



OFFICE OF THE CITY AUDITOR

TO: Mayor and Council Members
THRU: Margaret Krym, City Auditor
FROM: Kathy Magaw, Assistant City Auditor
DATE: April 17, 2013
SUBJECT: Follow Up Capital Assets - Equipment Audit

In 2009, the City changed the software used to track and account for capital assets. This conversion was tedious and time consuming. The Financial Services Department invested significant effort in verifying the accuracy of the database created in the new software. Nonetheless, the City's external financial auditors reported concerns regarding the reporting of capital assets in their Management Letters for FY 2010 and FY 2011.

In 2012, we engaged the CPA firm of Carr, Riggs and Ingram, LLC (CRI) to audit Capital Assets – Equipment. We issued their report on September 27, 2012. In that report, CRI made five specific recommendations to strengthen controls and improve governance and efficiencies regarding these assets. Management agreed to implement the recommendations.

As of this memo, Management has fully implemented four of these agreed upon action items and partially implemented one.

Fully implemented - Agreed Upon Action Items

Agreed Upon Action Item #2:

The Financial Services Department agreed to create a control log for use during the annual physical inventory process. This log would note the date the inventory sheets went out and the date the completed inventory sheets came back in and would serve as a population control to ensure that Financial Services received all completed count sheets.

The Financial Services Department implemented this control log system with the September 30, 2013, physical inventory count.

Agreed Upon Action Item #3:

At the time of the audit, approximately 3,400 of the 9,200 capitalized fixed asset equipment items had a cost value less than \$3,000. CRI recommended that the City raise the threshold for capitalizing equipment thus reducing the overall number of tracked items and gaining efficiencies in the recording and inventorying processes.

The Financial Services Department agreed to make a recommendation to the City Manager that the Administrative Regulation (AR) #51 (Capital Assets) be updated to raise the equipment capitalization threshold.

The City Manager signed the updated AR #51 on September 11, 2013, raising the threshold for capitalization of equipment to \$5,000. This will apply to any new purchases; current capitalized assets under the threshold will remain in the fixed asset ledger until fully depreciated.

City employees can now focus more staff resources on the accurate tracking of those higher cost items that represent more risk to the City.

This agreed upon action item has been implemented.

Agreed Upon Action Item #4:

CRI recommended that the ITS Department assume the responsibility for tracking computer hardware and software if the capitalization threshold were to be increased. The cost of much of the computer hardware and software utilized by various departments will fall below the newly implemented capitalization threshold and therefore expensed in the year acquired.

The ITS Department agreed to acquire a software package to act as the central "asset management database" for key elements of IT equipment. This new software would also have the capability for auto-discovering devices as they connected to the network and this auto-discovering feature would assist in tracking and monitoring the location of IT equipment.

We have been advised that during 2013 the ITS Department acquired the "BMC Asset Core" IT Inventory Management Module and migrated IT inventory data to this database. This application integrates with the "BMC FootPrints" application used by the department for IT Service Management. The Service Technicians, the Helpdesk and the IT Administrative Specialist will monitor the application.

This agreed upon action item has been implemented.

Agreed Upon Action Item #5:

During the fixed assets subsidiary ledger conversion some asset lives did not convert correctly and the City had to estimate depreciation. City Management was aware of this and staff had been diligently working to correct the errors. CRI recommended that they continue this work so that reported depreciation would be more accurate.

Effective with the fiscal year ending September 30, 2012, staff is no longer manually estimating depreciation. All depreciation is now system generated in J.D. Edwards.

This agreed upon action item has been implemented.

Partially implemented - Agreed Upon Action Item

Agreed Upon Action Item #1:

CRI recommended that the Fixed Asset Accountant receive assistance to get the individual division's equipment inventory updated so that the count sheets used during the physical counting process would be more accurate and CRI recommended that the Fixed Asset Accountant's position have a defined back up.

The Financial Services Department had agreed to have all historical changes entered and corrected before conducting the fixed asset inventory for FY 2013. During 2013, Financial Services expected to visit custodians to review their most current listing to ensure that the subsidiary ledger was reconciled to the actual physical inventory.

Also, the Financial Services Department planned to add an additional accountant and train this individual to serve as the back up for the fixed asset processes. During July 2012, a Senior Accounting Manager was hired and it was intended that this individual provide the accounting support and serve as back up for the Fixed Asset Accountant. This Senior Accounting Manager left employment with the City in March 2014. The Financial Services Department recently promoted a member of their existing staff to fill this vacancy.

Time and resources did not allow the Fixed Asset Accountant to visit custodians, as she was heavily involved with the implementation of other software applications: FASTER, Guardian Fuel Systems for Fleet and Facility Dude for Facilities. The Fixed Asset Accountant did state that assistance was being provided to help with items that require research as they move forward however, not all historical changes have been made. Staff is following up with posting transfers and retirement sheets as the year's inventory count sheets are returned from the departments.

We contacted the various departments that were selected in CRI's original audit test samples to ascertain if there had been any changes to their inventory count sheet listings for FY 2013. Two locations indicated that there was no improvement; another indicated that only 2-3 items had been updated and one location said that all items listed were now accurate.

Financial Services stated that they are unable to change an asset location without documentation indicating its new location and/or how it was disposed of. They indicated that they have not received this documentation for many of the items in question and therefore cannot make the desired adjustments.

The Financial Services Department has made progress towards mitigating the risk associated with this agreed upon action item. However, lack of required documentation, the urgency of other priorities, short staffing and continued staff turnover, has hindered their ability to complete this action item.

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We encourage staff to continue their work to ensure that all historical changes are entered and/or corrected and in identifying and training a back up for the Fixed Asset Accountant.

We would like to thank the Financial Services Department, especially Kathy Lewis, Fixed Asset Accountant and the ITS staff for their efforts to complete these actions and for their willingness to work with us on this follow up engagement.

We are available to respond to any questions or concerns about the information contained in this document. You may contact Kathy Magaw at 242-3381 or Margaret Krym at 242-3380.

C: John Szerlag, City Manager
 Dolores Menendez, City Attorney
 Rebecca van Deutekom, City Clerk
 Victoria Bateman, Financial Services Director
 John MacLean, ITS Director
 Fidel Deforte, ICT Manager
 Kathy Lewis, Accountant II
 Audit Committee