriate capitalization threshold, appropriate guidance on what identifying support is needed for the asset, and appropriate procedures for removal of the asset from the records. These policies should be available in draft form no later than May 31<sup>st</sup> for adoption.

Recommendation 4 – Fixed asset listings and their inventories are decentralized and reside in the responsible department for maintenance and update. The finance department strives to obtain these inventories when preparing the annual report. The finance department will do what it can to encourage the other departments to update and maintain their listings.