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Countywide Assets

September 2018

*Internal Audit Report Authorized by the
Maricopa County Board of Supervisors*

Report Highlights	Page
Annual capital asset validations were completed; some controls will be strengthened.	1
Generally, purchases and disposals were properly authorized.	4
Capital Improvement Projects (CIP) were properly monitored and controlled.	4
Controls over tracking and monitoring non-capital assets will be strengthened.	4
The Capital Asset Policy and Capital Asset Manual will be updated.	5

Objectives

To determine that:

- Controls over the capital asset annual validation process are adequate and assets are reconciled to the records
- Capital asset purchases and disposals are authorized and recorded properly
- Accounting for Capital Improvement Projects (CIP) is monitored and controlled adequately
- Controls over non-capital assets are adequate

Scope

We reviewed capital and non-capital assets for fiscal year (FY) 2017 to FY 2018. We reviewed controls and oversight by the Department of Finance (DOF) and conducted detailed asset testing at the following agencies:

- Department of Transportation
- Facilities Management Department
- Flood Control District
- Office of Enterprise Technology

Standards

This audit was approved by the Board of Supervisors and was conducted in conformance with International Standards for the Professional Practice of Internal Auditing.

Auditors

Stella Fusaro, Audit Manager, CIA, CGAP, CRMA, CFE
Dan Griedl, Senior Auditor, CIA, CPA

This report is intended primarily for the information and use of the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a public record and its distribution is not limited. We have reviewed this information with Department of Finance and agency management. The Action Plan was approved by John Lewis, Finance Director, on August 29, 2018.

If you have any questions about this report, please contact Mike McGee, County Auditor, at 602-506-1585.

Audit Results

Issue #1: Validating Capital Assets

Background: Capital assets are tangible and intangible assets acquired for use in operations that will benefit more than a single fiscal period. This includes equipment, machinery, vehicles, infrastructure, and improvements other than buildings with an estimated useful life of over one year and an acquisition cost of \$5,000 or more, and all buildings and land regardless of value.

Current County policy requires that agencies complete an annual validation of capital assets and a physical validation of land parcels every three years. The validation must be signed by the agency head and the capital asset manager. In addition, infrastructure assets are required to have a condition assessment according to a set schedule.

Observations: We reviewed all of the FY 2017 annual asset validation lists submitted to DOF and noted that a few agencies did not include the signature of the agency head. There were also discrepancies between the designated Capital Asset Managers and the persons signing the validation.

We reviewed a sample of capital assets from the four County agencies and verified that they all performed the annual validation; however, signatures were missing on some validation forms and one agency's validation was only partially complete.

We selected a sample of capital assets recorded in the financial system and physically inspected them to ensure they existed. We found that some capital assets were no longer in possession of the agencies. Some of those missing capital assets were explained as transfers or disposals, but some were unexplained.

We selected a sample of capital assets observed on the premises and verified that they were recorded in the financial system to ensure they were tracked. We found that some of these capital assets were not tracked within the system.

We reviewed inspection reports and determined that key infrastructure condition assessments had been completed, as required.

DOF indicated that not all agency land assets were added to the financial system due to the complexity of the assets. However, the land costs were properly included in the County CAFR totals. In addition, we noted that the capital asset manual does not identify who is responsible for land validation and what is required to verify that the County still owns the land.

Conclusion #1A: Controls over the annual validation process were adequate, validations were being performed; however, controls were not consistently applied.	
Recommendations	DOF Action Plan
1A-1 Enhance the current review process to ensure that annual validation reports are complete and signed as required by policy.	<p>Concur – in progress</p> <p>DOF is currently working on improving the validation process and will ensure that the annual validation reports are complete and signed when returned by the applicable departments. As this is an annual process, the recommendation will be completed in approximately July 2019 for capital assets applicable to June 30, 2018.</p> <p>Target Date: July 2019</p>
1A-2 Require agencies to develop written, detailed annual validation procedures that address controls over identifying capital assets not recorded in the system.	<p>Concur – in progress</p> <p>DOF updated the capital assets manual and it is pending County management approval; however, the draft manual is published for department use. The updated manual includes guidance for updating capital assets for: 1) assets not on the inventory list but are in the possession of the department, and 2) assets on the inventory list but are not in possession of the department. Further, DOF will update the manual to require departments to establish internal validation procedures as appropriate. In addition, DOF reconciles all capital expenditures on a monthly basis to ensure that capital asset acquisitions are entered into the financial system.</p> <p>Target Date: December 2018</p>
Conclusion #1B: Condition assessments were performed periodically on key infrastructure assets, as required.	
Recommendation	DOF Action Plan
None	N/A

Conclusion #1C: Some land parcels were not validated on a periodic basis and validation requirements were not defined.	
Recommendation	DOF Action Plan
1C-1 Update the Capital Asset Manual to define land validation expectations and require agencies to establish a written land validation process.	<p>Concur – in progress</p> <p>DOF updated the capital assets manual and it is pending County management approval; however, the draft manual is published for department use. Land has always been included in the annual department capital asset validation process with the exception of infrastructure land. Due to the complexity of the infrastructure land assets, it is reconciled outside of the financial system. In conjunction with Recommendation 1A-2, the capital assets manual will require applicable departments to establish written internal validation procedures as appropriate.</p> <p>Target Date: December 2018</p>
Conclusion #1D: Due to the complexity of certain land assets, some land assets have not been entered into the County Financial System.	
Recommendation	DOF Action Plan
1D-1 If appropriate, work with County agencies to ensure that land has been entered into the financial system.	<p>Concur – in progress</p> <p>Due to the nature of the infrastructure land, some departments do not record land on the financial system, but it is tracked off-line and reconciled annually by the departments. The land assets consist of easements, right-of-ways, and parcels, which are designated by specific infrastructure projects and/or flood zones. As such, each project has numerous land assets that will need to be researched by IGA and/or parcel number and, if feasible, recorded on the financial system. DOF will work with the departments to analyze the feasibility of recording infrastructure land assets on the financial system, as appropriate.</p> <p>Target Date: June 30, 2019</p>

Issue #2: Approving and Recording Capital Asset Additions and Disposals

Observations: We reviewed invoices and supporting documentation at four County agencies and determined that, overall, capital asset additions were properly authorized, recorded, and supported. However, we found several accounting entry errors where costs were either coded to the wrong job, the documentation supporting the fixed asset cost calculation was not maintained, or the amount was overstated.

We reviewed a sample of disposed capital assets to determine if they had been removed from the financial system according to approved procedures. We found that most disposals were accurately reflected in the financial records and were properly supported. However, we identified some disposed capital assets that should have been removed several years ago.

Conclusion #2A: Overall, capital asset purchases and disposals were authorized, recorded, and properly supported.	
Recommendation	DOF Action Plan
None	N/A

Issue #3: Monitoring Capital Improvement Projects (CIP)

Observation: We reviewed a sample of invoices/construction draws and CIP projects at four County agencies to determine if CIP projects account balances are supported, and that closed projects are appropriately reclassified to a completed asset account. There were no exceptions.

Conclusion #3A: Capital Improvement Projects (CIP) were monitored and controlled adequately.	
Recommendation	DOF Action Plan
None	N/A

Issue #4: Tracking Non-Capital Assets

Background: Non-capital assets are assets that will benefit more than a single fiscal period and have an acquisition cost of less than \$5,000. The Capital Asset Manual recommends, but does not require, that agencies develop a comprehensive Department Inventory Control List to include assets considered “high-theft” items (e.g. laptops computers, cellular phones, and radios).

Observations: A physical inventory of non-capital assets was not conducted at any of the four agencies selected for testing and only one had any written procedures related to non-capital assets. We reviewed the non-capital asset Department Inventory Control Lists for those agencies and selected a sample of assets to validate. Some assets were not located and some assets were not on the list. Many were believed to be transferred to another agency, broken, surplus, disposed of, or lost. We noted that one agency did not inventory computer monitors, docking stations, iPads, and printers not connected to the network. We also noticed a lack of consistency in which non-capital assets were tracked and how they are tracked. Key data fields on the lists were not consistently populated when assets were acquired (e.g. cost, purchase date, asset number, and location of asset), as recommended by the capital asset manual. In addition, asset numbers were not always assigned in numerical order.

Conclusion #4A: Adequate controls and policies were not in place to track non-capital assets.	
Recommendation	DOF Action Plan
4A-1 Update the Capital Asset Manual to provide additional requirements for tracking non-capital assets to include, but not limited to, conducting periodic validations and developing agency-specific procedures.	Concur – in progress DOF will update the draft manual to require departments to track non-capital assets and to prepare internal procedures as appropriate. Target Date: September 28, 2018

Issue #5: Fixed Asset Policies and Procedures

Observations: The Department of Finance (DOF) has prepared a Capital Asset Policy and a Capital Asset Manual to provide guidance to County agencies. However, the manual was last revised in 2004 and had not been updated to reflect procedures for the current financial system. DOF prepared a revised policy and manual and has submitted them to County management for review and approval. We reviewed a copy of the draft revised policy and manual and noted some internal control weaknesses and inconsistencies within both documents which we discussed with DOF.

Conclusion #5A: Draft revisions of the Capital Asset Policy and Capital Asset Manual contain internal control weaknesses and inconsistencies.

Recommendation	DOF Action Plan
5A-1 Provide Internal Audit with an opportunity to review and provide input on the revised draft policy and Capital Asset Manual before they are formally approved.	Concur – in progress DOF will update the draft manual with Internal Audit recommendations and make it available for their review. Target Date: September 28, 2018