Citywide Fixed Assets Report
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Office of the City Auditor
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Purpose & Scope

Purpose

• Determine whether City’s Fixed Assets processes, such as accountability and disposition, are efficient and effective to ensure the City’s financial data and reports are accurate and complete.

Scope

• The scope of review is the City’s fixed asset valuations as of end FY 2021.
Audit Objectives

1. Determine if the City’s fixed assets processes are efficient and effective to ensure the accuracy and completeness of the City’s financial data and reports.

2. Ensure proper accountability, monitoring, and disposition of the City’s fixed assets.
The City of Norfolk’s capitalization policy for assets acquired or placed in service was created in FY2010 to establish requirements for the City’s assets that fall above and below the asset capitalization threshold of $5,000.

Governmental Fund consisted of $1,148,608,872 in Governmental Capital Assets as of FY21.


Department of Finance ensures the departments manage their fixed assets, and City’s fixed assets are recorded in AFMS (Advantage Financial Management System) and disclosed in the City’s ACFR (Annual Comprehensive Financial Report).
**Fixed Assets Department-wide Process Questionnaire Observations**

We surveyed 26 City Departments to understand their processes for managing assets. We found common issues listed below. Therefore, we suggest the City develop a comprehensive, detailed training of the Fixed Assets processes to ensure all departments are aware of the following:

- Who is responsible for adding/removing Fixed Assets in AFMS
- Who assigns Fixed Asset #’s, and for which type of asset (IT, FLEET, or Department Assets)
- Process for how or where an asset should be disposed-of (no centralized location for disposed-of/auctioned items).
- What fields are required in AFMS when acquiring an asset
- When is IT or Fleet Management responsible for tagging an asset
- Who is responsible for removing assets from AFMS Fixed Assets reporting modules and other inventory listings
Fixed Assets Testing Results

Based on survey results, we selected 33 Governmental Assets samples:
- There was one asset unidentified by management.
- We found data entry errors with 3 out of 33 samples selected for testing.

Based on survey results, we selected 25 Enterprise Fund samples:
- We found data entry errors, with 7 of 25 samples selected for testing.
Finding #1

An annual inventory of the Governmental Activity Funds recorded and tracked in the City’s financial system is occurring. Still, several City departments lack a comprehensive understanding of their roles and responsibilities in this critical process to safeguard City assets and provide reasonable assurance of fiscal accountability. As a result, procedures to record, monitor, and track fixed asset purchases, locations, and dispositions are not being uniformly followed by City departments. Additionally, some departments had listed assets they could not locate or for which the serial/model numbers did not match those on the existing assets.
### Finding #1 - Recommendations

1. City provides additional guidance and training to departments to ensure roles and responsibilities are clear and that annual physical inventories are performed in accordance with City policies.

2. City departments comprehensively review fixed asset listings to ensure their completeness and accuracy by adding any physical assets not currently recorded and removing any assets that have been sold or otherwise disposed of.

3. City departments enter fixed asset data in the financial system appropriately and regularly review for completeness and accuracy to ensure proper identification of assets and facilitate monitoring and tracking.

4. City departments continuously monitor assets to ensure their proper working condition and repurpose, transfer, or dispose of assets no longer in use in accordance with City policy.

5. City consider if additional resources are necessary to appropriately manage and account for these items due to the scope and scale of the City's fixed assets.
Finding #1 - Management Response (Finance)

- Capital assets are often considered long-lived assets, and some of the City's assets date back over 100 years. The scope and scale of the City's effort to oversee the capital assets that have been procured, maintained, and stored by over 25 City departments, as well as various constitutional offices, local officials, City Council appointees, component units and outside organizations are significant. Capital assets account for almost $2.3B of the $3.1B total assets owned by these organizations, or 73%. In addition, the authoritative guidance governing capital assets, including the capitalization threshold, has changed significantly over time, as have the standards of bookkeeping and the technological resources available to facilitate them. For these reasons, effective capital asset management and internal control require a more comprehensive Citywide approach, including the constitutional offices, local officials, Council appointees, component units, and outside organizations, and phased development and implementation of improvements are currently underway.

- Management agrees that fixed asset processes require enhancement and continuous improvement. This is an area that management identified as an opportunity for improvement over the past few years and one that several steps have been taken to address.

- While an annual inventory has been City policy for many years, in recent years, the departmental responses to this inventory have been more closely tracked. Follow-up now occurs until all departments provide a response. Assets in use but not included on the inventory listing have been added, and assets included on the list that had previously been disposed of have been deleted. Monthly reconciliation of the Fleet center’s vehicle tracking system to the financial general ledger now occurs, and discrepancies are resolved timely. Further, an enhancement of the City's fixed asset policy is currently underway to implement improvements previously identified by management.

- Even with these improvements, management agrees that additional enhancements are appropriate and is committed to making them. Management will continue revising of the fixed asset policy with an expectation that it can be issued by mid-FY23 (recommendation #1). In the meantime, management will provide ad hoc guidance to departments prior to the conclusion of FY22 (recommendation #1) and in conjunction with the FY22 annual inventory that is currently underway. This initial guidance will help facilitate a more comprehensive review of the asset listings and a more accurate set of records as of FY22 year-end (recommendation #2).

- In addition to the revised fixed asset policy, the Department of Finance will work to provide training to departments before the end of FY23 so that they better understand how to enter fixed assets into the system also, so they clearly understand their roles and responsibilities as it relates to asset monitoring, maintenance, tracking and disposal (recommendations #3 & #4). As management continues to enhance the fixed asset processes in FY22 and FY23, it will also consider the adequacy of resources dedicated to these tasks (recommendation #5).
Finding #2

It was unclear if Enterprise Funds completed an annual inventory or had a comprehensive understanding of their roles and responsibilities for this critical process to safeguard City assets and provide reasonable assurance of fiscal accountability. As a result, methods to record, monitor, and track fixed asset purchases, locations, and dispositions are not uniform. Additionally, Enterprise Funds had some assets listed that they could not locate or for which the serial/model numbers did not match those on the existing assets.
Finding #2 - Recommendations

1-The City provides additional guidance and training to Enterprise Funds to ensure roles and responsibilities are clear and that annual physical inventories are performed in accordance with City policies.

2-Enterprise Funds comprehensively review fixed asset listings to ensure their completeness and accuracy by adding any physical assets not currently recorded and removing any assets that have been sold or otherwise disposed of.

3-Enterprise Funds enter fixed asset data in their respective systems appropriately and regularly review for completeness and accuracy to ensure proper identification of assets and facilitate monitoring and tracking.

4-Enterprise Funds continuously monitor assets to ensure the proper working condition and repurpose, transfer, or dispose of assets no longer in use in accordance with City policy.

5-Enterprise Funds consult with the Department of Finance to consider if using the City’s financial system to record, monitor, and track fixed assets would be more advantageous than current processes.
Finding #2- Management Response (Finance)

• Management agrees that fixed asset processes require enhancement and continuous improvement, especially concerning Enterprise Funds.

• Management will follow up with Enterprise Funds on the policy requirement for an annual inventory. Management will continue revising the fixed asset policy with an expectation that it can be issued by mid FY23 (recommendation #1). In the meantime, management will provide ad hoc guidance to Enterprise Funds prior to the conclusion of FY22 (recommendation #1), and in conjunction with the FY22 annual inventory that will be required. This initial guidance will help facilitate a more comprehensive review of the asset listings and a more accurate set of records as of FY22 year-end (recommendation #2).

• In addition to the revised fixed asset policy, the City will work to provide training to Enterprise Funds before the end of FY23 so that they better understand the expectations for their fixed assets listings, and so they clearly understand their roles and responsibilities as it relates to asset monitoring, maintenance, tracking and disposal (recommendations #3 & #4). As management continues to enhance the fixed asset processes in FY22 and FY23, it will also encourage Enterprise Funds to reassess their fixed asset management systems and

Finding #2 - Management Response (Parking)

The final Master List submitted for the FY 21 ACFR indicates a method for recording, monitoring, and tracking fixed asset purchases/dispositions. However, the timing of the employment of that method was impacted by the turnover in the senior accounting positions (Controller and Accountant IV). As a result, the Master List was updated at the end of the year versus during the procurement process. The Master List also needs to be updated to include serial/model numbers to identify the assets appropriately. This was done, but not consistently. Accurate descriptions will ensure that the City's fixed assets are recorded, inventoried, and safeguarded appropriately. The Parking Division will also ensure that the barcode numbers included on the Master List will be placed on all assets. There was some discrepancy as to whether the Finance Department had that responsibility. After a recent discussion with the Finance Department, we have since learned that as an Enterprise Fund, Parking is responsible for providing asset barcodes. Parking is also working with Finance to develop a plan for entering assets into the City's AFMS financial system.
Finding #2 - Management Response (Utilities)

1. The Department follows its standard operating procedures and City’s policies for fixed assets recordkeeping. The acquired assets, existing asset listing, and disposals are reviewed periodically, confirmed by division managers, and recorded in the Department’s internal system FAAS (Fixed Asset Accounting System). Fixed assets recorded in the City’s financial system are audited by independent auditors every year-end. The Department currently has training and procedures for fixed assets but will welcome any additional training or guidance from the City.

2. The Department complies with policies and requirements for fixed assets. It periodically reviews fixed assets listing in FAAS and confirms any additions and disposals with inquiring division managers. In addition, Utilities coordinate with City’s Fleet Management to reconcile fixed assets such as vehicles and other equipment managed by Fleet.

3. The Department regularly reviews the Enterprise Funds fixed asset listings for completeness and accuracy. The newly acquired assets, the existing asset listing, transfers, and asset disposals, including asset identification, are confirmed by division managers for recording in FAAS.

4. The Department monitors assets to ensure their proper working condition. The Department’s operations and engineering divisions continuously monitor the condition of all production assets and facilitate upgrades and replacements of assets infrastructure as needed. Also, Utilities work closely with Fleet Management to replace or repurpose assets as needed. The Department complies with the City fixed assets disposal policy.

5. The Department has been working diligently with the Department of Finance on transitioning the fixed assets record into the City’s financial system for the past several years. The Department will continue to work with Finance to resolve the remaining conversion items between AFMS and FAAS systems.
Outside Agencies
We contacted outside agencies to obtain a listing of city-owned fixed assets and noted 4 City-owned vehicles that are being used by one outside agency.

Research Departments
We contacted city departments to determine who is responsible for tracking and monitoring city-owned assets that outside agencies are using. Most of the City's departments indicated outside agencies do not report any city-owned assets that they are using. However, one department provided us with 2 vehicles that one outside agency is currently using.

Research AFMS
We searched the City's AFMS system 53B report, used as a basis for the ACFR, and found 2 of the 4 vehicles that the one outside agency stated belong to the City.

Research FASTER System
We searched Fleet's internal FASTER system report and located all 4 vehicles used by an outside agency. In addition, we physically located all 4 vehicles on the outside agency's premises and verified the vehicles by VIN #.
Opportunity for Improvement - Outside Agencies

Finding #3
The City does not have a process in place to ensure accountability of city-owned assets used by outside agencies.

Recommendation #1
The City Manager designates a point of contact to ensure fixed assets purchased by the City and used by outside agencies are appropriately tracked and accounted for in the City’s financial system.

Management Response:
Management agrees the accountability of city-owned assets used by outside agencies can be strengthened. Management will review and assess the programs that result in the use of city-owned assets by outside agencies to ensure they are required and appropriate. Where they are, the City will designate resources to monitor and track the assets being utilized. Where these situations are no longer required or appropriate, they will be eliminated. This review and assessment will be completed by the end of FY23, with any appropriate changes and/or designations immediately in place.
Audit Methodology

• Gained an understanding of how 26 City departments record, manage, and control their fixed assets. Documented each process and ensured proper internal controls were operating as intended.

• Gained an understanding of and documented the fixed assets accountability process.

• Obtained a comprehensive list of fixed assets in the city from the Department of Finance and/or responsible department.

• Reconciled AFMS reports 53A (Fixed Asset Inventory by Accounting) to 53B (Fixed Asset Inventory by Responsibility) and 56A (Fixed Asset Depreciation by Accounting).

• Reviewed contractual agreements with outside agencies listed in Dept 18 and determined the City’s fixed assets accountability.

• Gained an understanding of the disposition processes for each department and documented the process flow.

• Selected a sample of Fixed Assets and verified their existence.
Compliance with GAGAS
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.

Statement of Independence
Norfolk City Code Chapter 11 states, the City Auditor is appointed by City Council, and employees under the City Auditor serve exclusively at the will of the City Auditor. Accordingly, the Office of the City Auditor members are independent of City Management and thus independent per GAGAS requirements.

Data Reliability
We relied on the data generated from the City’s Advantage Financial Management System (AFMS), and external system reports for accuracy of financial reporting when conducting this audit. Our evaluation depended on the expected importance of the data to the final report, strengths or weaknesses of any corroborating evidence, and anticipated level of risk in using the data. We determined the financial information from AFMS to be reliable and, therefore, the level of risk from using this information to be low.

Internal Control
We obtained an understanding of significant internal controls within the context of the audit objective. We assessed whether internal controls were adequately designed and implemented and performed procedures to obtain enough evidence to support the effectiveness of those controls. The extent of our assessment was dependent on the Department-wide Fixed Asset process. Our results indicated some opportunities for improvements, but none of the deficiencies are considered material weaknesses.
We thank management and departments of the City of Norfolk for their cooperation and responsiveness to requests during the audit.

If you have any questions, please contact Tammie Dantzler at tammie.dantzler@norfolk.gov or 757-664-4044.
Thank you!