

**DOUGLAS COUNTY INTERNAL AUDIT DIVISION**

**DOUGLAS COUNTY FIXED ASSETS  
ANNUAL TESTING  
AND  
BI-ANNUAL PHYSICAL INVENTORY  
OF EQUIPMENT PURCHASED WITH FEDERAL GRANT FUNDS  
FISCAL YEAR 2008/2009 SPECIAL REPORT - #03**

## Fixed Assets Overview

### Statutory Responsibility

Pursuant to Neb. Rev. § 23-1401 the County Clerk/Comptroller's office shall, "prepare and file the required annual inventory statement of the county's personal property as provided in Neb. Rev. §23-346 to 23-350. Neb. Rev. § 23-347 states; *Inventory statement; duty of county officers to make filing; "Within two calendar months after the close of each fiscal year, each county officer shall make, acknowledge under oath, and file with the county board of his or her county an inventory statement of all county personal property in the custody and possession of said county officer. The county board in each county shall examine into each inventory statement so filed, and, if said statement is correct and proper in every particular, the county board shall deliver each of said inventory statements to the clerk of the county for filing as a public record in said county clerk's office in a manner convenient for reference."*

### Exceptions

As of January 1, 2003; computer, and telephone related items are no longer included in the inventory record. This change is due to an inter-local agreement between Douglas County and the City of Omaha which created a combined information technology management commission. The commission, known as DOT.Comm, is endowed with authority for all technology hardware and software. Exceptions to this policy are items purchased by federal grant funding, or federal drug forfeiture money, which by federal guidelines requires prior approval of the funding agency for any transfer of ownership.

### Fixed Asset Process

By resolution,<sup>1</sup> Douglas County tracks all assets with a value equal to or greater than \$500. The process by which an item becomes a part of the official Douglas County fixed asset record begins at the requisition level. Fixed asset requisitions are recorded using an accounting distribution string containing a specific account code designated for fixed assets. An interface is run daily, by the Finance Division in the Douglas County Clerk/Comptrollers office, which moves all lines with specific expense codes from the Oracle Accounts Payable module to the Oracle Fixed Assets module, in a mass addition. The records are reviewed, and any additional detail information is added to the record.

At this time, each item is assigned to a specific organization and allocated a fixed asset tag number. The County Clerk/Comptroller posts the number to the fixed asset books and issues the tag, and a detailed status report, to the receiving organization. It is the assigned organizations responsibility to ensure the fixed asset tag is affixed to the correct fixed asset.

Any changes to the fixed asset record may be requested of the County Clerk/Comptroller's office by filling out a copy of the official fixed asset status report. Changes may include, transfer from one organization to another, and surplus, or retirement, of an item that is no longer needed. A status report that requests a transfer must be authorized by both the sending and receiving organizations.

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<sup>1</sup> January 23, 1996 Resolution .# 71

## **Depreciation**

Depreciation is an allowance for the loss of value of an asset over useful life. By agreement,<sup>2</sup> Douglas County depreciates assets that have an original cost of \$5000 and above, for reporting to the County's financial statements. The asset type for these items is listed as 'capitalized' and assets are depreciated using a straight-line (half-year) method.

## **Year End Certification of Personal Property**

Neb. Rev. § 23-347 requires, "*Within two calendar months after the close of the fiscal year, each county officer shall make, acknowledge under oath, and file with the county board of his, or her, county, an inventory statement of al county personal property in the custody and possession of said officer.*"

To satisfy these requirements, at the end of every fiscal year, the Douglas County Clerk/Comptroller provides a report to every county department, listing each department's recorded fixed assets. The department head or elected official is required to certify the accuracy of the report and return it to the Clerk/Comptroller; who will present the report to the County Board of Commissioners.

Any changes<sup>3</sup> the departments wish to make to the fixed asset listing require completion of a fixed asset status report.<sup>4</sup>

## **Property Disposal**

The County Board or Purchasing Agent, with the approval of the County Board, may authorize the disposal of property that is judged to be obsolete or unusable pursuant to Neb. Rev. § 23-3107 and Neb. Rev. § 23-3115. To surplus an asset; the asset is transferred from an organization to the Purchasing organization via a status report. After the asset is disposed, the Purchasing Agent notifies the Clerk/Comptroller and the Clerk/Comptroller changes the asset record to retired. The asset will no longer be included on the annual certification report.

## **Sale or Disposal of Surplus Property**

The County Purchasing Agent conducts an auction to dispose of surplus property. The Clerk/Comptroller's office verifies that the items in the auction have been declared surplus by the County Board.

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<sup>2</sup> August 7, 2001 Capitalization Policy Agreement between Douglas County Clerk/Comptroller, Fiscal Administrator, and Purchasing Agent.

<sup>3</sup> Retirement, transfer, disposal

<sup>4</sup> See Appendix I

## FIXED ASSETS TESTING

**PURPOSE:** To determine Douglas County fixed assets are properly reported, recorded, and processed.

**SCOPE:** 30 items identified by Douglas County as a fixed asset. Test population should include 10 new additions, 10 transfers, and 10 removals or retirements.

**SOURCE:** FY 2007-2008 Certified Fixed Asset Inventory Listing and various Oracle Fixed Asset Reports.

### AUDIT STEPS:

**STEP (1):** Judgmentally select 30 Fixed Assets from the 2007-2008 certified fixed asset inventory listing. This listing is maintained in the Clerk's office-Finance Division. The selection should include examples of additions, transfers, and retirements.

*Note: In 2008 the test samples were extracted from Oracle first, and supporting data was gathered later. This method can be used to obtain the most current testing population however; it may be difficult to assemble supporting documentation since some of the information needed has not been filed or recorded.*

**STEP (2):** Copy the Certification and selection of the fixed assets inventory for the current fiscal year. This information is recorded, by organization, in the annual inventory books.

*Note: Retirements are not recorded in the current inventory listing. Verification for retirements can be obtained by asking the inventory control manager in the County Clerks' office.*

**STEP (3):** From the fixed asset listing in the inventory book, record the fixed asset status information for each selection on the worksheet. This will include the asset number, tag number, transaction number, serial number, warranty number, and reference number, if applicable.

**STEP (4):** Identify the invoice number and the original purchase order. Assure proper authorization was made for each document. Copy these documents for the files.

**STEP (5):** Make a copy of the Douglas County Fixed Asset Status Form for items identified as new additions.

**STEP (6):** Make a copy of the resolution or contract authorizing the purchase of items identified as a fixed asset over \$20,000. Informal bids process must be followed for purchases \$5000-\$20,000 require 3 informal bids.

**STEP (7):** Determine if the asset is recorded properly in Oracle. Verify assignment, category, and asset number (key) of fixed asset for accuracy.

**STEP (8):** Calculate the monthly depreciation and verify accuracy for the selected time. Verify data with the Journal Entry Reserve Ledger Report for each month.

*Note: Douglas County depreciation is calculated on a half fiscal year basis. If the asset was purchased anytime during the half fiscal year, depreciation is started at the beginning of the half fiscal year. (For example, if an asset is purchased in May, the depreciation is calculated from January, so the first expense recorded is for four (4) months of depreciation expenses.)*

**Exception # 1 – Some fixed asset transfer/adjustments did not have a fixed asset status report on file. <sup>5</sup> This is a recurring exception.**

**Criteria:** Proper paperwork helps to ensure that all asset transfers are properly authorized and recorded. The Douglas County fixed asset policy states, "Any changes a department wishes to make to a fixed asset listing at year end require the department to complete an official fixed asset status report for each change. Notations made on a listing will not be acceptable documentation for a change to the record."

**Condition:** Two fixed assets tested did not have a fixed asset status report on file. All tested assets were recorded as transferred in the Oracle system.

**Risk:** Not filing an official Fixed Asset Transfer request form when an asset transfer request is made may cause an asset to be improperly transferred or recorded.

**Recommendation:** All asset transfer requests, regardless of the requesting entity, should be accompanied by a Fixed Asset Transfer Request form to ensure all asset transfers are properly recorded, authorized and auditable. Submitting written transfer requests on non-official forms makes auditing the document difficult and unnecessarily burdensome to the Clerk/Comptroller staff.

**Exception # 2: It is difficult to determine if retirement information in the Oracle system is up to date because some supporting documentation is not easily accessible for audit purposes.**

**Criteria:** Neb. Rev. Stat. § 23-347 requires each county officer to acknowledge under oath, "...an accounting of all personal property in the custody and possession of said County officer." The required statement is to be filed with the county clerk's office "...within two months of the close of the fiscal year."

**Condition:** Due to timing issues it is not possible to reconcile the retirement removals on the Oracle system with the Certified Fixed Asset Listing (CFAL). Retirements received during the year are included in the current year CFAL when received, however; most retirements are received after the end of the fiscal year in response to the required fiscal year end inventory statement process. Adjustments for these entries are made in the following year CFAL.

By law, the results of the CFAL process are received during the two months following the close of the fiscal year and recording this information at that time is disruptive to finance staff preparing year end financial statements. Current staff has very little time to enter the inventory statement in the Oracle system when it is received, and generally focus on the need to enter capitalized assets for the financials.

With the accuracy of the auctioned items also in question, due to previously mentioned deficiencies, tracking asset retirements is very difficult.

**Risk:** Retirement supporting documentation is difficult to locate and may be misplaced or lost.

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<sup>5</sup> A copy of a Fixed Asset Status Report is included in this report (Appendix I)

**Recommendation:** There has been continued improvement in the process to maintain accountability over assets, and record fixed assets in the Douglas County Oracle system, by the Douglas County Clerk/Comptrollers Finance Division. The process could be improved by assigning a dedicated fixed asset staff position to ensure information for fixed assets is entered in all systems in a timely manner and to help organize and file all fixed asset documents. This assignment could be annually performed by an intern or temporary employee.

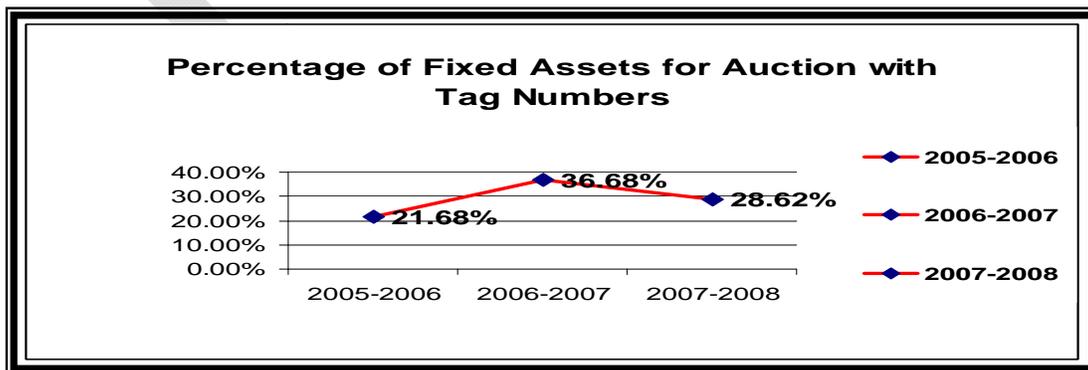
**Exception # 3 – The process of tracking surplus or retired items approved for auction is very difficult. For many items on the auction list there is no tag or asset numbers and no final disposition information. This is a recurring exception.**

**Criteria:** Douglas County Board Resolution # 71, approved January 23, 1996, authorized a capitalized asset limit of \$500.00, with few exceptions.<sup>6</sup> On August 7, 2001, the County Clerk/Comptroller, Purchasing Agent, and Finance Administrator, agreed to revise the policy for **capitalization** to assets with a value greater than \$5000, but continue to **track** all assets with a value greater than \$500.

**Condition:** Some organizations in Douglas County do not follow the fixed asset policy requirement to tag all assets with an original value equal to or greater than \$500. Additionally, when assets are surplus and sent to auction, the auction list is missing many identifying numbers. Of the 587 items listed on one 2008 Auction Property List, 419 items, or over 70%, had no tag number listed. One of ten test items on the transfer list, a 2002 air conditioner originally valued at \$4162.19, could not be found on the auction list.

**Risk:** The ability to trace an asset through the entire fixed asset process, from purchase to disposal, is very difficult. The lack of an identifying tag number makes tracking an item through the entire process impossible, and increases the possibility that an asset could be lost, or stolen, during the process.

**Recommendation:** The process by which an item becomes part of the official fixed asset recording system starts at the requisition level and involves the purchasing organization, the County Purchasing Department, and the County Clerk/Comptrollers office. Sporadic adherence to process requirements by county departments makes asset tracking difficult. A dedicated fixed asset staff position, in either the Purchasing Department, or the County Clerk/Comptrollers office, could help ensure continuity and enforce compliance. The information on the following chart was gathered from the annual list for auction items submitted to the County Board for approval.



<sup>6</sup> "... exceptions based upon grant requirements and accountability to the public for fixed assets at remote sites for recommended departments."

# **BI-ANNUAL PHYSICAL INVENTORY OF EQUIPMENT PURCHASED WITH FEDERAL GRANT FUNDS FISCAL YEAR 2007/2008**

## **Introduction**

Federal programs administer assistance by “granting” or “awarding” a portion of the assistance to recipients. As a condition of receiving Federal awards or grants, recipients must agree to comply with the applicable laws and regulations. Failure to do so may lead to sanctions, including fines and penalties, exclusion or suspension from participating in federal assistance programs and activities, and/or criminal charges. Due to the extensive amount of assistance provided by the federal government, the Federal agencies rely on numerous monitoring activities performed by themselves, pass-through entities, and external sources. The most common monitoring procedure used is the Single Audit, which is an annual examination of a recipient’s operations and records in order to determine whether or not the recipient complied with laws and regulations applicable to the assistance received.

As part of their fiscal year audit plan, Douglas County Internal Audit Division (DCIAD) performs compliance and internal control testing for the Douglas County external auditor, KPMG. This system of internal control "...is designed to provide reasonable assurance that the County's assets are safe-guarded, that the financial records upon which the Comprehensive Annual Financial Report (CAFR) is based can be relied upon, and that all the laws relating to federal, state, and local financial assistance have been complied with."<sup>7</sup> As part of a comprehensive review of fixed assets, DCIAD reviews federal grant fixed assets on a bi-annual basis. The following report describes the results of the compliance testing on Douglas County grants fixed assets for fiscal year ended June 30, 2008.

## **Background**

The Douglas County Clerk/Comptroller (DCCC) office is responsible to establish and maintain the Schedule of Expenditures of Federal Awards (SEFA). A grant accounting manual was developed, for departments receiving a federal award, to ensure federal grants are accurately and consistently recorded in the Oracle Enterprise Resources Planning (ERP) System and on the SEFA. The goals of the manual are to implement policies and procedures for the following:

- A process to ensure to ensure that all grants are appropriately and consistently recorded in the Oracle accounting system, including assigning a unique sequence (tag) number.
- A process to ensure that all new grants are properly processed and included on the SEFA.
- A requirement for departments to submit expenditure information and review for accuracy.
- A process to reconcile expenditures in the Oracle accounting application.
- A requirement for separate individuals to prepare and review the SEFA to ensure adequate segregation of duties.

*Note: The manual did not replace the existing Board of Commissioners acceptance policy, established by resolution on November 14, 2000.<sup>8</sup> Douglas County Purchasing department is responsible for the distribution and disposition of assets.*

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<sup>7</sup> Pg. 4; Fiscal year ended June 30, 2007, Comprehensive Annual Financial Report

<sup>8</sup> Resolution 831

**BI-ANNUAL PHYSICAL INVENTORY  
OF EQUIPMENT PURCHASED WITH FEDERAL GRANT FUNDS  
TESTING STEPS**

**PURPOSE:** To determine Douglas County fixed assets are properly reported, recorded, and processed.

**SCOPE:** The scope of this work does not constitute an evaluation of the overall internal control structure of affected county departments. The examination is designed to evaluate and test compliance with established Douglas County Clerk/Comptroller procedures for grant fixed assets.

**SOURCE:** Thirty (30) fixed asset items purchased with federal assistance awards. Items will be identified by Catalog of Federal Domestic Assistance (CFDA) number.<sup>9</sup>

**OBJECTIVE:** Determine whether internal controls over grant fixed assets were implemented to prevent or detect a material error or irregularity.

**AUDIT STEPS:**

**Step (1):** Select a sample of thirty (30) items from the CFDA asset report

**Step (2):** Trace the items back to the Certified Fixed Asset Listing

**Step (3):** Recalculate and verify depreciation amount to YTD depreciation (if applicable)

**Step (4):** Send notification letter to appropriate departments disclosing physical inventory check.

**Step (5):** Perform physical inventory check

**Step (6):** Verify asset additions are complete in Oracle.

**Step (7):** If not, recommend required adjustments in Oracle & produce a report to verify adjustments.

**Step (8):** Issue report on findings and recommendations (if applicable)

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<sup>9</sup> The CFDA number is required on federal funds for grants beginning July 1, 1995.

**Methodology:** In order to meet the objectives, Internal Audit evaluated controls over the acquisition, accounting, transfer and disposal of assets, and reviewed policies and procedures for compliance and completeness. Tests and procedures were conducted as considered necessary. Thirty (30) grant fixed assets, identified using CFDA numbers, were judgmentally selected from the Oracle system Annual Fixed Assets Addition report for June 30, 2006 through July, 1, 2008. The auditor used a non-statistical sampling technique to make the selection. This technique allows the auditor to use sound and seasoned judgment to randomly select items based on their value. The test selection included items from various Douglas County departments. This is a limited selection of the total population of grant fixed assets that have been acquired by Douglas County with federal grant monies. The test selection is detailed in the following table.

<b>FY 2007/2008 BI-ANNUAL SELECTION OF GRANT FIXED ASSETS</b>		
<b>#</b>	<b>ASSET DESCRIPTION</b>	<b>ASSET NUMBER</b>
1	Sterilizer	51724
2	Computer	51746
3	SPE Vacuum System	51764
4	Computer	52037
5	DLP Projector	52141
6	Satellite phone	52142
7	Computer	52178
8	Radio	52203
9	Centrifuge	52263
10	Desk	52320
11	Computer	52342
12	Security System	52379
13	Computer	52754
14	HEPA Vacuum	53868
15	Digital Video System <sup>10</sup>	53879
16	Digital Video System	53880
17	Digital Video System	53881
18	Digital Video System	53882
19	Refrigerator/Freezer	53919
20	Computer	53975
21	Facsimile Machine	53990
22	Travel Trailer <sup>11</sup>	53991
23	Printer	53998
24	Printer	54238
25	Computer	54319
26	Monitor	54320
27	Projector	54321
28	Camcorder	54340
29	Computer	54378
30	Computer	54379

<sup>10</sup> DCIAD observed one of the four video system installed in patrol cars due to all cars on active patrol

<sup>11</sup> DCIAD was unable to observe travel trailer tag; however, Emergency Management Director attested to tag properly affixed and trailer stored on a County lot.

## Findings

There has been continued improvement in the process established by the Douglas County Clerk/Comptrollers Finance Division to record grant-fixed assets in the Douglas County Oracle system and maintain accountability over assets.<sup>12</sup> The Douglas County Internal Audit Division (DCIAD) has determined **all findings from the Fiscal Year 2005/2006 report have been satisfied and, at this time, there are no reportable conditions for the grants-fixed asset process** within the Douglas County Clerk/Comptrollers office.

## Recommendation

DCIAD recommends the Douglas County Board adopt a formal, comprehensive set of uniform inventory policies that adequately address fixed assets from a life-cycle perspective, which includes a periodic physical inventory requirement, for all county departments.

While DCIAD has never conducted an audit of county fixed assets, during the bi-annual physical inventory testing, DCIAD has noted weaknesses with fixed assets procedures for some county departments.

The United States Office of Management and Budget (OMB) Circular A-133 requires auditors to monitor internal controls designed to provide reasonable assurance regarding:

- (1) Transactions are properly recorded and accounted for to:
  - (a) Permit the preparation of reliable financial statements and Federal reports;
  - (b) **Maintain accountability over assets;**
  - (c) Demonstrate compliance with laws, regulations, and other compliance requirements;
- (2) Transactions are executed in compliance with:
  - (a) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and,
  - (b) Any other laws and regulations that are identified in the compliance supplement; and,
- (3) Funds, property and other **assets are safeguarded against loss from unauthorized use or disposition.**

In compliance with section one (1) of this circular, DCIAD conducts annual fixed assets financial testing and examines financial transactions for conformity with requirements for financial statements and federal reports.

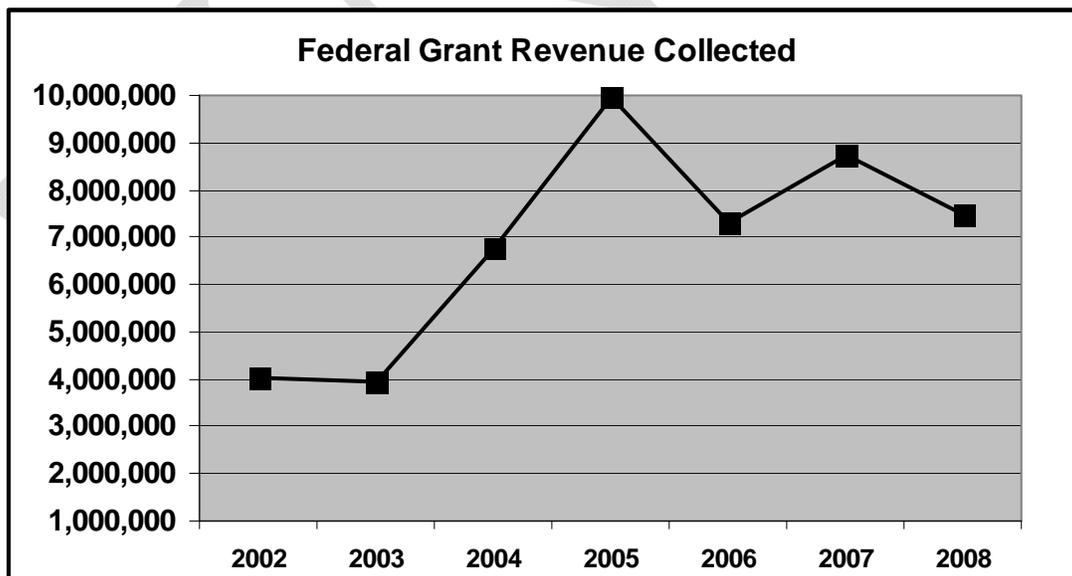
To comply with section three (3) of OMB circular A-133, requiring auditors to confirm, "...assets are safeguarded against loss," DCIAD conducts a physical inventory of fixed assets purchased with grant monies every two years.

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<sup>12</sup> OMB Circular A-133

## FEDERAL GRANT REVENUE COLLECTED

<b>Total Douglas County Federal Grant Revenue Collected</b>	
<b>YEAR</b>	<b>TOTAL REVENUE COLLECTED</b>
2002	\$ 4,035,432.00
2003	\$ 3,929,783.00
2004	\$6,765,553.00
2005	\$ 9,945,354.00
2006	\$ 7,315,260.00
2007	\$ 8,734,386.00
2008	\$ 7,486,348.00



APPENDIX I

DOUGLAS COUNTY FIXED ASSET STATUS

DATE DEPARTMENT ORGANIZATION

ITEM: DESCRIPTION

TAG NUMBER ASSET NUMBER PARENT ASSET NUMBER

MAJOR CATEGORY MINOR CATEGORY EST. USEFUL LIFE

MANUFACTURER MODEL SERIAL NUMBER

QUANTITY UNIT PRICE \$ TOTAL PRICE \$ DATE PLACED IN SERVICE - -

SUPPLIER NAME SUPPLIER NUMBER

ASSIGNMENT: ORGANIZATION BUILDING ROOM
W.I.C.

ACQUISITION INFORMATION:

ACQUISITION METHOD

- Construction Gift
Eminent Domain Lease
Equipment Corp.
Installment Purchase
Right of Way Foreclosure
Dev. Foundation

ACQUISITION FUND SOURCE

- General Obligation Bonds
Federal Grants
State Grants
Local Grants

OWNER

- Douglas County
Do. Co. Data
Lease Purchase
Parks Dept. Om.

ACQUISITION RESOLUTION - P.O. INVOICE#

TRANSFER INFORMATION:

FROM: ORGANIZATION BUILDING ROOM

SENDER'S SIGNATURE DATE - -

TO: ORGANIZATION BUILDING ROOM

RECEIVER'S SIGNATURE DATE - -

RETIREMENT: This area is for the use of the Douglas County Purchasing Department only. All surplus assets are to be transferred to the Douglas County Purchasing Department for retirement (Salvage).

DISPOSITION METHOD DISPOSITION RESOLUTION - RETIREMENT DATE - -

DONATED TO

TRADE IN PURCHASE ORDER NUMBER PRICE

\$

SOLD TO PRICE

\$

SHERIFF/POLICE REPORT # DATE - -

COMMENTS:

DEPT. SIGNATURE Entered by: Date

DCIAD Staff participants in: DOUGLAS COUNTY FIXED ASSETS ANNUAL TESTING AND  
BI-ANNUAL PHYSICAL INVENTORY OF EQUIPMENT  
PURCHASED WITH FEDERAL GRANT FUNDS  
FY 2008/2009 - #03

\_\_\_\_\_(sign)  
Kate Witek, Internal Audit Analyst  
Primary Auditor

\_\_\_\_\_(sign)  
Carmen Harmon, Internal Audit Supervisor

**Audit #03, FY 2007/ 2008 was released on November 10, 2008**