



PRINCE WILLIAM COUNTY, VIRGINIA

## **Prince William County, Virginia**

### **Asset Management Design Assessment**

**Prepared By:  
Internal Auditors**

**August 26, 2014**



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August 26, 2014

The Audit Committee of  
Prince William County, Virginia  
1 County Complex Court  
Prince William, Virginia 22192

Pursuant to the approved internal audit plan for fiscal year ("FY") 2013/2014 for Prince William County, Virginia ("the County"), we hereby present the design assessment of the Asset Management function for the County. We will be presenting this report to the Audit Committee of Prince William County at the next scheduled meeting on September 9, 2014. Our report is organized in the following sections:

<b>Executive Summary</b>	This provides a summary of the issues related to our design assessment of the asset management function.
<b>Background</b>	This provides an overview of the asset management function covered as a part of this design assessment.
<b>Objectives and Approach</b>	The objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
<b>Issues Matrix</b>	This section gives a description of the items noted during our design assessment and recommended actions as well as management's response, responsible party and estimated completion date.
<b>Risk Control Matrix</b>	This section provides a table of risks and identified controls in the asset management process.
<b>Process Map</b>	This section provides a depiction of each asset management process in flow chart format.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with the design assessment of the Asset Management function.

Respectfully Submitted,

**INTERNAL AUDITORS**

## **Executive Summary**

# Executive Summary

As of June 30, 2014, the County’s capital assets include approximately \$939 million (unaudited) of tangible and intangible personal property and equipment. The County capitalizes all tangible assets with an acquisition value of \$5,000 or more and intangible assets with an acquisition value of \$100,000 or more, and a useful life expectancy of more than one (1) year, in accordance with Virginia Statute and as stated in the Capital Asset Accounting and Control Policy, Finance Department Procedures Manual (“Capital Asset Policy”).

The County’s process for conducting asset inventories is decentralized, with each cost center responsible for controlling their own inventory in accordance with County policies and procedures. There are numerous risk factors that are inherently high risk to asset management including, control environment, process risk, external factors and the very nature of a decentralized process elevates the risk. The objective of this audit was to assess whether the design of the internal controls over asset management are suitably designed to meet management’s objectives for effective recording, monitoring, and safeguarding of property assets. In addition to evaluating the function’s overall approach and policies, the design assessment covered the following processes:

- Annual inventory;
- Asset acquisitions;
- Asset transfers; and
- Asset disposals.

Per our review, the process is adequately designed (with the exception of the issue below) however remains an inherently high risk process as noted above. The County has a service that conducts the physical inventory every two years. Therefore we will propose a cycle audit of asset management to test and validate inventories in the off year of the vendor.

The following section provides a summary of the issues identified during our procedures, and the detail of is included within the Issues Matrix section of this report. We have assigned relative risk factors to each issue identified. A summary of issues identified and their relative risk rating is provided below. 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 including financial, operational, and/or compliance as well as public perception or ‘brand’ risk when determining the relative risk rating. 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 also 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
<b>1. Non-Capitalized Assets</b>	<b>High</b>
<p>Assets that do not meet the capitalization criteria are not required under County policy or procedure to be tracked and monitored. Some departments have developed their own informal tracking and management systems for keeping records on certain assets that do not meet the capitalization criteria. The degree of formal recordkeeping and overall approach to tracking certain non-capitalized assets varies by department. For example, some departments have no requirement for tracking any non-capitalized assets, while others have robust standard operating procedures around this function.</p> <p>Significant risks include risk of loss of or damage to assets that are not adequately tracked and safeguarded, and failure to dispose of surplus assets properly. Non-capitalized assets have a higher susceptibility to misappropriation or theft if not adequately controlled and monitored. Negative public perception is an elevated risk factor around this process.</p> <p>We recommend that the County establish responsibilities and requirements for the care, custody, and physical security of non-capitalized assets to ascertain the proper stewardship of public, Federal or agency funds is supported.</p>	

## **Background**

# Background

## Overview

As of June 30, 2014, the County's capital assets include approximately \$939 million (unaudited) of tangible and intangible personal property and equipment. The County capitalizes all tangible assets with an acquisition value of \$5,000 or more and intangible assets with an acquisition value of \$100,000 or more, and a useful life expectancy of more than one (1) year, in accordance with Virginia Statute and as stated in the Capital Asset Accounting and Control Policy, Finance Department Procedures Manual. This policy establishes a system for accounting for capital assets in accordance with Generally Accepted Accounting Principles ("GAAP") that facilitates the safeguarding and location tracking of the County's assets; the assignment of direct responsibility, custody and proper use for specific property; and the preparation of the County's comprehensive annual financial report. Under the policy, the Finance Department is responsible for ensuring that capital transactions are recorded and reported in accordance with generally accepted accounting principles, and the departments/agencies are responsible for assuring proper use and protection of the County's assets.

The County's capital assets are divided into major classes with useful lives established as follows:

Class	Description	Useful Lives
Infrastructure	Long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly great number of years than most capital assets (e.g. storm-water management and public drainage systems, etc.)	10-50 years
Land	Land parcels	N/A
Improvements to Sites	Permanent improvements other than buildings that add value to a parcel of land	2-50 years
Buildings	Permanent structures or improvements thereto	20-40 years
Machinery & Equipment	Tangible property other than land, improvements to sites, buildings and motor vehicles (i.e. furniture, construction equipment, computer equipment, telecommunications equipment)	2-20 years
Motor Vehicles	Automobiles, trucks, vans, ambulances, fire trucks and police vehicles	3-10 years
Library Collections	Inventory of books and other resources purchased for the County's library system	5 years
Construction in Progress	The cost of construction projects commenced but not yet completed and/or placed in service	N/A
Works of Art / Historical Treasures	Capitalized artwork and/or historical artifacts or collections owned by the County	10-50 years
Intangible Assets (Software)	Capitalized costs associated with items without a physical substance that are nonfinancial in nature	5-15 years

The asset management function includes the following:

- Accounting for and reporting of capital assets.
- Maintaining proper accountability and control of all capital assets.
- Conducting a periodic physical inventory of all County-owned moveable capital assets.
- Utilizing methods to accurately identify, record, and evaluate capital assets.
- Managing and coordinating the identification and transfer or disposal of surplus property.
- Maintaining compliance with Federal and state laws, County purchasing regulations, policies and procedures, and applicable grant requirements.

## Background - continued

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### Overview - continued

The Finance Department is responsible for maintaining the Property Asset Management System (“PAMS”), the database used for tracking the County’s capital assets. The asset information recorded in the database includes: acquisition value, acquisition method, date acquired, asset number assigned, description, manufacturer/model, serial number, location, property custodian assigned, department, category, useful life, and condition.

The asset management procedures performed by the Finance Department include the following:

- Reviewing and approving capital asset payment requests.
- Reviewing monthly report of purchases coded to capital asset sub-objects in the general ledger system to identify previously unreported capital asset purchases.
- Determining whether purchases are capital in nature through review of supporting documentation.
- Assigning useful life, asset class and unique asset number to each capital asset.
- Entering asset information in the subsidiary asset database and PAMS.
- Performing monthly reconciliation of subsidiary database to PAMS, following up on discrepancies, and making adjustments as needed.
- Physically observing capital assets purchased, confirming identifying information (serial number, model number) and placing property tags on assets.
- Updating the general ledger at year end for all capital asset additions, disposals, impairments and depreciation by manual journal entry compiled from PAMS reports.
- Providing property asset reports to the departments for conducting the annual inventory of moveable capital assets, performing follow up, and updating PAMS where needed based on inventory results.
- Reviewing asset transfer and disposal documentation and updating PAMS accordingly.

The Capital Asset policy states that each department/agency head will appoint a capital asset liaison. The capital asset liaison is responsible for:

- Maintaining records to reflect accountability for the assets assigned to the department/division.
- Serving as a point of contact for asset management matters.
- Ensuring proper utilization and care of all property.
- Reconciling asset records with the assets observed on site during the annual physical inventory of moveable capital assets and communicating results to the Finance Department.
- Providing assistance in locating assets to the outside contractor selected to perform periodic inventory and asset evaluations for the County.
- Identifying surplus assets for disposal and completing related asset disposal form.
- Disposal of asset in accordance with the County’s Asset Disposal Procedure.
- Identifying assets to be transferred and completing related asset transfer form.
- Coordinating the transfer of the asset.

The County has contracted with a 3<sup>rd</sup> party vendor to provide capital asset inventory and insurance services on a biennial basis. The services provided include testing a statistical sample of the County’s annual inventory results; conducting a full inventory of all County-owned moveable capital assets; performance of a full inventory of all machinery, equipment and vehicles over \$5,000 at the 20 volunteer fire/rescue stations in the County; inventory and evaluate all County-owned office furniture, and assign approximate values by location; perform building valuation and appraisal services; and perform an evaluation of the County’s land parcels for liability insurance coverage. This is performed every other year.

## Background - continued

### Statistical Data

Statistical data as of June 30, 2014 pertaining to Asset Management is as follows:

Description	As of June 30, 2014
Operating Budget	\$ 428,036
Full-time Positions	1
Part-time Positions	-
Total Number of Capitalized Assets Recorded (unaudited)	5,170
Assets Inventoried (unaudited)	4,286
Collection, Re-distribution and Disposals of Surplus Property (unaudited)	147
Revenues from Surplus Property Sales (unaudited)	\$ 889,848

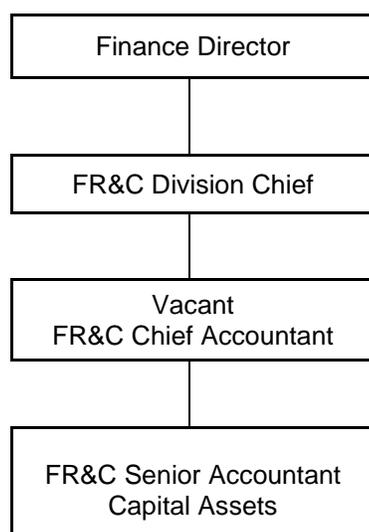
\* Probar Contract term is 2 years from April 11, 2012. The County shall have the option to extend the contract for 3 additional one year periods. Probar contract price is as follow: Summer of 2012= \$456,708; Summer of 2014 = \$267,741.

### Financial Data

Total capital assets (including tangible personal property) of Prince William County (primary government) per the comprehensive annual financial reports for the fiscal years ended June 30, 2012 and June 30, 2013 are categorized, at cost or donated value, as follows:

Category	As of June 30, 2012	As of June 30, 2013
Land	\$ 134,665,000	\$ 136,194,000
Construction in progress	16,513,000	33,537,000
Buildings and improvements to sites	318,971,000	320,141,000
Equipment	47,663,000	51,317,000
Vehicles	42,804,000	47,991,000
Infrastructure	175,751,000	187,027,000
Intangibles	32,816,000	33,636,000
Library collections	18,666,000	19,939,000
<b>Total Capital Assets</b>	<b>\$ 787,849,000</b>	<b>\$ 829,782,000</b>

### Asset Management Organizational Structure



## **Objectives and Approach**

# Objectives and Approach

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## **Objectives**

The objective of this audit was to assess whether the design of the internal controls over asset management are suitably designed to meet management's objectives for effective recording, monitoring, and safeguarding of property assets. In addition to evaluating the function's overall approach and policies, the design assessment covered the following processes:

- Annual inventory;
- Asset acquisitions;
- Asset transfers; and
- Asset disposals.

## **Approach**

Our audit approach consisted of the following three phases:

### *Understanding and Documentation of the Process*

During the first phase, we interviewed County Finance personnel with asset management responsibilities to discuss the scope and objectives of the audit work, obtained preliminary data, and established working arrangements. We researched and reviewed applicable Virginia laws, County Policies and asset management procedures and best practices.

### *Assessment of Controls*

During this phase, we assessed the design of internal controls over asset management. As part of our assessment, we made site visits to a sample of three departments to enhance our understanding of the asset management function within the departments and the associated risks and controls. We documented the asset management processes and related controls in process maps, see attached at pages 9 - 13.

### *Reporting*

At the conclusion of this audit, we summarized our findings related to the asset management function in this report. We have reviewed the results of our testing with the appropriate persons in Management, and have incorporated management's response into our report.

## **Issues Matrix**

# Issues Matrix

Rating	Issues
<b>High</b>	<b>1. Non-Capitalized Assets</b>
	<p>Assets that do not meet the capitalization criteria are not required under County policy or procedure to be tracked and monitored. We noted that some departments have developed their own informal tracking and management systems for keeping records on certain assets that do not meet the capitalization criteria. The degree of formal recordkeeping and overall approach to tracking certain non-capitalized assets varies by department. For example, some departments have no requirement for tracking any non-capitalized assets, while others have robust standard operating procedures around this function.</p> <p>Significant risks include risk of loss of or damage to assets that are not adequately tracked and safeguarded, and failure to dispose of surplus assets properly. Non-capitalized assets have a higher susceptibility to misappropriation or theft if not adequately controlled and monitored. Negative public perception is an elevated risk factor around this process.</p>
	<b>Recommendation</b>
	<p>We recommend that the County establish responsibilities and requirements for the care, custody, and physical security of non-capitalized assets to support the proper stewardship of public, Federal or agency funds. Specifically, we recommend the following in regards to including policies and procedures around non-capitalized items:</p> <ul style="list-style-type: none"> <li>• The following should be considered in developing the policy and procedure: <ul style="list-style-type: none"> <li>○ What can be eliminated?</li> <li>○ What absolutely must be tracked/inventoried, regardless of cost?</li> <li>○ Determine asset categories that should be identified versus inventoried.</li> <li>○ Set a dollar threshold for what represents a significant investment, a safety risk, or public perception risk.</li> <li>○ Exceptions to include.</li> <li>○ Consideration of reputational risk if a number of items individually valued at less than \$5,000 are lost or stolen.</li> </ul> </li> <li>• Categories of assets covered: Consideration of the following should be given when determining what assets to be included for tracking: risk of misappropriation/damage/loss, asset value, nature of the asset, location and planned use. Specifically, the County should consider requiring tracking of assets with a higher risk of misappropriation due to their mobility and resale value, for example, portable generators. Other types of assets should be considered for tracking given their nature, including the following: cameras, cell phones, and certain equipment and information technology assets.</li> <li>• Tagging of assets: Consideration lowering the threshold for tagging items below the current \$5,000 limit (the fixed asset limit) in order to increase the Departments' ability to account for small inventory (for example laser etching, non-removable labels or another method that is cost feasible).</li> <li>• Physical inventory: Departments should conduct a physical inventory of the non-capitalized assets on an annual basis and report those results to the Finance Department. The Finance Department should then periodically verify the data as reported in each department. This can be on a rotational basis for every 3 – 5 years, as the County deems necessary.</li> <li>• Reporting: Establishment/Identification of editable parameter drive reports that can "pull" data for assets below \$5,000 to include identifiers such as: Department, Purchase Order Number, Item Description, Quantity, Year, Etc</li> </ul>

## Issues Matrix - continued

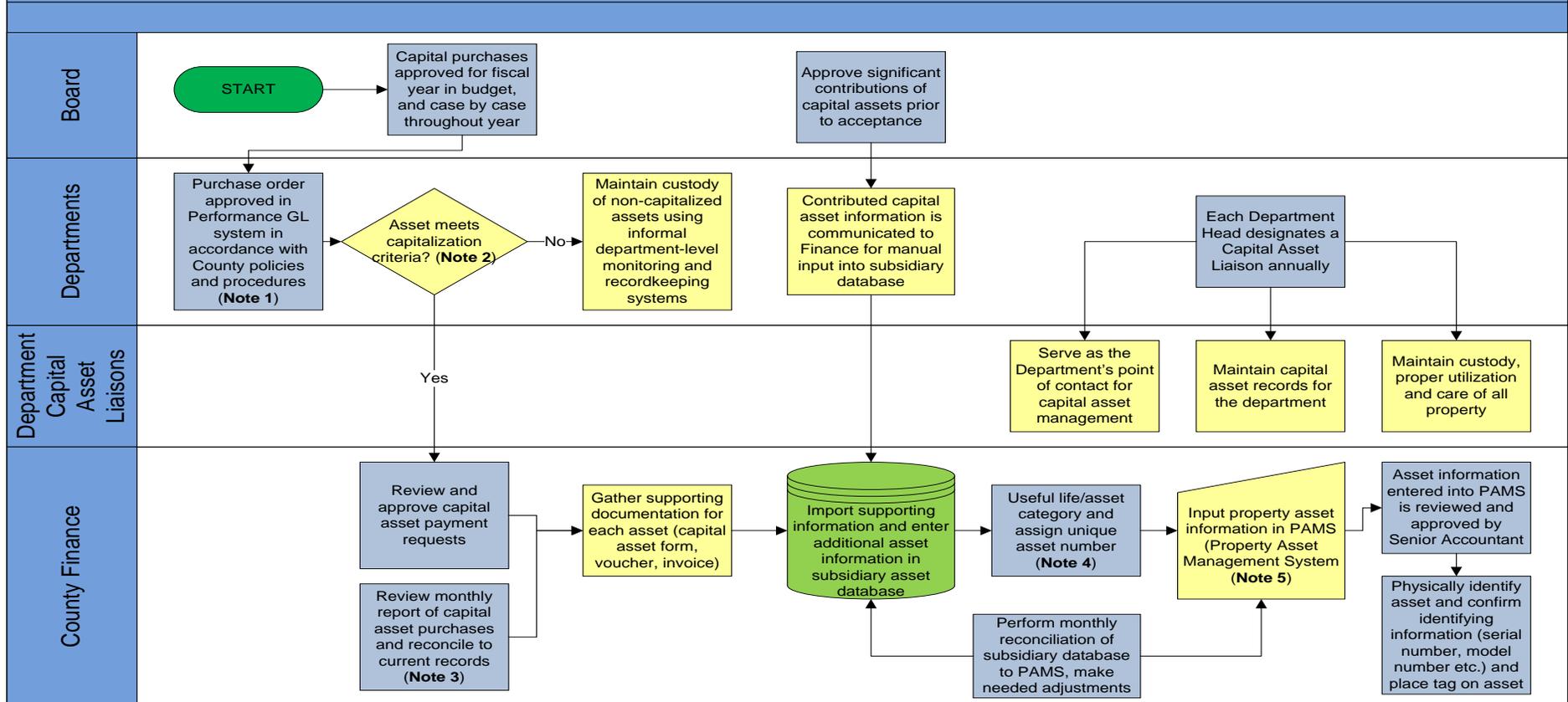
Rating	Issues
High	1. Non-Capitalized Assets - continued
	<p data-bbox="737 275 1057 306" style="text-align: center;"><b>Management's Response</b></p> <p data-bbox="370 338 1430 432"><b>Response:</b> Management acknowledges the finding. Two alternatives have been identified with this finding. Finance is actively working on one of the alternatives that will allow the County to partially conform to the auditors' recommendations.</p> <p data-bbox="370 464 1430 558"><b>Alternative #1</b> Establish and implement policy and procedures for non-capital controlled assets to include: definitions, procedures, guidelines, responsibilities and some other relevant information.</p> <p data-bbox="370 590 1430 800">Immediate Solution: The Finance Department, in conjunction with staff from the Police Department, DoIT, the Sheriff's Office, and Public Works are drafting a County wide policy that provides guidance for inventory of capital and non-capital controlled assets. The guidance will provide instructions and procedures for non-capital controlled assets which are identified as necessary for additional control measures due to compliance with code or regulation; are highly susceptible to theft; or must be controlled for the safety of the public or staff.</p> <p data-bbox="370 831 1430 894"><b>Alternative #2</b> Track, tag, conduct physical inventory and report non-capital controlled assets valued at greater than \$1,000 and less than \$5,000.</p> <p data-bbox="370 926 1430 1136">Due to significant increase in the number of non-capital controlled assets, this alternative will involve more time and resources to implement. The County will need to identify acceptable methods to track, tag, inventory, and report non-capital controlled assets. The County's current asset management system, PAMS, is not configured to allow for the tracking of assets that are not capitalized. To implement tracking, tagging, inventory, and reporting of non-capital controlled assets will, in addition to customizing/configuring PAMS and implementing alternative 1 above, require additional FTE(s) to maintain the activity.</p> <p data-bbox="370 1167 1430 1262">The County is in the process of evaluating an ERP system for implementation in Fiscal Year 2016. Inventory on non-capital controlled assets was included as one of the requirements in the new ERP.</p> <p data-bbox="370 1293 1430 1356"><b>Responsible Party:</b> Finance lead with support from the capital asset liaison from the agencies.</p> <p data-bbox="370 1388 1430 1451"><b>ECD:</b> <b>Alternative #1</b> June 30, 2015; <b>Alternative #2</b> not prior to ERP system implementation</p>

## **Process Maps**

# Process Maps

## Prince William County, Virginia – Asset Management – Acquisitions

Page 1 of 1



**Note 1:** Purchases must be made in compliance with the County Purchasing Regulations and Capital Asset Policy.

**Note 2:** Under the Capital Asset Policy, tangible assets with an acquisition value of \$5,000 or more and a useful life expectancy of more than one year are capitalized. Other types of assets are capitalized according to Capital Asset Policy.

**Note 3:** All capital assets are purchased through a designated sub-object series in the general ledger system. At month-end, a report is executed to identify all purchases coded to this sub-object. The Capital Asset Senior Accountant reviews the report to identify asset purchases that were not previously submitted through the normal payment approval process to ensure they are properly recorded (e.g. purchases recorded through a journal entry).

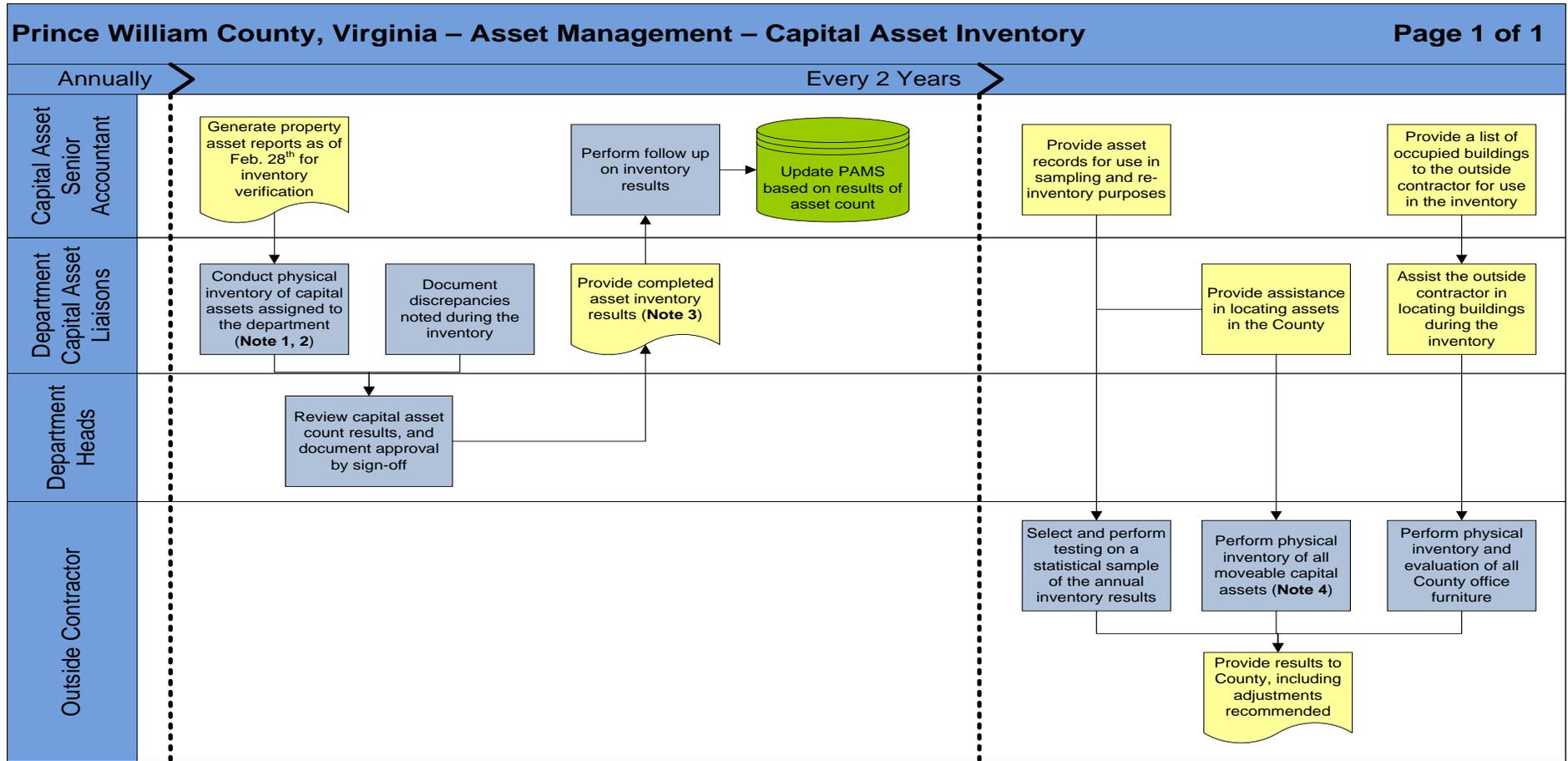
**Note 4:** Useful lives are assigned by the Capital Asset Senior Accountant over Capital Assets in accordance with the Capital Asset Policy.

**Note 5:** The asset information is manually recorded in the fixed asset system (PAMS) using manual entry forms printed from the subsidiary database for each transaction. The asset information recorded in PAMS includes: acquisition basis/method/date, asset number assigned, description, manufacturer/model, serial number, location, property custodian, department, category, useful life, and condition.

Legend:

Process Step	Automated Control	Manual Control	Gap
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# Process Maps - continued



**Note 1:** The inventory count covers all County-owned moveable assets with an original cost of \$5,000 or more that have been recorded in the County's Property Asset Management System (PAMS).

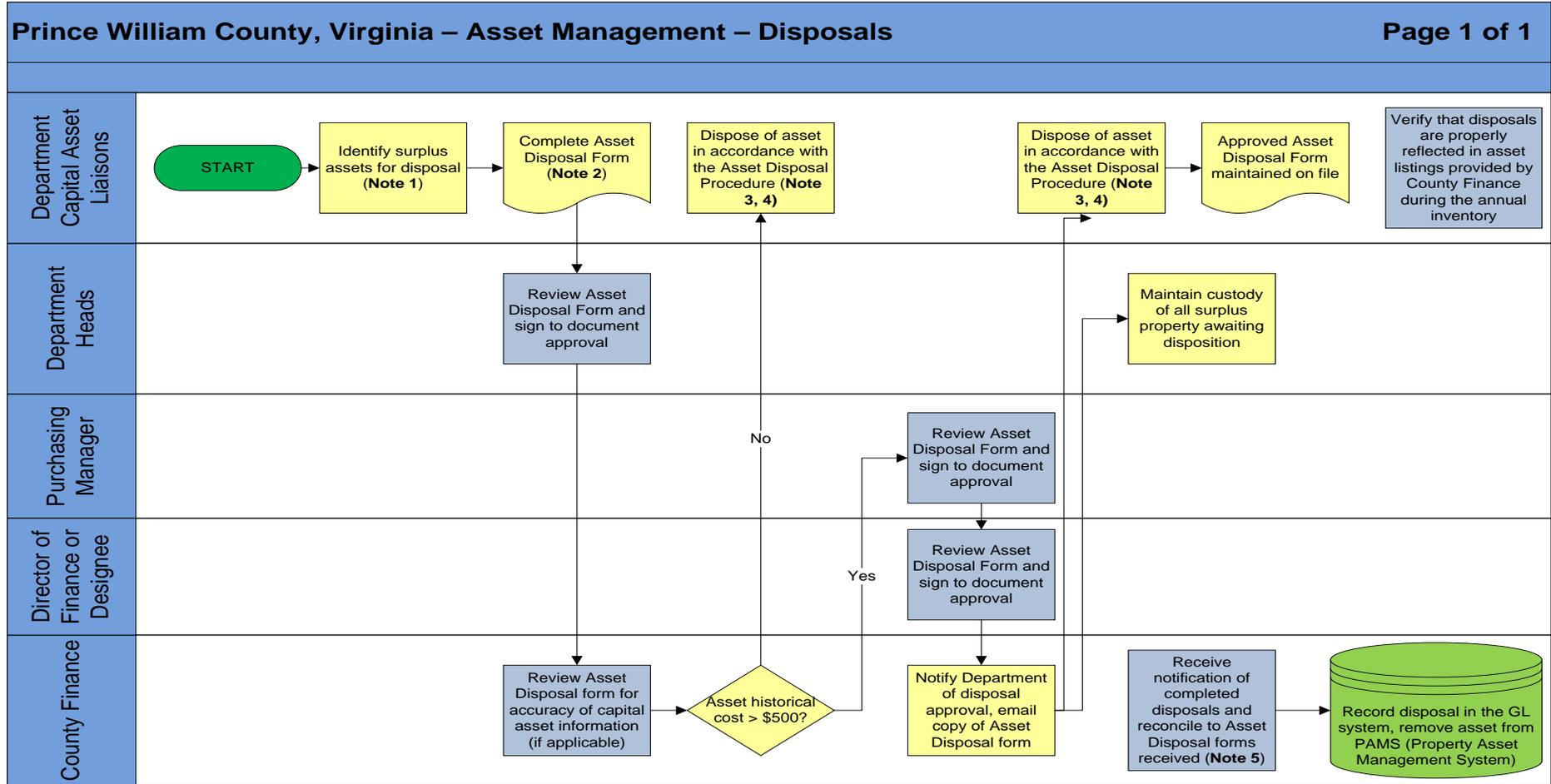
**Note 2:** The inventory instructions are provided to each Department Liaison and include a list of the Department's assets as shown in PAMS. The instructions state that all assets on the list must be physically located, including verification that the property identification number on the physical asset agrees to the one shown on the list. The following items are also to be identified during the inventory: items on the list that cannot be found, tagged items on site but not on the list, untagged capital assets on site but not on the list, assets listed that do not belong to the department, missing/illegible tags, additional location information, and any necessary correction information.

**Note 3:** The inventory results to be provided to County Finance include: inventory list signed, dated and certified by the Department Director, list of items found by your department but not on the inventory list, and assets that cannot be identified.

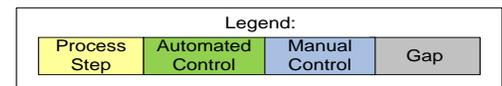
**Note 4:** The contractor is responsible for inventorying all moveable capital assets in the County, including all machinery, equipment, and vehicles valued over \$5,000 at the Volunteer Fire/Rescue Stations in the County. Also, the contractor identifies any assets found on site with a cost greater than \$5,000 that are not recorded as part of the inventory.



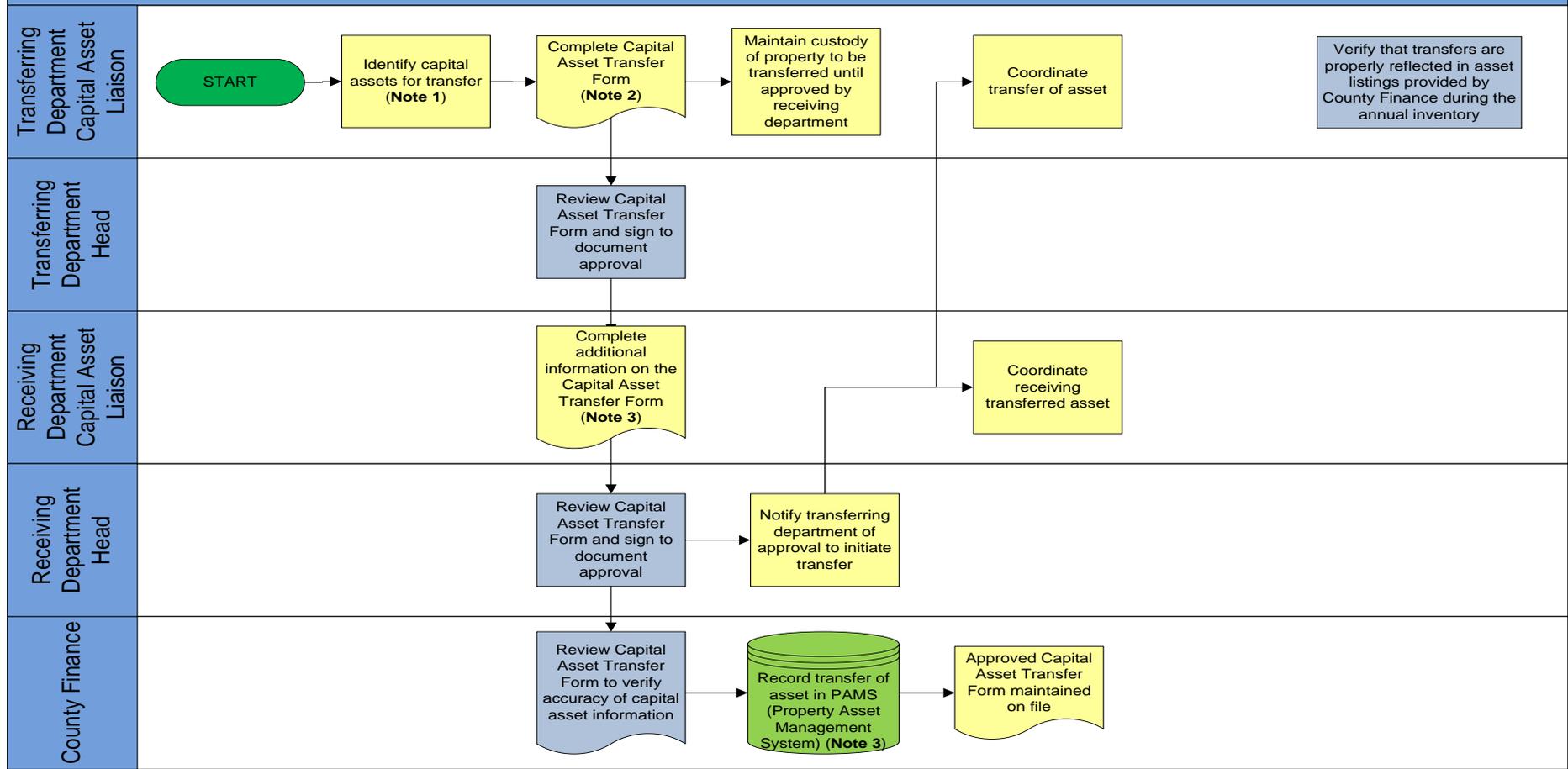
# Process Maps - continued



- Note 1:** The County Purchasing Regulations define surplus property as personal property that no longer contributes to the using department's core business and to the County's desired outcomes.
- Note 2:** The Asset Disposal Form includes the disposal method, reason for disposal, physical location, historical cost, and identifying asset information (asset number, description, serial number).
- Note 3:** Under the Asset Disposal Procedure, logistics for assets handled by internal service agencies should be coordinated and facilitated with the appropriate agency. These assets includes: computer and computer related assets, office/systems furniture, vehicles, and historical artifacts/antiques. Physical disposal of assets not in these categories is the responsibility of the department holding the asset.
- Note 4:** Disposal options for working assets include: trade-in, sale to political sub-division, or third party online auctions. Non-working assets are sent to the landfill through the Recycling Program Manager.
- Note 5:** County Finance receives a monthly auction report of all assets disposed of by the Fleet Department, if any. Third party online auction sales are monitored by County Finance for capital asset disposals.



# Process Maps - continued

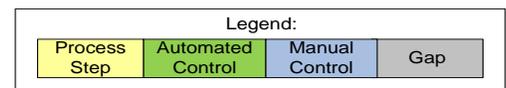
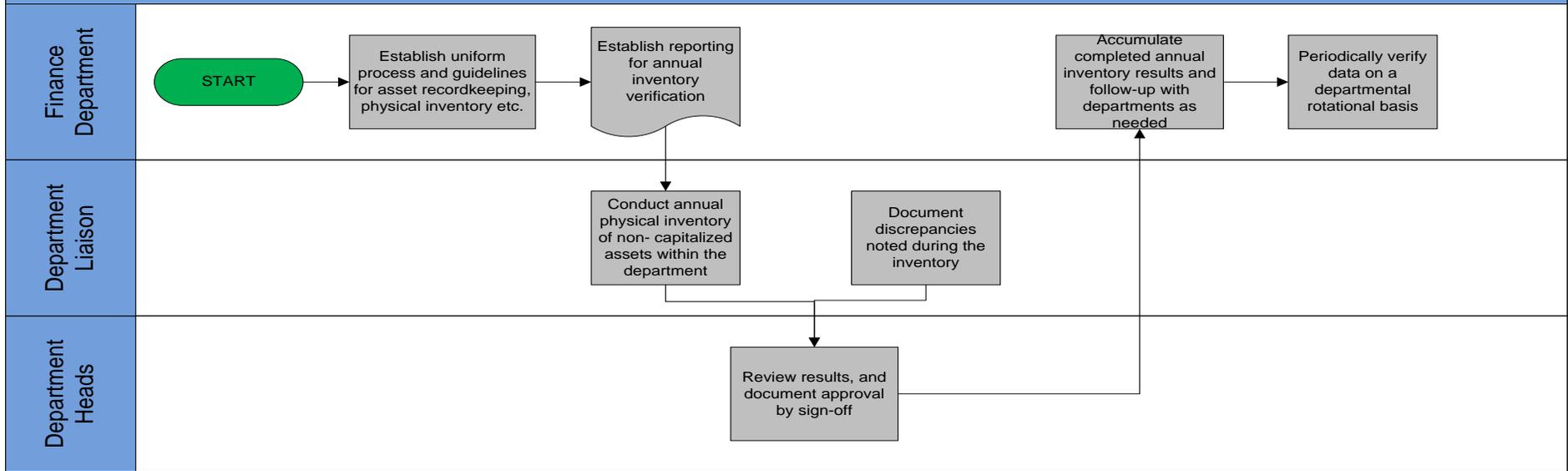


**Note 1:** The Capital Asset Transfer Form is required when capital assets are redeployed from one department to another or from one fund to another fund.  
**Note 2:** The transferring department initiates the Asset Transfer Form and completes the following on the form: property ID number, description, serial number, and asset liaison name/contact information.  
**Note 3:** The Capital Asset Senior Accountant updates the Property Asset Management System (PAMS) for the change in location, index code, and department number.

Legend:

Process Step	Automated Control	Manual Control	Gap
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# Process Maps - continued



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