

January 8, 1998

Internal Audit Report 98-01
Fixed Asset Inventory
General Government

Introduction. It is the policy of the Municipality of Anchorage to properly record the purchase of general fixed assets; to maintain accurate continuing property records of general fixed assets whether purchased, donated, or constructed; to safeguard the assets against loss; and to present accurate information on reportable general fixed assets in the Municipal Comprehensive Annual Financial Report (CAFR).

General fixed assets are classified as either reportable or nonreportable for financial reporting. Reportable general fixed assets have an acquisition price or donated value greater than \$1,000. Nonreportable general fixed assets have an acquisition price between \$100 and \$1,000.

According to Municipal Policy and Procedure (P&P) 24-13, General Fixed Asset Accountability, dated November 15, 1991, each Agency head shall appoint an Agency Fixed Asset Custodian and ensure that adequate safeguards exist to prevent loss, theft, or other unauthorized disposition of Agency fixed assets. The Agency Fixed Asset Custodian shall ensure that information for all purchased, donated, disposed of, or transferred fixed assets is entered on property records maintained either by the Controller Division for reportable assets or the Agency for nonreportable assets. The General Fixed Asset Coordinator in the Property and Facility Management Department (P&FM) shall maintain a list of Agency Fixed Asset Custodians, assist the Agency Custodians in their performance of physical inventories, perform independent physical inventories of various Agency reportable fixed assets on a rotating basis, and report significant differences between the independent physical inventory and the property records to the Director of P&FM for possible investigation or

referral to the Anchorage Police Department. We have been advised that P&P 24-13 is currently being revised to clarify the responsibilities over fixed asset accountability.

Background. Prior to 1995, the Marshall Stevens Fixed Asset Management System (MSFAMS) was used to record and maintain information on general fixed assets. In 1991, all Municipal agencies were requested to perform a physical inventory so that the property records on MSFAMS could be updated and made accurate. However, the results of the inventory were not entered into MSFAMS. For many reasons, the data base was generally considered to be inaccurate and difficult to maintain. In 1992, the Controller made a decision to discontinue the use of MSFAMS and use a spreadsheet to record the acquisition of all new reportable general fixed assets.

In April 1995, Internal Audit was requested by the Municipal Assembly to facilitate a physical inventory of all general fixed assets (excluding land, buildings and capital improvements). Because the procurement of a new fixed asset management system was being contemplated, the physical inventory was postponed until the new system could be implemented.

In November 1995, a PC-based fixed asset management system called the General Fixed Asset Management System (GFAMS) was procured and implemented by the Controller Division to track reportable general fixed assets. Since GFAMS was capable of supporting bar coding, it was decided that new bar-coded property tags for both reportable and nonreportable general fixed assets would be procured. It was also decided that hand-held scanners would be purchased by P&FM for use by all Municipal agencies to assist in future annual physical inventories.

As a starting point for the GFAMS data base, unedited data from MSFAMS and data contained in the Controller Division PC spreadsheet was converted and loaded into GFAMS. Over the next year and a half, physical inventories were performed by Internal Audit and each respective agency. New bar-coded property tags were affixed to all reportable and nonreportable assets where possible.

Summary of the Physical Inventory. The physical inventory revealed that property records were not accurate. Specifically, for reportable assets, approximately 2,000 items not on property records, valued at \$12.3 million, were found; and approximately 1,700 items that were on the property records, valued at \$15.7 million, could not be located. (The total amount reported in the 1995 CAFR for general fixed assets (reportable) was \$49.6 million.) We were not able to ascertain the amount of adjustment required for the nonreportable property records maintained by each agency.

A major reason for the large inventory variances was that the results of the 1991 inventory were not entered into the MSFAMS data base, which was subsequently used as the starting point for the new GFAMS. Also, the decision to discontinue use of an existing inventory system without implementation of a new system for almost three years was not consistent with sound management practice. Some of the specific problems encountered during the physical inventory were as follows:

- 1) Agency inventory listings produced by GFAMS contained outdated and inaccurate data. As a result, considerable time was required to reconcile the physical assets on hand to the property records.
- 2) Many items had been entered on property records by purchase order description (i.e., art collection \$15,000) instead of by individual item required for accountability purposes.
- 3) Ownership of assets could not always be determined. For example, personal computers and related equipment had been purchased by both the Management Information Systems Department (MISD) and General Government agencies. Some equipment contained both MISD and Municipal property tags, making ownership difficult to determine. In addition, the ownership of assets procured with grant funds was difficult to determine.

- 4) The acquisition cost for assets not on property records was difficult to determine. The cost was required to determine whether items should be classified as reportable or nonreportable assets and to accurately update the accounting records.
- 5) The disposition of assets had not always been documented. For example, during the 1993 City Hall renovation, a large quantity of assets was either disposed of or traded between agencies without proper documentation.
- 6) The approximately 16,000 pieces of artwork and artifacts at the Anchorage Museum of History and Art (Museum) could not be inventoried. Museum collection items were not tagged with Municipal tags. The Museum's policy is to assign a Museum number to all items received and enter them into the Museum's PC-based asset records. However, not all items located in the Museum had been assigned a number and entered into their data base. Also, some items had lost their numbers, generally through the original number being rubbed off in use. The value of the items could not always be verified because the Museum used appraised value and not acquisition price. In addition, many items were donated and did not have an acquisition price. Further, some of the Museum's objects were on loan or were part of traveling exhibits and therefore not available for inventory.
- 7) Art objects at the Municipal Library could not be inventoried. We could not determine the status of some of the items (i.e., were they purchased as part of the building and already reported as a capital improvement or purchased as a fixed asset).
- 8) The inventory of mobile radios and other communications equipment has not yet been completed.

- 9) The results of the Anchorage Police Department's physical inventory have not been reported to the Controller Division for entry into the GFAMS data base.

Comments. Considerable time and effort were spent in performing the 1996/1997 inventory and updating the property records. To help maintain the accuracy of the property records, appropriate property tags need to be affixed to each new reportable and nonreportable fixed asset; annual inventories need to be performed by each agency; and all equipment acquisitions and disposals need to be diligently recorded.

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