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Inspector General

OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY



Inspector General
Accredited

“Enhancing Public Trust in Government”

Audit Report

2018-A-0012

**City of Greenacres
Capital Assets**

August 21, 2018



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CITY OF GREENACRES – CAPITAL ASSETS

SUMMARY

WHAT WE DID

We conducted a capital assets audit of the City of Greenacres (City). This audit was performed as part of the Office of Inspector General, Palm Beach County (OIG) 2018 Annual Audit Plan.

Our audit focused on the capital assets process and controls. The scope included a review of capital assets¹ that were recorded in the City's financial system as of the Fiscal Year (FY) 2017 year end.

The importance of properly recording capital assets is to show an accurate financial position for the oversight body, citizenry, and creditors.

WHAT WE FOUND

We found generally adequate controls for the capital assets annual physical inventory review process and physical controls for safeguarding the capital assets.

We found weaknesses when testing for: (1) capital asset existence; (2) compliance with written guidance; and (3) access to, controls, and written guidance for computer systems. Our audit identified **\$1,038,595** in questioned costs.²

Capital Asset Existence

The City could not locate five (5) of the sample of 129 capital assets (4%) recorded in the City's records; therefore, we could not verify the existence of those capital assets. Since we could not verify those capital assets exist, the documented

¹ The City's Ordinance No. 2001-23 defines a "fixed asset" to include real and tangible personal property owned by the City that is nonconsumable with a cost of \$750 or more at the time of acquisition and a normal expected life of one year or more. the City tracks and inventories fixed assets and then capitalizes the assets when they reach a specific threshold (i.e. capital asset). Official GASB Statement No. 34 states that the term "capital assets" includes both tangible and intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. The terms "fixed asset" and "capital asset" are not synonymous terms; however, the City's fixed assets records include its capital assets. This audit focuses on the City's capital assets process and controls.

² Questioned costs are costs or financial obligations that are questioned by the OIG because of: an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, other agreement, policies and procedures, or document governing the expenditure of funds; a finding that, at the time of the OIG activity, such cost or financial obligation is not supported by adequate documentation; or, a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. **As such and in this specific case, not all questioned costs are indicative of potential fraud or waste.**

cost of the assets is questioned and totaled **\$221,948**.

The City's breakdown / reconciliation schedules for three (3) capital assets were inconsistent with the City's fixed asset records reflecting the purchase amounts for those assets. The differences between the purchase amount recorded in the City's fixed asset records and the breakdown / reconciliation schedules totaled **\$21,199** and are considered questioned costs because we could not verify the existence of all components.

Capital Asset Impairments

The City's fixed asset records were not accurate for impaired and obsolete capital assets. We deemed 14 of 62 capital assets (23%) to be partially impaired due to damage or missing components. No impairments were recorded for the assets which resulted in questioned costs of **\$604,479**. Two (2) of 62 capital assets (3%) were obsolete based on technology advancement; no impairments were recorded for these assets. This resulted in questioned costs of **\$33,941**.

Amphitheater Not Put to Intended Use

GASB Statement 34 states that the term "capital assets" includes tangible and intangible assets that are ***used in operations*** and have initial useful lives extending beyond a single reporting period. The Freedom Park Amphitheater was capitalized with the FY00-04 park improvements but was never used in operations. This resulted in questioned costs of **\$157,028** based on the asset being misclassified as a capital asset.

Non-Compliance with Written Guidance

We noted several instances where the City's process was not in compliance with the applicable written guidance. The actual process should match the written guidance to reduce the risk of errors and ensure that asset information in the City's accounting system is accurate.

Inconsistent Written Guidance

We noted inconsistencies within the City's written guidance. Written guidance should be consistent throughout each related document. Inconsistencies may lead to decreased efficiencies within the process and increase the risk of error.

Computer User Accounts and Access Controls

This audit included review of data reliability and integrity for the computer systems related to the capital asset processes. We found that the City has processes, but does not have written Information Technology (IT) policies which address computer user access, account set-up, or activation and deactivation of accounts. Lack of written guidance increases the risk of unauthorized or inappropriate access to the City's computer systems.

WHAT WE RECOMMEND

Our report contains six (6) findings and provides a total of 16 recommendations. Implementation of the recommendations will 1) assist the City in strengthening internal controls and 2) facilitate having accurate records for capital assets.

The City has taken corrective actions to implement all of the recommendations.

We have included the City's management response as Attachment 1.

BACKGROUND



The City was originally incorporated as “Greenacres City”³ in 1926. The City charter was abolished by the Florida State Legislature in 1945 and reincorporated in 1947. The City has operated under a Council-Manager form of government since 1980. The Council has legislative and policymaking authority, and the City Manager has administrative authority. The Council consists of five (5) councilmembers and a Mayor who are elected at-large on a non-partisan basis. The Mayor is elected for a four (4) year term and presides at Council meetings. The five (5) councilmembers are elected by all City registered voters for staggered four (4) year terms. The Council designates one (1) of its members as Deputy Mayor, who serves in such capacity at the pleasure of the Council.

The Mayor only votes as the sixth councilmember in the event of a tie. Additionally, the Mayor has veto power. The Council appoints a City Manager to manage the day-to-day operations of the City and implement Council policies.

The City is located in central Palm Beach County with land area of approximately 5.85 square miles and a population of approximately 39,770. There are no major industries located within the City limits.

As of September 30, 2016, the City had \$22,594,000 in (net) capital assets recorded in its financial statements. For FY 2017, the City had an adopted budget of \$32,496,255.

The OIG 2018 Annual Audit Plan had multiple entities selected for capital assets audits. The City was selected for a capital assets audit because it has not been previously audited by the OIG.

³ During the 1990s, the City's residents voted in favor of changing the City's name from “Greenacres City” to “Greenacres.”

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine if:

- Capital asset controls were adequate to safeguard government resources;
- Capital assets were properly reported and recorded in the financial system; and
- Capital asset processes were working efficiently and effectively.

The scope of the audit included, but was not limited to, capital assets that were recorded in the financial system at the FY 2017 year end.

The audit methodology included, but was not limited to:

- Review of capital asset policies and procedures;
- Review of capital asset master records and annual review of existence;
- Performance of physical observation of capital assets;
- Interview of appropriate personnel; and
- Performance of detailed testing on selected transactions and invoices.

As part of the audit, we completed a data reliability assessment for the computer systems used by the City related to administering and reporting of the capital assets process. We determined that the computer-processed data contained in these computer systems had exceptions but were sufficiently reliable for the purposes of the audit.

This audit was conducted 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.

FINDINGS AND RECOMMENDATIONS

Finding (1): The existence of certain capital assets listed and capitalized in the City's fixed asset records could not be confirmed.

City Ordinance No. 2001-23 provides that the Finance Department is responsible for maintaining the official records of all the City's fixed assets⁴ in a fashion consistent with Chapter 274, Florida Statutes⁵ and rules promulgated by the State of Florida, including the Uniform Chart of Accounts, and GASB. The City Manager is responsible for establishing procedures for the recording, control, inventory, and disposal of fixed assets. Some of the City's fixed assets, as defined by Ordinance No. 2001-23, are capital assets. GASB Statement No. 34⁶ states that the term "capital assets" includes both tangible and intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. Capital assets include land, land improvements, buildings, building improvements, construction and construction in progress, machinery and equipment, vehicles, infrastructure, easements, works of art or historical treasures, and other tangible or intangible assets.

The City tracks and inventories fixed assets with a value of over \$750 at the time of acquisition with the exception of infrastructure items which has a value of \$50,000 or more and capitalizes and depreciates those assets if they reach a specific threshold (i.e. capital asset). According to the City's Asset Capitalization and Depreciation Guidance dated May 4, 2007, the City's thresholds are as follows:

	<u>Tracking and Inventory</u>	<u>Capitalize and Depreciate</u>
Land	\$750	Capitalize only
Land Improvements	\$750	\$25,000
Building	\$750	\$50,000
Building Improvements	\$750	\$50,000
Construction in Progress	\$750	Capitalize only
Machinery and Equipment	\$750	\$5,000
Vehicle	\$750	\$5,000
Infrastructure	\$50,000	\$250,000

⁴ The City's Ordinance No. 2001-23 defines a "fixed asset" to include real and tangible personal property owned by the City that is nonconsumable with a cost of \$750 or more at the time of acquisition and a normal expected life of one year or more. The City's Administrative Directive No. 17, issued on September 28, 1990 and last revised on December 9, 2008, defines a "fixed asset" nonconsumable item with a cost of \$750 or more at the time of acquisition and an expected life of greater than one year. Thus, the ordinance includes an asset having an expected life of one year, but the Directive does not.

⁵ The term "governmental unit" in section 274.01(1), Florida Statutes, means "the governing board, commission or authority of a county or taxing district of the state or the sheriff of the county." While certain local governmental entities must operate under the mandates of Chapter 274, Florida Statutes, municipalities are not required, but may voluntarily, come within the scope of the chapter.

⁶ GASB Statement 34 establishes accounting and financial reporting standards for general purpose external financial reporting by state and local governments and has an objective to enhance the understandability and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The Statement states that Governments should report all capital assets in the government-wide statement of net assets.

We selected a sample of 129 capital assets from the City's fixed asset records to determine if those capital assets existed.

Total Sample Selected	Number	% of Capital Assets ⁷	Purchase Amount	% of Capital Assets \$
Land	40	11%	\$ 7,218,290	20%
Buildings	27	7%	\$ 13,306,269	36%
Equipment, Vehicles, Other Improvements	62	17%	\$ 7,191,740	20%
Capital Assets Tested	129	35%	\$ 27,716,299	76%

We verified the existence of the selected capital assets through physical observation, research, and interviews with City staff. The City could not specifically locate 4% (5 of 129) of the capital assets selected; therefore, we could not verify those assets existed. We are questioning the cost of assets that could not be located, totaling **\$221,948**.

Capital Asset Description	Questioned Cost ⁸
Microphone Sound System ⁹	\$6,562
FY96 Ira Van Bullock (IVB) Park Construction – Playground Equipment and Basketball Courts ¹⁰	\$109,050
FY04 IVB Super Max Playground ¹¹	\$30,336
FY99 Community Park Playground Equipment ¹²	\$6,000
FY84 Martin Avenue – Pavilion and Restrooms ¹³	<u>\$70,000</u>
Total Questioned Costs	\$221,948

⁷ The City's fixed asset records as of October 2017 had a total of 365 capital assets with a total purchase amount of \$36,730,504.

⁸ Purchase amount (historical / acquisition cost) was used for questioned costs because we were unable to determine when the asset was lost, misplaced, destroyed, or disposed. The City was unable to provide documentation to support the existence or disposal of these capital assets. Based on a lack of documentation, we were unable to determine that these capital assets ever existed; therefore, the purchase price (historical / acquisition cost) was used.

⁹ The Microphone Sound System could not be identified by the City. The City confirmed this asset no longer existed.

¹⁰ The FY96 IVB Park Construction – Playground Equipment and Basketball Courts could not be identified by the City. The City confirmed asset no longer existed and that the asset will be removed from the City's active fixed asset records. This asset was constructed based on a Housing and Community Development Grant from Palm Beach County.

¹¹ The FY04 IVB Super Max Playground could not be identified by the City. The City confirmed the asset no longer existed and that the asset will be removed from the City's active fixed asset records.

¹² The FY99 Community Park Playground Equipment could not be identified by the City. The City confirmed the asset no longer existed and that the asset will be removed from the City's active fixed asset records.

¹³ The FY84 Martin Avenue – Pavilion and Restrooms could not be identified by the City. The City confirmed the asset no longer existed and was disposed during new construction at the location. The asset will be removed from the City's active fixed asset records.

Additionally, the City provided breakdown / reconciliation schedules for three (3) capital assets that consisted of nine (9) asset components. These reconciliations were provided to show the components making up each asset that we sought to physically observe as part of our existence testing and to reconcile the costs of that asset against the asset purchase amount reflected in City's fixed asset records. The costs listed in the breakdown / reconciliation schedules were inconsistent with the purchase amounts recorded in the City's fixed asset records. The differences totaling **\$21,199** are considered questioned costs because we could not verify the existence of the complete asset as recorded in the City's fixed asset records.

Capital Asset Description	Purchase Amount (A)	City's Reconciliation (B)	Difference (A – B)
FY91 Burrowing Owl Park Improvements	\$173,024	\$169,318	\$3,706
FY98, FY 99, and FY00 IVB Park Improvements	\$730,701	\$719,286	\$11,415
FY00, FY01, FY02, FY03, FY 04 Freedom Park Improvements	\$2,596,912	\$2,590,834	\$6,078
Total Questioned Costs			\$21,199

The City performs an annual physical inventory review process that is working as intended most of the time. The potential cause for the exceptions (shown above) may be insufficient or unclear asset descriptions, the physical inventory is not performed as a "hands-on" physical inventory by the custodian department, and the Finance Department does not spot check the asset information provided by the custodian department upon acquisition. Additionally, there appears to be poor communication between the custodian department(s) and Finance staff regarding assets that are disposed and should be removed from the records.

The City's fixed asset records and financial statements may be misrepresented if capital assets are not properly recorded and updated timely.¹⁴ Additionally, incomplete and inaccurate fixed asset records may expose the City to risk of loss or theft going unnoticed.

Recommendations:

- (1) Capital assets that could not be located and capital asset purchase amounts that could not be verified should be found or written off the City's fixed asset records.**
- (2) The City review and update the fixed asset records to ensure that all capital assets contain a clear description of each asset, including its current location.**

¹⁴ This capital assets audit was a performance audit, not an audit of the financial statements. However, our findings may have an impact on the financial statement audit. Therefore, this audit report will be referred to the City's external auditors for review.

- (3) The Finance Department provide training to the custodian departments for providing proper capital asset records information and completing the physical inventory requirements.
- (4) Capital assets that are acquired with grant funding should be noted as such in the fixed asset records to ensure that the grant agency is notified of disposal, destruction, destroyed, or otherwise impaired, to the extent required by the grant.

Management Response Summary:

- (1) All assets under audit have been identified or the amounts that couldn't be tied to asset acquisitions will be written off.
- (2) Finance has resolved this issue and currently has clear descriptions including locations. Additionally, Finance is maintaining a separate record of the detailed assets listing for all assets that could not be properly identified as originally recorded.
- (3) The City's fixed assets policy was recently updated and training is planned for all departments.
- (4) All assets acquired with grant funding will be noted as such.

Finding (2): The City did not properly impair capital assets, as required by GASB 42.

GASB Statement 42 requires that public entities report the effect of capital asset impairments when they occur, rather than through depreciation expense or when the asset is disposed. An asset is considered impaired when its usefulness for service decreases significantly and unexpectedly.¹⁵ Common indicators that an impairment has occurred are: physical damages, enactment or approval of new laws or regulations or other changes in environmental factors, technology advancements that make the asset obsolete, or a change in the manner or duration of the asset's use.

We noted 14 capital assets of the sample of 62 capital assets (23%) in the equipment, vehicles, or other improvements category that were deemed impaired due to damage or missing / disposed components. The City's fixed asset records were not up to date and did not indicate the asset value was reduced to account for the impairment.

¹⁵ Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred.

Capital Asset Description	Questioned Cost ¹⁶	Component Impaired	Reason for Impairment ¹⁷
FY90 Community Park Improvements	\$44,082	Landscaping	Hurricane Damage
	\$8,841	Exercise Trail	Demolished
	\$5,634	Playground Equipment	Disposed
FY91 Burrowing Owl Park Improvements	\$15,030	Landscaping	Hurricane Damage
	\$15,989	Playground Equipment	Replaced with new capital asset
FY01 Burrowing Owl Park Improvements	\$1,772	Playground Equipment	Disposed
FY91 Community Park Improvements	\$19,918	Landscaping	Hurricane Damage
	\$7,474	Playground Equipment	Disposed
	\$34,380	Playground Equipment	Disposed
	\$1,493	Schoolboard	Unable to identify
	\$9,570	Fencing	Replaced with new capital asset
FY98 IVB Park Improvements	\$173,598	Lift Station	Donated to Palm Beach County
	\$5,185	Playground Equipment	Disposed
	\$126	Other Costs	Unable to identify
FY99 IVB Park Improvements	\$2,648	Scoreboard	Disposed
FY00 IVB Park Improvements	\$4,000	Playground Equipment	Disposed
FY92 Community Park Improvements	\$6,698	Landscaping	Hurricane Damage
	\$1,658	Playground Equipment	Disposed
	\$18,000	Lighting	Replaced with new capital asset
FY99 Bowman Park Improvements	\$3,962	Other Costs	Unable to identify
FY00 Bowman Park Improvements	\$6,840	Other Costs	Unable to identify
	\$1,854	Playground Equipment	Disposed
FY01 Bowman Park Improvements	\$19,595	Landscaping	Hurricane Damage
FY01 Freedom Park Site Improvements	\$91,206	Landscaping	Hurricane Damage
FY02 Freedom Park Improvements	\$77,112	Landscaping	Hurricane Damage
FY02 Freedom Park Improvements	\$27,814	Fencing	Partially replaced with new capital asset
Total Impairments / Questioned Costs	\$604,479		

Two (2) capital assets of the sample of 62 capital assets (3%) in the equipment, vehicles, or other improvements category were no longer in use and deemed obsolete based on technology advancements. However, there was no indication or records showing that the

¹⁶ Purchase amount (acquisition cost) was used for questioned costs because we were unable to determine when the asset was impaired. The City was unable to provide documentation to support the capital assets had been adjusted for impairment, as required by GASB 42. Therefore, based on a lack of documentation, the purchase amount (acquisition cost) was used for the component of the capital asset that was impaired. The City confirmed the amounts used, the impairments for each capital asset component, and provided the reason for impairment.

¹⁷ When the capital asset reason for impairment is "replaced with a new capital asset", it means that the old asset was not removed from the City's capital assets records and the new capital asset was added as a separate asset; therefore, the prior disposed capital asset should be removed from the fixed asset records.

asset value was reduced to account for the impairment and the assets were shown as active in the City's fixed asset records.

Capital Asset Description	Questioned Cost ¹⁸
800Mhz Repeater	\$14,197
800Mhz Base Station - Motorola	\$19,744
Total Questioned Costs	\$33,941

The total amount of questioned costs is **\$638,420** and is based on the violation of GASB 42 requirements for impairments.

It appears that capital asset values are not reviewed on a regular basis for common impairment indicators.

Including capital assets on the accounting records that are obsolete, no longer in use, or impaired could result in the loss of time and effort by City staff trying to locate items. Additionally, when the capital assets are not properly recorded and updated timely, it leads to a misstatement of asset values in the financial statements. This error caused the capital asset value reported in prior year financial statements to be inaccurate.¹⁹

Recommendations:

- (5) **The City record the impairment of the capital assets that have been partially damaged or disposed.**
- (6) **The City impair or dispose of the obsolete capital assets.**
- (7) **The City develop and implement a process to periodically review and account for capital asset impairments.**
- (8) **The City follow the applicable written guidance for asset disposals when the disposal of a capital asset component occurs.**
- (9) **The Finance Department retrain custodian departments on existing written guidance related to capital asset disposal.**

Management Response Summary:

- (5) **The asset records will be adjusted after additional review to ensure the accuracy of the asset records, including asset values.**
- (6) **All assets that were identified as obsolete will be removed from the City's asset records.**

¹⁸ See footnote 16. Additionally, the City confirmed the amounts used and the obsolescence impairments for each capital asset.

¹⁹ See footnote 14.

- (7) Assets will be reviewed and considered for impairment during the annual physical inventory process or at any time an asset's service utility experiences a significant and unexpected decline.
- (8) The City will follow all applicable written guidance for disposal of all assets or components of assets.
- (9) Asset disposals will be covered in the planned training.

Finding (3): The City's fixed asset record incorrectly listed an Amphitheater as a capital asset.

GASB Statement 34 states that capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets that **are used in operations** and that have initial useful lives extending beyond a single reporting period.

The capital assets related to the FY00-04 Freedom Park Improvements were tested for existence based on the breakdown / reconciliation schedule provided by the City that was substantially reconciled to the City's fixed asset records. When we asked to see the "Amphitheater" listed on the schedule with an adjusted asset cost of \$157,028, we were shown an area that appeared to be two grassy mounds.



Grassy Mound Amphitheater Picture 1



Grassy Mound Amphitheater Picture 2

The City provided our office the original layout documentation for a proposed Amphitheater that would include a gazebo and concrete walkway. The proposed layout drawing indicates that an amphitheater was anticipated, but the proposed improvements were never constructed on the grassy mounds. The area was never used in operations for the intended purpose as an amphitheater.

This item was recorded in the City's fixed asset records. The City provided a reconciliation / breakdown schedule that does not appear to have been provided when the asset was initially recorded which led to insufficient information in the records to identify the asset (inadequate documentation) during the annual physical inventories. Additionally, regular review of the reconciliation / breakdown schedules in conjunction with the annual physical inventory would have revealed this issue.

The total amount of questioned costs is **\$157,028** and is based on the violation of GASB 34 that defines a capital asset as an asset ***used in operations***. The Amphitheater at Freedom Park was never used for operations²⁰ and was misclassified as a capital asset.

The City's fixed asset records and financial statements may be misrepresented if the capital assets are not properly reviewed prior to adding the potential asset to the fixed asset records.²¹

Recommendations:

-
- (10) The City determine if the asset will be used in future City operations or will be removed from the fixed asset records.**

²⁰ City staff confirmed the Amphitheater was not used for operations.

²¹ See footnote 14.

- (11) At the time of acquisition, the Finance Department should obtain the supporting documentation necessary to accurately record capital assets (e.g. an itemized breakdown of capital asset components, etc.).
- (12) Prior to adding a capital asset to the fixed asset records, the Finance Department should verify construction/acquisition with the department acquiring the capital asset.

Management Response:

- (10) After additional review, we determined that the asset component identified as an amphitheater includes other components that are part of a large pavilion that is used in operations; one component of the amphitheater is an earthen mount or berm; that component, with a value of \$22,038, will be disposed and removed from the City's asset records since it is not utilized in operations.
- (11) This issue has been resolved and we now have adequate itemized breakdowns for each asset. The asset identified in this finding was not originally recorded in sufficient detail in 2002 to identify it or determine if it was utilized in operations. The Finance Department implemented changes in 2005 to specifically address that issue and has been obtaining the necessary documentation to accurately record assets since that time.
- (12) This issue was addressed and resolved in 2005 and the Finance Department has been verifying construction and acquisition and accurately recording assets since that time. The Finance Department will continue to research ways to increase efficiencies in this process through communication and training to better verify construction/acquisition with the department acquiring the capital asset.

Finding (4): The fixed asset process was not in compliance with written guidance.

The City's Administrative Directive No. 17 "Fixed Assets"²² requires that each department's fixed asset coordinator must ensure that every asset acquired must be recorded on a Fixed Asset Acquisition / Transfer / Disposal (ATD) form within 10 days of acquiring a fixed asset. The ATD form documents the department director's authorization of the fixed asset acquisition and provides key asset information to the Finance Department. The Finance Department reviews the ATD form for accuracy against the

²² The City's Administrative Directive No. 17, issued on September 28, 1990 and last revised on December 9, 2008, refers to section 274.02, Florida Statutes. Although the City defines a "fixed asset" in the Directive as "nonconsumable items with a cost of \$750 or more at the time of acquisition and an expected life of greater than one year." Ordinance No. 2001-23 defines the term "fixed asset" to include real and tangible personal property owned by the City that is nonconsumable with a cost of \$750 or more at the time of acquisition and a normal expected life of one year or more. Section 274.02(1), Florida Statutes, defined the term "property" as "all tangible personal property, owned by a governmental unit, of a nonconsumable nature." Thus, the ordinance includes assets having an expected life of one year, but the Directive does not.

asset's purchase documentation before recording the asset in the City's fixed asset records.

We reviewed seven (7) capital assets from the existence testing sample, which were acquired within the last five (5) fiscal years,²³ for appropriate supporting documentation and to determine if the asset was recorded accurately in the City's fixed asset records. These capital assets were accurately recorded and properly supported with purchase invoices and other documentation. However, six (6) of the seven (7) assets did not have ATD forms (86%) that were completed within 10 days of acquisition as required by the administrative directive. One ATD form was missing and another ATD form was not properly authorized.

Additionally, we documented the capital asset process and confirmed its accuracy with the City. We then compared the process to the applicable written guidance. We noted the process was not in compliance with the following requirements in the written guidance:

- Fixed Assets Ordinance 2001-23 requires a physical inventory be completed upon change of custodians in a department, in addition to the annual physical inventory.
- Administrative Directive No. 17 requires a summary report of discrepancies be provided to the City Manager after the annual physical inventory and that the final fixed asset listing be published by November.
- The Purchasing and Contract Ordinance 2015-17 requires the Purchasing Agent (i.e. Finance Director) provide written approval for interdepartmental transfers and disposals of fixed assets.
- Administrative Directive No. 17 requires the IT Department Director's signature for interdepartmental transfers of computers.

It appears that the Finance Department does not review the ATD form for proper authorization. It is unclear why written guidance was not followed for the capital asset process.

Non-compliance with written guidance such as a City ordinance, administrative directive (i.e. policy), and procedure increases the risk of errors and ultimately the risk that asset information in the City's accounting system is not accurate and complete.

Recommendations:

- (13) The City comply with the applicable ordinance, administrative directive, and procedure for fixed asset activities, records, and documentation.**

Management Response:

- (13) The written guidance is being updated to better reflect the actual processes and additional training is planned.**

²³ The City's Administrative Directive No. 50 "Records Management Program" requires use of the State of Florida General Records Schedules. After review of the retention schedules listed on the General Records Schedule GS1- SL, we determined that the document retention requirements pertaining to asset valuation support is five (5) fiscal years.

Finding (5): Written requirements for the capital assets process are inconsistent.

The City has multiple documents used as written guidance related to the capital assets process which include: Purchasing and Contract Ordinance 2015-17, Fixed Assets Ordinance 2001-23, GASB Statement #34 Asset Capitalization and Depreciation Guidance²⁴, and Administrative Directive No. 17. We noted the following inconsistencies within the guidance:

- The Purchasing and Contract Ordinance 2015-17 requires the Purchasing Agent (i.e. Finance Director) provide written approval for fixed asset transfers. Administrative Directive No. 17 does not require written approval by the Purchasing Agent for transfers.
- The Purchasing and Contract Ordinance 2015-17 requires written approval by the Purchasing Agent (i.e. Finance Director) for all fixed asset disposals. Administrative Directive No. 17 requires the Finance Director to approve all disposals except lost or destroyed assets.

The written guidance was developed and approved at different times and by different individuals, which may have contributed to the inconsistencies. Additionally, regular review of the written guidance would have revealed inconsistencies.

Operations are more prone to error and user confusion when there are inconsistencies in the written guidance. This potentially decreases the efficiency of the process, as well as, increases the risk for errors and non-compliance. Written guidance should be consistent to provide the same guidance throughout each related document.

Recommendations:

- (14) The written guidance should be revised to be consistent throughout all written documentation related to the capital assets process.**
- (15) Staff should be trained on the revised written guidance.**

Management Response:

- (14) The Administrative Directive is the City's primary fixed assets policy and has been updated. It will be periodically reviewed to determine if further updating or clarification is needed. Finance Management is concurrently pursuing the removal of fixed assets policies from the City Code because the Code requires a more rigorous revisions process which can lead to discrepancies with the Administrative Directive.**
- (15) Staff will be trained on the revised written guidance.**

²⁴ See note 24.

Finding (6): Lack of written guidance regarding computer user accounts and access controls.

This audit included review of data reliability and integrity for the computer systems related to the capital asset processes. We found that the City has processes, but does not have written Information Technology (IT) policies which address computer user access, account set-up, and deactivation of accounts. The City's Human Resource Department does have a policy that initiates the process for account set-up, but there is no further guidance once the initial request form is completed.

Basic computer system controls include written IT policies that are clearly communicated, system change authorizations and approvals, and limiting access to authorized individuals based on their job duties. IT policies should establish uniform guidance for creating, modifying, and deleting user accounts. To ensure proper user access, the creation, modification, and deactivation of user accounts should require written authorization from Human Resources or other appropriate individuals.

The City's Human Resources Department handles the forms for new and terminated employees, and a Computer User Request Form is submitted to the IT Department by the Departments to create new user accounts based on the employee's job description, as well as, deactivate accounts. The City's IT Policies and Procedures address password security, internet use, remote networking, computer protection, virus protection and other topics; however, there is no written IT policy related to computer system user access or establishing the responsibilities and required forms.

A lack of written guidance can lead to inconsistencies in the user access / account set up and deactivation process, which could further lead to the risk of unauthorized or inappropriate access to the City's computer systems.

Recommendations:

- (16) The City develop and implement a written policy to provide consistent guidance including, at a minimum, the computer user accounts and access controls.**

Management Response:

- (16) The City's Information Technology (IT) division has already added a written policy to address user accounts setup and deactivation and access controls.**

**SUMMARY OF POTENTIAL FINANCIAL AND OTHER BENEFITS
IDENTIFIED IN THE AUDIT**

Questioned Costs

Finding	Description	Questioned Costs
1	Existence could not be confirmed	\$221,948
1	Existence – Unreconciled Amount	21,199
2	Impairment of capital assets	604,479
2	Obsolescence of capital assets	33,941
3	Capital asset not used for intended purpose	<u>157,028</u>
	TOTAL QUESTIONED COSTS	\$1,038,595

ATTACHMENT

Attachment 1 – City of Greenacres Management Response, page 18 – 21.

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the City of Greenacres staff for their assistance and support in the completion of this audit.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report to Director of Audit, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

ATTACHMENT 1 – CITY OF GREENACRES' MANAGEMENT RESPONSE

To: Megan Gaillard, Director of Audit
Office of the Inspector General

From: James McInnis, CGFO, Director of Finance

CC: Andrea McCue, City Manager

Subject: City of Greenacres Management Response
Draft Audit Report, City of Greenacres Fixed Assets

Date: August 15, 2018

Attached is our management response. Our response covers the six (6) findings and sixteen (16) recommendations noted in the draft report.

The response is provided by the approved date of Wednesday, August 15, 2018.

Please feel free to contact the Greenacres Finance Department at 561-642-2013 if you have any questions.

Statement regarding the audit and findings. A majority of the questioned costs were assets that were acquired before any of the current financial management practices were in place by the City. Many were large park improvement projects that were not recorded with sufficient detail to identify the individual assets during the annual physical inventory. The assets underlying the questioned costs were also 94.6% depreciated. The carry value of \$56,058 (original cost minus accumulated depreciation) represents less than half of 1% (0.38%) of the depreciable assets reported on the Statement of Net Assets. Under the City's current financial management, changes were implemented so that all assets are now described in sufficient detail to be accurately identified during the annual physical inventory.

The City appreciates the efforts, cooperation and feedback from the Inspector General's staff and will implement additional corrective actions based on recommendations noted in this audit to continue to enhance the controls for capital assets processing.

Finding (1): The existence of certain capital assets listed and capitalized in the City's fixed asset records could not be confirmed.

Recommendations:

(1) Capital assets that could not be located and capital asset purchase amounts that could not be verified should be found or written off the City's fixed asset records.

All assets under audit have been identified or the amounts that couldn't be tied to asset acquisitions will be written off.

(2) The City review and update the fixed asset records to ensure that all capital assets contain a clear description of each asset, including its current location.

Finance has resolved this issue and currently has clear descriptions including locations. Additionally, Finance is maintaining a separate record of the detailed assets listing for all assets that could not be properly identified as originally recorded.

(3) The Finance Department provide training to the custodian departments for providing proper capital asset records information and completing the physical inventory requirements.

The City's fixed assets policy was recently updated and training is planned for all departments. The training will include providing accurate records information and completing the physical inventory requirements. It must be noted, however, that most of the assets that could not be identified were not the result of the custodian departments providing inaccurate capital assets information, and most of the assets that were not identified could not have been properly identified during the annual physical inventory because there was a lack of sufficient detail in those asset records. Changes were implemented in 2005 to properly record all assets in sufficient detail for identification and future disposals or impairment.

(4) Capital assets that are acquired with grant funding should be noted as such in the fixed asset records to ensure that the grant agency is notified of disposal, destruction, destroyed, or otherwise impaired, to the extent required by the grant.

All assets acquired with grant funding will be noted as such.

Finding (2): The City did not properly impair capital assets, as required by GASB 42.

Recommendations:

(5) The City record the impairment of the capital assets that have been partially damaged or disposed.

The assets records will be adjusted after additional review to ensure the accuracy of the asset records, including asset values.

(6) The City impair or dispose of the obsolete capital assets.

All assets that were identified as obsolete will be removed from the City's assets records.

(7) The City develop and implement a process to periodically review and account for capital asset impairments.

Assets will be reviewed and considered for impairment during the annual physical inventory process or at any time an asset's service utility experiences a significant and unexpected decline.

(8) The City follow the applicable written guidance for asset disposals when the disposal of a capital asset component occurs.

The City will follow all applicable written guidance for disposal of all assets or components of assets.

(9) The Finance Department retrain custodian departments on existing written guidance related to capital asset disposal.

Asset disposals will be covered in the planned training.

Finding (3): The City's fixed asset record incorrectly listed an Amphitheater as a capital asset.

Recommendations:

(10) The City determine if the asset will be used in future City operations or will be removed from the fixed asset records.

After additional review, we determined that the asset component identified as an amphitheater includes other components that are part of a large pavilion that *is* used in operations; one component of the amphitheater is an earthen mound or berm; that component, with a value of \$22,038, will be disposed and removed from the City's asset records since it is not utilized in operations.

(11) At the time of acquisition, the Finance Department should obtain the supporting documentation necessary to accurately record capital assets (e.g. an itemized breakdown of capital asset components, etc.).

This issue has been resolved and we now have adequate itemized breakdowns for each asset. The asset identified in this finding was not originally recorded in sufficient detail in 2002 to identify it or determine if it was utilized in operations. The Finance Department implemented changes in 2005 to specifically address that issue and has been obtaining the necessary documentation to accurately record assets since that time.

(12) Prior to adding a capital asset to the fixed asset records, the Finance Department should verify construction/acquisition with the department acquiring the capital asset.

This issue was addressed and resolved in 2005 and the Finance Department has been verifying construction and acquisition and accurately recording assets since that time. The Finance Department will continue to research ways to increase efficiencies in this process through communication and training to better verify construction/acquisition with the department acquiring the capital asset.

Finding (4): The fixed asset process was not in compliance with written guidance.

Recommendations:

(13) The City comply with the applicable ordinance, administrative directive, and procedure for fixed asset activities, records, and documentation.

The written guidance is being updated to better reflect the actual processes and additional training is planned.

Finding (5): Written requirements for the capital assets process are inconsistent.

Recommendations:

(14) The written guidance should be revised to be consistent throughout all written documentation related to the capital assets process.

The Administrative Directive is the City's primary fixed assets policy and has been updated. It will be periodically reviewed to determine if further updating or clarification is needed. Finance Management is concurrently pursuing the removal of fixed assets policies from the City Code because the Code requires a more rigorous revisions process which can lead to discrepancies with the Administrative Directive.

(15) Staff should be trained on the revised written guidance.

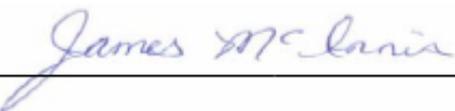
Staff will be trained on the revised written guidance.

Finding (6): Lack of written guidance regarding computer user accounts and access controls.

Recommendations:

(16) The City develop and implement a written policy to provide consistent guidance including, at a minimum, the computer user accounts and access controls.

The City's Information Technology (IT) division has already added a written policy to address user accounts setup and deactivation and access controls.



James McInnis, Director of Finance