



CITY AUDITOR

Gary W. Nystul CPA CFE
City Auditor
345 Sixth Street Suite 600
Bremerton, WA 98337-1873
360.473.5369
gary.nystul@ci.bremerton.wa.us

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Bremerton City Council

The attached report reviews the policies and procedures used to account for and track assets costing less than \$10,000 which are often referred to as small and attractive assets. This review was scheduled on the 2015 work plan.

The State Auditor's office requires entities to properly manage assets. This includes establishing a system(s) to keep track of assets they have acquired. Small and attractive assets are defined as items costing more than an established minimum dollar amount(s) which will last for more than one year.

Cities have a duty to properly manage assets. However, Bremerton does not have an overall policy to manage small and attractive assets. Some departments have established their own procedures to account for items they feel are important to keep track of. Mayor Lent has stated her administration staff is too limited for this project. If a system were in place it would have facilitated the recovery of city tools in a recent theft.

The Council may wish to request city management to establish overall policies for management of assets which comply with directives from the State Auditor's Office.

Sincerely,

Gary W. Nystul

cc: Mayor Lent
City Attorney
Chief of Police
Fire Chief
Director of Financial Services
Director of Public Works & Utilities
Director of Parks and Recreation
Director of Community Development

ACCOUNTING FOR SMALL AND ATTRACTIVE ASSETS

PURPOSE

This project is to review city policies, procedures and records of assets costing less than \$10,000. These are purchased items which last for more than one year and are not capitalized and recorded in the financial accounting system. Some of these are often referred to as small and attractive assets.

BACKGROUND

The city has a duty to ensure that assets purchased with public money are adequately protected and that their use is properly managed. Keeping track of assets is part of that duty. Assets are defined as items purchased which have a useful life greater than one year. They can range from fire extinguishers to fire engines. There are many different types, sizes and values of assets that the city manages and thus there should be several methods of accountability. Each of the departments has unique assets for which accountability systems need to be established.

The financial accounting system is used to record and track items costing \$10,000 or more. This is an “unwritten policy” as the formal policy, last revised in 1997, sets the capitalization threshold at \$2,500. For many years the threshold was \$5,000. That amount was raised to \$10,000 in fiscal 2010. The city does not have any policies or procedures to account for items costing less than \$10,000.

Not every small asset needs to be tracked. Obviously trash cans, paperclips, small hand tools, and many chairs, desks and tables have a relatively small cost and therefore are not considered attractive assets. Chain saws, hand held radios, laptop computers, iPhones, tablet computers and similar items are considered attractive assets which should be tracked. However, the city administration has not established any policy for tracking assets which are not capitalized in the financial accounting system.

A recent theft of city tools recognized the difficulties when adequate records are not maintained. It is difficult to substantiate ownership of tools such as chain saws when the city does not have a record of the serial number. There are also added challenges when there is no city identification tag attached to tools or equipment that has been stolen.

CRITERIA

The Washington State Auditor's Office BARS Manual prescribes, in accordance with state law, the accounting and reporting procedures for local governments. BARS manual Section 3.3.1.60 states that the duty to make certain that public property is adequately protected and that its use is properly managed is one of the fundamental responsibilities of public officials. Section 3.3.4.20 states that for small attractive assets that are not capitalized, a policies and procedures manual should contain instructions for adding and deleting these assets from the control lists used to monitor them.

In addition, the Government Finance Officers Association has established several Best Practices. These include a statement as follows: "It is incumbent upon public-sector managers to maintain adequate control over all of a government's resources, including capital assets, to minimize the risk of loss or misuse." The practice also recommends control at the department level and to report annually to the central accounting function.

There should be written city policies establishing the procedures for city departments to track fixed assets. The existing policies are outdated and do not provide sufficient guidance.

As noted above, Policy 4-9 Fixed Assets, last revised 10/1/1997, requires assets costing more than \$2,500 to be inventoried. The previous procedure used for many years was to capitalize assets costing \$5,000 or more. The current dollar amount used for financial reporting is now \$10,000.

As also noted, Policy 1-20-01 Fixed Asset Inventory Control Maintenance, last revised 9/9/1997, establishes that Administrative Services will coordinate the accounting and inventory of fixed assets. It defines an asset as having an initial cost of \$2,500 or more or is a computer hardware system. There is no longer a department of Administrative Services and the dollar amounts are not current.

CONDITION

The City lacks written policies establishing a system and responsibilities to track assets costing less than \$10,000. Some departments have established their own system to keep track of some of their tools and pieces of equipment. For example, the Facilities department maintains paper records of small tools for water, sewer and storm. The Fire Department has a listing of the equipment in its apparatus. However, none of the departments have written policies to define the system to record small and attractive assets or other assets costing less than \$10,000.

CAUSE

- City Administration has not adopted a policy to define small and attractive assets which should be tracked.
- Has not adopted a policy to guide the departments in establishing asset record systems.
- Has not updated policies since 1997.
- City administration policies do not support the \$10,000 capitalization threshold used to prepare the Comprehensive Annual Financial Report.

EFFECT

- The city is not in compliance with accounting and reporting policies issued by the State Auditor's Office for tracking fixed assets.
- The city lacks records, policies and procedures to safeguard public assets costing less than \$10,000.
- Without records, when assets are lost there is insufficient information to substantiate the city's claim of ownership.
- Assets purchased with public funds are at risk for loss and potential misuse.

FINDING

The city is not in compliance with the requirements of the State Auditor's Office to establish policies and procedures for the accountability of assets costing less than \$10,000 or the procedures requiring the departments to account for the small and attractive assets. The city administration should correct this deficiency.