



ARLINGTON COUNTY GOVERNMENT

INTERNAL AUDIT REPORT

ACCOUNTING FOR TANGIBLE ASSETS WITH A LESS-THAN \$5000 PURCHASE PRICE

DEPARTMENT OF PARKS AND RECREATION

Report Date: July 20, 2017

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The 2016-2017 Proposed Risk-Based Internal Audit Work Plan (the Plan) identified Asset Management as an area for audit. In accordance with the Plan, the Department of Management and Finance has reviewed Arlington County's procedures and identified processes related to accounting for purchases of tangible assets with an initial, individual cost of less than \$5,000 and an estimated useful life of three years or less ("LT5K") for further review. The Department of Parks and Recreation was selected to audit.

Arlington County's policy is to expense LT5K as incurred. This report is organized as follows:

Executive Summary	This section gives a background summary of the function and a detailed description of the issues noted during this cycle audit, recommended actions, and management's corrective action plan, including the responsible party and estimated completion date.
Background	This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements.
Objective and Approach	The review objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.

We would like to express our appreciation to the staff and all others involved with this audit.

Respectfully Submitted,

Internal Audit
Department of Management and Finance

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Each department employs processes that are necessary to address its particular needs and may not be representative of other departments in Arlington County. Departments employ various software applications such as Excel, Cartegraph, MP2, etc. to account for LT5K assets.

The overall objective of this audit is to assess whether systems and processes are adequate and appropriate to permit the proper accountability of LT5K assets. Accountability is generally described as maintaining adequate records that permit the County to:

- Know the quantity, quality, location, condition, and value of assets
- Safeguard assets from physical deterioration, theft, loss, or mismanagement
- Minimize unnecessary storage or maintenance costs
- Properly recognize, allocate, or otherwise charge the use/requisition/depletion of these assets to the proper program/accounting period etc.
- Gather reliable, accurate information in order to make informed decisions

The scope of this audit encompassed the current-state processes in the Department of Parks and Recreation (DPR) and audit of selected transactions on a sample basis.

For purposes of this audit, items considered as consumable inventory, replacement parts, supplies, etc. are not in scope.

A detail of the issues identified and their relative risk ratings is provided below, including recommendations and management's response. Relative risk factors have been assigned to each issue identified. This is the evaluation of the severity of the concern and the potential impact on the operations. There are many areas of risk to consider in determining the relative risk rating of an issue, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. Items are rated as High, Moderate, or Low.

- High Risk Items are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner.
- Moderate Risk Items may cause operational issues and do not require immediate attention, but should be addressed as soon as possible.
- Low Risk Items could escalate into operational issues, but can be addressed through the normal course of conducting business.

Issues	Risk Rating
Absence of documented, County-wide LT5K policy – County Level	Moderate
<p>Currently, no County-wide policy exists that describes the policies and procedures necessary to properly account for tangible assets with an initial, individual cost of less than \$5,000 and an estimated useful life of three years or less.</p> <p>Properly crafted policies inform employees, departments, divisions etc. of the County’s expectations necessary it achieve its overall mission. Effective policies link the County’s vision to its day-to-day operations.</p>	
Recommendation	
<p>The policy should identify the key activities and provide a general strategy on how to achieve desired accountability for these assets. The following are general subject matter areas to consider in the policy:</p> <ul style="list-style-type: none"> ✓ Policy Statement <ul style="list-style-type: none"> ○ Formulate a statement that describes the purpose of this policy such as: The purpose of this policy is to set forth the guidelines for the physical and reporting control of the County’s tangible Assets with an initial, individual cost of less than \$5,000 and an estimated useful life of three years or less. ✓ Reason for Policy <ul style="list-style-type: none"> ○ State that the intent of the policy is to describe the standard policies required for recording new and existing Assets, changes in Assets and the methodology of record keeping. ✓ Roles and Responsibilities <ul style="list-style-type: none"> ○ Discuss how each department/division which has custody over the assets are responsible to establish effective procedures necessary to comply with this policy. ✓ Types of Assets <ul style="list-style-type: none"> ○ Itemize, in general terms, the types of assets subject to this policy ✓ Valuation of Assets <ul style="list-style-type: none"> ○ Assets are recorded at historical cost and are periodically reviewed for proper valuation. ✓ Effective asset identification measures such as: <ul style="list-style-type: none"> ○ Performing periodic physical inventory counts and establishing an identification system (tag, bar code) ✓ Effective segregation of duties ✓ Processes for properly disposing of assets 	
Management Response	
<p>DMF will consider all of the recommendations provided above and draft the necessary County-wide policy. Once the new policy is approved, it will be posted on the County’s intranet.</p> <p>Responsible Party: DMF Comptroller Estimated Completion Date: May 1, 2018.</p>	

Issues	Risk Rating
Absence of Documented Departmental Procedures	Moderate
<p>Currently DPR does not have documented procedures to account for their LT5K assets. Establishing and documenting procedures are essential. Procedures demonstrate management’s commitment to effectively maintaining accountability for LT5K assets as well as establishing processes and providing all personnel clear communication and comprehensive instructions and guidelines. Establishing written procedures helps ensure consistent and accurate compliance and application needed to achieve high levels of integrity and accuracy.</p>	
Recommendation	
<p>Upon completion of the County-wide LT5K policy (as discussed above), DPR should develop a Standard Operating Procedure to properly account for its LT5K assets. Effective procedures will achieve the following objectives:</p> <ul style="list-style-type: none"> ✓ Provide employees the proper awareness and wherewithal to execute their roles and responsibilities within these processes, minimize ambiguity, and firmly establish management expectations ✓ Facilitate transitioning of roles and responsibilities when staff leave ✓ Afford a basis for training and informing staff; consider including checklists to support procedures ✓ Formally document the internal control processes and procedures for LT5K assets. ✓ Include all aspects of a physical count process, including the activities or tasks that take place before, during, and after the physical count, objectives of the count, types and timing of counts, instructions for counting and recording, and researching and adjusting variances. Items to consider: <ul style="list-style-type: none"> ○ Establish responsibility for overall count and accuracy goals ○ Select an approach such as cycle counts (such as annual, bi-annual, etc), , full-counts, surprise counts as well as which items to count ○ Maintain segregation of duties such as those performing counts do not have recordkeeping responsibilities ○ Train staff on proper count practices and provide proper supervision ○ Ensure completeness of count including effective cutoff procedures ○ Perform effective reviews, evaluate count results and timely resolve differences between records and count totals ✓ Create protocols that describe procedural steps when an asset is received, how it is recorded and how its disposition is reflected in the department’s records <p>Elements to consider:</p> <ul style="list-style-type: none"> ✓ Establish accountability and responsibility for physical counts, set accuracy goals ✓ Select approach -cycle counts (portions of inventory counted on a rotating basis), wall-to-wall counts (full count at a particular time), blend of the cycle and wall-to-wall etc. ✓ Effective segregation of duties: <ul style="list-style-type: none"> ○ Optimal segregation of duties occurs when no one individual has custody of inventory, access to systems that record and process inventory, and the ability to approve transactions. Individuals who perform the inventory counts should be independent of these processes. If not possible considering limited resources, cost/benefit etc. consider alternative means such as engaging a resource from another department to perform the count(s) 	

Recommendation (Cont'd)

- ✓ Train participants on effective count processes, expected results, unique elements of the inventory etc.
- ✓ Provide proper supervision including clear instructions, proper completion of count sheets, disposition of differences between records and counts, etc.
- ✓ Consider “blind counts” or “surprise counts”:
 - Blind counts are inventory counts performed without its associated records
 - Surprise counts are inventory counts without prior notice
- ✓ Ensure completeness of counts:
 - Verify proper cut-off such as only counting assets that the department has custodial responsibilities over, items in-transit, items deemed retired but not removed from service, etc.
- ✓ Evaluate results
 - Compare/contrast records again physical counts, immediately review unexpected differences
 - Debrief/ report to stakeholders
- ✓ Guidelines for assigning asset tag numbers

Management Response

In order to guide our internal department procedures, DPR will begin the preliminary work of drafting an Operating Memorandum (“OM”), but will wait until the DMF County-wide Policy is published to ensure consistency with the DMF County-wide guidance. The OM will address all six objectives laid out in the recommendations.

Responsible Party: DPR Finance Unit Staff

Estimated Completion Date: Three months after DMF County-Wide Policy is published

Issues	Risk Ranking
Tracking of LT5K Assets in Cartegraph	Moderate
<p>Currently the majority of records that captures LT5K asset location, description, quantity, cost and other relevant information are maintained in Excel. Maintaining current, accurate asset records in Excel requires extensive manual effort and upkeep that calls for significant oversight and review necessary to achieve proper accountability.</p>	
Recommendation	
<p>DPR has advised IA that it will be implementing Cartegraph in fiscal year 2018. We agree using technology will be beneficial to DPR. Consideration should be given to transferring the Excel records into Cartegraph. Maintaining complete and accurate records permits DPR to effectively track the location, quantity, and condition of its LT5K assets and provides a safeguard from theft, loss or mismanagement. Cartegraph will minimize the manual efforts associated with maintaining Excel records.</p>	
Management Response	
<p>DPR has already begun the process of transferring Excel asset records into the Cartegraph system during the implementation phase. For the few items in inventory that are loaned/checked out to the public or are associated with program uses, DPR may also use the RecTrac system to track location and status, along with the associated transactions.</p>	
<p>Responsible Party: DPR Finance Unit and DPR Business Systems Analysis Unit Estimated Completion Date: January 1, 2018</p>	

Issues	Risk Ranking
Including Assets Not On-Site – Barcroft	Low
<p>Prior to performing the test counts at the Barcroft Sports and Fitness Center, Internal Audit was advised that the inventory counts performed by their staff on January 23, 2017 and the related records created thereon included assets that were ordered but not yet received. The records were subsequently corrected to reflect only those assets on hand as of the count date. The corrected records were used for the test counts.</p>	
Recommendation	
<p>When supervisors instruct staff about proper count methods, they should remind staff that only the items that are physically on hand at the count date are to be included in their computations and records.</p>	
Management Response	
<p>DPR will ensure that the OM provides clear guidance to prevent this type of finding in the future and will specifically present this scenario in trainings to further strengthen staff understanding.</p>	
<p>Responsible Party: DPR Finance Unit Estimated Completion Date: Align with completion date for the DPR OM.</p>	

Issue	Risk Ranking
Asset Identification Markers	Moderate
<p>As mentioned earlier, DPR has advised IA that it will be implementing Cartegraph in fiscal year 2018. Currently none of the assets observed during the test counts reflect a unique identification marker. Assigning LT5K assets with a distinctive code, label, etc. enhances DPR's ability to monitor their physical location. Entering a unique identification marker on LT5K assets, not only helps asset custodians locate a particular asset during a physical count, but also reinforces DPR's desire to remind employees that the assets are subject to close monitoring.</p>	
Recommendation	
<p>We understand the Cartegraph system has the ability to assign a unique identification marker to an asset. We suggest leveraging this functionality and begin assigning identification markers to its LT5K assets. As a matter of practicality, it is likely not cost effective to assign a marker to all LT5K assets. Management should establish guidelines for marking assets that balance cost/benefit and desired level of accountability.</p>	
Management Response	
<p>DPR is committed to knowing where assets are located and how they are being used at all times. Asset identification markers such as barcodes are ideal options to track this inventory where practical. DPR will follow DMF guidance on the use of asset markers and will participate in enterprise-wide solutions to standardize what markers are used and what associated tracking technology is used throughout the County. In the meantime, DPR will establish guidelines for the combined use of asset markers, geolocation options, and other check-in/check-out options for assets so we can properly track the inventory. Guidelines for which assets will be tagged and which assets will be tracked through other means, as guided by DMF, will be developed as implemented through the OM.</p>	
<p>Responsible Party: DPR Finance Unit; DPR Business Systems Analysts; DPR Staff with Asset Management Responsibilities</p>	
<p>Estimated Completion Date: Ongoing effort.</p>	

IMPROVEMENT OPPORTUNITY (UNRATED)

Improvement Opportunity
Including Assets with a Cost Basis Greater than \$5,000 and Consumables
In certain instances, the inventory records included assets with a cost basis greater than \$5,000 and consumables. According to Arlington County policy, assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years are capitalized and depreciated based on their estimated useful life. Accordingly, assets with a cost basis greater than \$5,000 and consumable items should not be included in these inventory records.
Recommendation
The inventory records should be reviewed and revised to properly remove any assets with a cost basis greater than \$5,000 and consumable items. With regard to the assets with a cost basis greater than \$5,000, consideration should be given to verifying whether such assets have been recorded on the County's depreciation schedules.

BACKGROUND

BACKGROUND

Overview

Arlington County Department of Management and Finance (DMF) has an established policy where purchases of tangible assets with an initial, individual cost of less than \$5,000 and an estimated useful life of three years or less are expensed as incurred (“LT5K”). As part of the FY17 Internal Audit Plan, Internal Audit reviewed and tested the policies and procedures currently in place to account for LT5K assets.

OBJECTIVES AND APPROACH

Objectives

The overall objective of this audit is to assess whether systems and processes are adequate and appropriate to permit the proper accountability of LT5K assets. Accountability is generally described as maintaining adequate records that permit the County to:

- Know the quantity, quality, location, condition, and value of assets
- Safeguard assets from physical deterioration, theft, loss or mismanagement
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Approach

The overall approach consists of the following phases:

Understanding and Documentation of the Process

- Research current policies, procedures, and protocols
- Understand the processes in place to record, account for, and analyze asset activity employed by DMF and DPR
- Conduct interviews with departmental leaders, process owners, and other necessary resources
- Obtain, review, and inspect relevant documents

Evaluate the Processes and Controls Design and Test Operating Effectiveness

The Process and Control Evaluation phase of this audit consisted of an evaluation of the design and operating effectiveness of LT5K processes. We performed walkthroughs and other detailed testing of transactions to achieve the audit objectives, including testing the processes currently in place. Procedures we performed include, but are not limited to:

- Review reasonableness of pricing (when possible)
- Compare, on a test basis, entries per records to physical inventory
- Test documents used to summarize inventory
- Observe inventory count (when possible)