



**Audit Report
Citywide Purchased Assets
July 2014 – March 2015
April 14, 2016**

**City of Charlotte
City Auditor's Office
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Purpose and Scope

The purpose of this audit was to determine that assets purchased between July 1, 2014 and March 31, 2015 exist, are reasonably safeguarded and have been properly recorded. The audit focused on capital assets and personal technology devices (tablets). Auditors tested 36 (16%) of the 219 assets recorded in Munis, for the period tested. This included a random sample of 25 rolling stock and 11 non-rolling stock items. Auditors reviewed transactions for compliance with the City's capital asset policies and procedures. In addition, auditors tested 55 tablets for existence. The majority of the tablets sampled were iPads.

The audit included testing to identify potentially un-capitalized asset purchases. Auditors reviewed a sample of invoice payments, procurement card (P-Card) and maintenance/repair transactions. All selected items were examined for accurate posting to the proper general ledger account, adequate supporting documentation and compliance with the City's capital asset policies.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council, and all City Departments.

Conclusion

Controls are in place to ensure that capital assets and select personal technology devices are reasonably safeguarded and properly recorded on the City's books.

Summary Recommendations and Actions

Departments should consistently mark purchase orders to indicate items are capital assets.

- Seven invoices totaling \$267,700 had not been recorded initially as capital assets.
- Two invoices related to capital asset purchases totaling \$49,906 had been charged to maintenance and repair.
 - Subsequently, the Finance Office has properly recorded these items.
 - Finance staff is working with departments to improve invoice handling.

Fleet Management should periodically reconcile its internal records (i.e., FASTER) to the City's financial records (Munis).

- Twelve vehicles totaling \$257,078 had not been recorded in the City's financial records because the vendor had not billed the City.
 - Following auditors' inquiry of the vendor, the vendor billed the City and was paid.
 - Records have been reconciled and Fleet Management is taking a more active role in managing most departments' vehicle purchases.

Background

A "capital fixed asset" is defined by the City of Charlotte as an item of property valued at \$5,000 or more with a useful life longer than one year. Individual acquisitions must meet the minimum capitalization threshold in order to be capitalized. Assets below this threshold are not recorded in Munis, the City's enterprise resource planning system for financial functions. Purchased assets are categorized as either rolling stock or non-rolling stock. Rolling stock assets are self-propelled or pulled transportation equipment that moves on wheels.

Annually, the Management and Financial Services - Finance Office (Finance Office) generates and distributes an equipment inventory list to the departments responsible for tracking assets. The departments verify the listing and report any discrepancies to the Finance Office. If the asset is no longer in the department's possession, they must complete a Capital Asset Transfer/Disposal form detailing the disposal or transfer to another department/division. The completed inventories are returned to the Finance Office and the appropriate adjustments are made in the Fixed Asset module of Munis.

Audit Findings and Recommendations

1. Capital asset purchases and personal technology devices were properly recorded and existence was verified.

During the period tested July 1, 2014 to March 31, 2015, audit staff observed 36 assets (25 rolling stock and 11 non-rolling stock), without exception. Rolling stock capital assets were easily identified using the manufacturer's vehicle identification number (VIN) or the equipment number assigned by Fleet Management. Non-rolling stock items were either verified by asset tag number or records noting that the tags were on file, as allowed by City policy. Asset tags were attached to five of the 11 non-rolling stock items selected. The six assets viewed which had no tags affixed were verified by model and manufacturer as detailed on the Finance Office capital asset list.

Auditors selected 55 (of 339 tablets tracked by Fire, Police and I&T). For the sample viewed, auditors documented the serial number and verified the device number. Of the 55 tested, one iPad could not be located by the Department and a second device could not be verified initially by its identification number because the service had been disconnected. The

missing iPad was deemed lost, while the second was in the possession of the assigned employee.

2. **Departments should consistently mark purchase orders to indicate items are capital assets.**

When capital assets are purchased, policy requires departments to identify the acquisition on the purchase order so that the Finance Office can properly record the asset. This process allows for real-time recording of fixed asset purchases.

For the period under review, auditors selected samples and performed tests of invoices and P-Card transactions greater than \$5,000, to determine whether property purchases or maintenance costs meeting the capitalization threshold were properly recorded. Testing results detailed below noted that several departments did not properly mark the purchase order to indicate that a capital asset had been purchased.

- A. Auditors selected a sample of 43 (out of 8,800) invoices over \$5,000. Of the invoices reviewed, five departments processed seven invoices totaling \$267,700 for items that should have been recorded as capital assets.
- B. Auditors selected 50 invoices (10% of invoices over \$5,000) charged to the maintenance and repair account to identify any potential transactions that would increase an existing asset's value. Two invoices (processed by two departments) totaling \$49,906 should have been capitalized.

Actions Taken: The Finance Office has properly recorded the assets noted above in Munis.

Recommendation: When departments do not properly complete purchase orders, it places an additional burden on the resources of the Finance Office. Departments should comply with the policy requiring them to check the appropriate box on purchase orders created to procure a new capital asset or improve an existing one.

Management & Financial Services Response: The Finance Office agrees with the recommendation and is working with departments to educate them on how to properly complete purchase orders.

3. **Management and Financial Services - Fleet Management should periodically reconcile the FASTER equipment listing to Munis.**

Audit staff compared all equipment purchased during the audit period and listed in FASTER (the City's equipment maintenance software application) to the Munis capital asset listing. Auditors noted 12 vehicles listed in FASTER (at a total acquisition cost of \$257,078) that were not recorded in Munis. Subsequent research determined that the vehicles were not recorded in Munis because Accounts Payable had not received the invoices.

During the audit period, departments were still becoming accustomed to Munis-requirements. The new system introduced a decentralized process for purchasing vehicles, which often excluded Management and Financial Services - Fleet Management (Fleet Management). Further, the vendor did not inquire about missing payments, which would have alerted Fleet Management to the issue.

Auditors inquired of the vendor in October 2015 and obtained copies of the invoices dated between February 2015 and April 2015. The invoices were forwarded to Accounts Payable for follow up. In November 2015, payments for the twelve invoices were processed and the related assets were subsequently posted to Munis.

Actions Taken: In August 2015, Fleet Management began processing vehicle purchases for most departments. (CATS and Aviation still manage their own.) Fleet Management is more familiar with the procurement of vehicles; therefore, the risk of this issue reoccurring should be low.

Recommendation: Fleet Management should periodically reconcile FASTER to Munis to ensure that all capital assets are recorded properly and timely.

Management and Financial Services - Fleet Management Response: We agree with the recommendation and will be working with the Finance Office over the next several months to perform an annual reconciliation. The first reconciliation is planned for FY16 year-end.