

AUDIT TEAM

Jim Williamson, CPA, CIA, City Auditor
Matt Weller, CPA, Assistant City Auditor
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**REVIEW OF SELECTED
NON-CAPITALIZED ASSET INVENTORIES**

JUNE 3, 2014

MAYOR AND CITY COUNCIL

<i>Mick Cornett</i>	<i>Audit Committee, Mayor</i>
<i>James Greiner</i>	<i>Ward 1</i>
<i>Ed Shadid</i>	<i>Ward 2</i>
<i>Larry McAtee</i>	<i>Audit Committee, Ward 3</i>
<i>Pete White</i>	<i>Ward 4</i>
<i>David Greenwell</i>	<i>Audit Committee, Ward 5</i>
<i>Margaret S. “Meg” Salyer</i>	<i>Ward 6</i>
<i>John A. Pettis Jr.</i>	<i>Ward 7</i>
<i>Patrick J. Ryan</i>	<i>Ward 8</i>



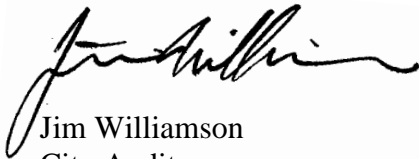
June 3, 2014

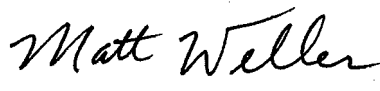
The Mayor and City Council:

The Office of the City Auditor has completed procedures to determine if large, valuable inventories of surplus non-capitalized assets, similar to the surplus inventory of 500M Data Radios noted in the Oklahoma State Auditor and Inspector's report dated April 30, 2013, exist in other City departments.

Large, valuable inventories of surplus non-capitalized assets were not identified during our inspection of locations within selected departments as of February 28, 2014; however, City policies addressing non-capitalized asset inventories and surplus property should be improved. Related recommendations are included in the attached report.

All comments, recommendations, suggestions and observations arising from our work have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the content and emphasis of items in this report. Responses to this report from management are attached.


Jim Williamson
City Auditor


Matt Weller
Assistant City Auditor


Lori Rice
Audit Manager

REVIEW OF SELECTED NON-CAPITALIZED ASSET INVENTORIES AS OF FEBRUARY 28, 2014

BACKGROUND, SCOPE AND METHODOLOGY

On October 2, 2012, the City Council approved a resolution authorizing the Mayor to request an audit by the Oklahoma State Auditor and Inspector (SA&I) of a contract relating to several sales tax funded capital improvement projects. On April 30th, 2013, the SA&I issued a special audit report noting a surplus inventory¹ of 824 500M Data Radios purchased at a cost of \$852,016.

The Office of the City Auditor has completed procedures to determine if large, valuable inventories of surplus non-capitalized assets similar to the surplus inventory of 500M Data Radios exist in other City departments. For the purpose of our review, non-capitalized assets were defined as purchases less than the \$7,500 threshold for recording a capital asset but also not recorded as supplies inventory in the City's Comprehensive Annual Financial Report.

Procedures performed during this review included analyzing citywide purchasing records and identifying five departments with potentially large non-capitalized asset inventories; interviewing selected department personnel; reviewing department inventory records; and inspecting inventories kept at 24 separate locations within the five departments selected. Our work was limited to reviewing for surplus non-capitalized asset inventories in the selected departments. We did not perform an audit of non-capitalized asset inventories.

The following section of this report includes recommendations intended to provide constructive suggestions for improving citywide controls over non-capitalized asset inventories. The recommendations included in this report are immediately followed by *management's response*. *Management's response* is attached to this report in its entirety.

RESULTS OF WORK PERFORMED

Large, valuable inventories of surplus non-capitalized assets were not identified during our inspection of locations within selected departments; however, policies addressing non-capitalized asset inventories and surplus property should be improved.

COMMENT (1)

Non-capitalized asset inventory records are not consistently maintained by City departments. Inventory records maintained at some locations were incomplete, including only asset descriptions without quantity counts. Inventory records were not maintained at other locations.

¹ On April 29, 2014, the Office of the City Auditor issued a Summary of Findings describing the significant decisions and circumstances leading to the surplus inventory of 500M Data Radios.

A Capital Asset Manual setting forth the City's policy for recording purchases as capital assets has been developed by the Finance Department and distributed to City departments. The Manual directs each City department to develop their own policies and procedures for controlling non-capitalized "small and attractive items" defined as those particularly at risk or vulnerable to loss, but does not fully define the purchases to which those policies and procedures should apply or address what they should include. The risk of lost or stolen assets is increased without well maintained inventory records.

RECOMMENDATION (1)

Policies and procedures in the Capital Asset Manual for controlling non-capitalized asset inventories should be further developed. The policies should minimally address:

- Purchases subject to inventory requirements, including a generally applicable per item dollar threshold (e.g., individual purchases greater than \$500) given inventory record keeping cost/benefit materiality and the current \$7,500 threshold for recording capital assets. Application of a lower threshold by departments for certain higher-risk assets should also be encouraged.
- Written department policy and procedure development requirements with guidelines for:
 - Consideration of inventory characteristics such as susceptibility to theft, volume, and useful life in determining the necessary scope of policies and procedures.
 - Acceptable formats (e.g., Excel, Access, SharePoint, PeopleSoft, etc.) for inventory record keeping including requirements for retaining back-up copies.
 - Inventory record requirements minimally including description, serial or tag # for unique identification, purchase date, original value, quantity, and location or to whom the asset is assigned.
 - Inventory record keeping requirements for dispositions (e.g., removal from inventory records, recording disposition dates, etc.).
 - Physical count frequency requirements and acceptable physical count processes (e.g., counts by non-custodial personnel, option to use asset tags, etc.).
- Coordination of centrally maintained citywide inventory records (e.g., Information Technology's computer equipment inventories, General Services' equipment inventories, etc.) to prevent department duplication of inventory responsibilities but with continuing department responsibility for any important information (i.e., the inventory record requirements above, particularly location of the asset or to whom the asset is assigned) not centrally maintained.
- Controls deemed necessary to ensure department development of written policies and procedures. Extended controls to ensure policy compliance such as department submission of developed policies and procedures and/or periodic physical count reports to the Finance Department could also be considered.

While implementing non-capitalized asset inventory policy and procedure improvements, the potential for deriving capital asset record keeping efficiencies from these enhancements should also be considered. The impact of an increase in the threshold for recording capital assets, last increased from \$1,000 to \$7,500 on July 1, 1994, should be assessed given the expanded department-level responsibilities resulting from these improvements.

FINANCE DEPARTMENT RESPONSE (1)

We agree with the recommendations of the City Auditor regarding further development of policies and procedures for the inventory of non-capitalized assets. A policy regarding inventory of non-capital items will be added to the Capital Asset Manual to provide guidance to departments and will be distributed through a City Manager memo. The enhanced policies and procedures will be distributed by July 1, 2014.

COMMENT (2)

Certain inspected locations had accumulated significant quantities of used surplus property with minimal carrying costs and limited apparent remaining value. Disposal of surplus property provisions in City Purchasing Policies and Procedures do not require surplus property carrying costs or market values to be assessed when determining how quickly dispositions should occur. Assessing the magnitude of carrying costs and the potential for diminishing market values to determine how quickly dispositions should occur would ensure the City avoids unnecessary costs and/or receives the maximum available benefit for surplus property.

RECOMMENDATION (2)

Disposal of surplus property provisions in City Purchasing Policies and Procedures should be enhanced to require surplus property carrying costs and the potential for diminished market values be assessed by departments when determining how quickly dispositions should occur.

FINANCE DEPARTMENT RESPONSE (2)

We concur with the recommendation of the City Auditor on enhancing the surplus property provisions in City's Purchasing Policies and Procedures. The Purchasing Policies and Procedures will be updated to address this issue and training will be provided by September 1, 2014.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor

THROUGH: James D. Couch, City Manager *JDC*

FROM: Craig Freeman, Finance Director *CF*

DATE: May 28, 2014

SUBJECT: Special Project No. 191 - Finance Department – Review of Selected Non-Capitalized Asset Inventories as of February 28, 2014

Recommendation (1)

Policies and procedures in the Capital Asset Manual for controlling non-capitalized asset inventories should be further developed.

Finance Department Response (1)

We agree with the recommendations of the City Auditor regarding further development of policies and procedures for the inventory of non-capitalized assets. A policy regarding inventory of non-capital items will be added to the Capital Asset Manual to provide guidance to departments and will be distributed through a City Manager memo. The enhanced policies and procedures will be distributed by July 1, 2014.

Recommendation (2)

Disposal of surplus property provisions in City Purchasing Policies and Procedures should be enhanced to require surplus property carrying costs and the potential for diminished market values be assessed by departments when determining how quickly dispositions should occur.

Finance Department Response (2)

We concur with the recommendation of the City Auditor on enhancing the surplus property provisions in City's Purchasing Policies and Procedures. The Purchasing Policies and Procedures will be updated to address this issue and training will be provided by September 1, 2014.