

### 3.

## ACCOUNTING

### 3.3 Capital Assets

#### 3.3.11 Controls over Capital Assets

3.3.11.10 Controls over capital assets should be sufficient to provide reasonable assurance that capital asset system objectives are demonstrated. Controls over capital assets should include:

- Transaction controls over capital asset records, including asset additions, deletions and changes in custody,
- Reconciliations between capital asset records,
- Periodic inventories,
- Reviews of impairment
- Periodic re-evaluation of useful lives

See [BARS 3.1.3](#), *Internal Controls* for general guidance on internal controls. Specific guidance on controls is provided below. Also, the SAO Resource Database provides an additional tool [Checklist for Capital Assets](#) designed to help local governments develop policies and procedures related to capital assets.

#### 3.3.11.20 TRANSACTION CONTROLS

Each time the local government acquires or disposes of a capital asset, transfers an asset between locations, charges depreciation expense or makes an adjustment, an entry must be made on to the capital asset records. Internal controls must be established to ensure that these transactions are properly and promptly recorded; specifically:

1. Staff responsible for processing disbursements or managing capital projects should be familiar with and trained to recognize and properly code capital outlays and to understand the government's capitalization policy.
2. For additions, procedures must be implemented to assure that the accounting department receives information, such as a copy of the receiving report or the invoice. They should also receive a copy of all lease agreements, progress billings on construction contracts, and worksheets that itemize the costs of assets constructed in-house.
3. For deletions, procedures must be implemented to assure that the accounting department automatically receives information, such as all resolutions/ordinances that declare property surplus, all property insurance claims, and itemized invoices for acquisitions that involve trade-ins. For infrastructure assets, deletions may occur by abandoning or replacing an asset. Procedures should be implemented to ensure these instances are reported to the accounting department as well. Oversights are difficult to avoid entirely, but they will be detected and corrected when physical inventories are taken.
4. For transfers of assets between locations, funds, or individuals, procedures should be established to communicate these transfers, with both transferor and transferee notified of the custody change.

#### 3.3.11.30 RECONCILIATION CONTROLS

To the extent the government maintains separate capital asset lists for different purposes, these lists should be regularly compared and reconciled. In addition, related accounting records and external reporting should also be regularly compared and reconciled, as applicable. Common reconciliations include:

- a. Reconcile capital asset subsidiary records to general ledger asset accounts;
- b. Reconcile accounting records and operational records maintained for certain infrastructure or other assets (such as vehicle fleet maintenance records or computer equipment records);
- c. Reconcile accounting records for land to county land records or for certain infrastructure assets to reports provided to oversight agencies;
- d. Reconcile accounting records and asset listing for insurance purposes;
- e. Reconcile proceeds from insurance claims and sales or auction lists, claims reports, etc., to report listing capital asset disposals;
- f. Reconcile capital outlay expenditures (BARS 594) to total additions of capital assets;
- g. Reconcile significant capital projects or capital grants shown with increases to the capital asset accounts;
- h. Reconcile capital assets transferred to other locations, custody or funds with capital assets transferred from other locations, custody or funds;
- i. Reconcile physical inventory to capital asset records (see *Physical Inventory* guidelines below).

Any discrepancies identified should be followed up and resolved on timely.

#### 3.3.11.40 PHYSICAL INVENTORY

A periodic physical inventory of the capital assets is necessary to verify that the assets still exist, confirm the location and other information of assets and provides updates on the condition of the assets. This information demonstrates that the local government is exercising its custodial responsibility for the asset and is beneficial when establishing an insurance claim because it substantiates both the existence and the condition of the asset near the time of loss or damage.

All governments should have a method to perform a physical inventory to verify the existence and condition of capital assets. The complexity of the work plan will depend on the government's size, the sophistication of the capital asset accounting system and the significance and types of the government's assets. Whatever approach is used; the government should develop a documented work plan with the following elements at a minimum:

1. Assignments. Overall responsibility for the work plan should be assigned to one or more staff. In turn, responsibility for work plan procedures should be assigned. Assignments should consider:
  - a. **Ability**. Staff assigned to perform inventory procedures should be sufficiently training, knowledgeable and/or expertise to be able to identify and locate the asset and perform procedures to assess it. For example: identifying possible impairments may require special training in accounting criteria; reviewing infrastructure asset records may require operational knowledge of how assets are used and system changes during the year; and assessing the condition of a building and its useful life may require special expertise.
  - b. **Segregation of duties**, when appropriate. For assets with an identified risk of misappropriation, misuse or loss, inventory procedures should be assigned to someone

other than the person with custody over the asset. However, for asset types such as infrastructure or land, it is often more effective to have those with custody over those assets perform procedures, as they are often due to the need for expertise.

- c. **Supervision.** Supervision may be used to supplement the ability of staff assigned or provide for segregation of duties. For example, accounting personnel may supervise department employees in performing the inventory to ensure sufficient consideration of accounting criteria and records in combination with the department's knowledge and expertise on the assets, or vice versa. The work plan may call for direct supervision, spot checking, or just being present and available during the inventory procedures. Further, the need for supervision may vary by location and asset type. An appropriate level of supervision provides a general control if employees are aware their work will be checked.
2. **Timing.** Inventory procedures should be scheduled to minimize administrative burden and best achieve objectives, commensurate with the identified risks. Work plans may schedule a single inventory of all assets, or establish different schedules for inventories for different locations or asset types. For example, physical inventories of certain asset types may be scheduled to be concurrent with operational work, such as condition assessments for roads and bridges, or regular maintenance on equipment and vehicles. Likewise, such inventories may be continuous, monthly, annually, on a multi-year basis or performed in sections over a multi-year cycle. Other asset types may need to be evaluated at year end as part of the financial reporting process, like construction in progress.
3. **Instructions.** Sufficient instructions and forms should be provided to ensure procedures can be properly carried out, documented, and results communicated for resolution.

Procedures and documentation should include identification of:

- Assets that are missing,
  - Assets with evidence of misuse,
  - Assets that exist but are not included on the inventory list,
  - Assets that are not properly marked, tagged or secured,
  - Changes in location or custody,
  - Incorrect descriptions or other information about the asset,
  - Need for repairs or maintenance,
  - Damage, obsolescence or other potential impairments,
  - Changes in the estimated useful life or scrap value.
4. **Resolution of Variances.** Once the physical inventories are complete, any variances or adjustments to records should be evaluated and resolved including:
    - Updating accounting records,
    - Investigation of potentially missing, misused, previously unidentified or unsecured assets,
    - Re-evaluation of capital asset groupings, componentization or other capital asset policies,
    - Updating capital budgets or plans.

#### 3.3.11.50 SMALL and ATTRACTIVE ASSETS

These are assets that are below the government's capitalization threshold for financial statement

reporting purposes, but may be susceptible to theft or misuse. Each government should perform an assessment to identify those assets that do not meet the definition of a capital asset, but are particularly at risk or that otherwise need to be tracked for operational purposes. For example:

- Assets that are easily misappropriated or misused, such as laptops or high-value tools;
- Assets that may expose the government to liability if lost, such as firearms or computers with confidential or sensitive data;
- Assets that require tracking for assignment, cost control or re-order purposes.
- Assets that are easily replaced through the procurement process without arising suspicion

Governments should implement specific measures to track and control small and attractive assets to minimize identified risks, as appropriate for the nature of the assets, value of the assets and risks. Since small and attractive assets need only be tracked for operational objectives, controls may not need to be as extensive as those for capital assets. Controls may range from basic measures such as policies, tagging, assigned custody, restricted access or other physical controls – to limited systems such as check-out systems or reserve inventories (where only items not in use are tracked) – to comprehensive tracking and inventory controls resembling those for capital assets as discussed above. Governments should also consider the cost/benefit of tracking certain types of assets and the resources it has available when establishing control measures, as compared to the risks involved. Also, the SAO Resource Database provides an additional tool [\*Best Practices for Small and Attractive Assets\*](#) designed to help local governments develop policies and procedures related to capital assets.