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Capital Assets

Municipalities may be able to increase control over and better protect their largest assets by improving the documenting, tracking, and monitoring of capital assets.¹

Our recent audits have revealed that some municipalities have increased risk of theft, fraud, waste, misuse, or abuse because they are not continuously documenting, tracking, and monitoring their capital assets.

Capital assets include land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.² A single reporting period is typically one fiscal year. Intangible assets³ include, but are not limited to: items such as easements, water rights, timber rights, patents, trademarks, and computer software.⁴

We recommend that municipalities establish a dollar value or capitalization threshold for capital assets. This threshold will determine which assets will be capitalized, recorded, tracked, and monitored in the municipality's financial records. Municipalities have authority to set their own capitalization threshold.



**Are you keeping track of
your capital assets?**



Capital assets are one of the largest singular asset balances on the financial statements for a local government. When capital assets are not properly recorded and managed, the entity may expose itself to risk for theft, fraud, waste, misuse, or abuse. **Improved controls mean less exposure to risk.**

¹ Some capital assets may also be considered as "fixed assets."

² Governmental Accounting Standards Board (GASB) Statement 34

³ Unless an intangible asset is excluded by the definition and provisions in Governmental Accounting Standards Board (GASB) Statement 51, intangible asset meeting the definition of "capital asset" must be classified accordingly.

⁴ Governmental Accounting Standards Board (GASB) Statement 51

"Enhancing Public Trust in Government"

Maintaining current detailed information about the capital assets is critical to proper tracking, monitoring, and reporting. That information will assist in keeping the entity in compliance with its financial reporting requirements and allow the entity to know what capital assets it owns and how old they are, as well as, help protect the capital assets from being lost, misused, or stolen. Proper tracking of capital assets and having accurate financial statement records may impact the municipalities' credit ratings, the ability to borrow funds, bond requirements, insurance premiums, etc.

Capital Assets Guidance

- Governing Standards:
 - ✓ GASB Statement 34: Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments
 - ✓ GASB Statement 42: Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries
 - ✓ GASB Statement 51: Accounting and Financial Reporting for Intangible Assets
- Persuasive Guidance:⁵
 - ✓ Chapter 274, Florida Statutes
 - ✓ Florida Administrative Code Chapter 69I-73



Suggestions

1. Ensure capital asset records include detailed information including, but not limited to: clear detailed descriptions, identification numbers, current location, and the custodian assigned responsibility for the capital asset.
2. Perform an annual physical hands-on review of the capital assets (including land and buildings) and any time there is a change of custodian
3. Include all departments in the capital asset monitoring process.
4. Perform monthly reconciliations of capital asset purchases.
5. Perform periodic capital asset impairment review, especially after prominent events or changes in circumstances, as required by GASB 42.
6. Ensure capital assets recorded in the system are being used in the operations of the entity, as required by GASB 34.
7. Provide annual training to employees on proper capital asset acquisition procedures with special emphasis in the purchase dollar value/capitalization threshold, disposal procedures, annual physical hands-on review, and monitoring.



⁵ Chapter 274, Florida Statute and Florida Administrative Code Chapter 69I-73 apply to Counties, Taxing District of the State, or County Sheriff's Departments. While this does not explicitly apply to municipalities, the guidance is useful.