



MEMORANDUM

City of Fort Smith
Internal Audit

TO: Board of Directors

FROM: Tracey Shockley

DATE: May 2015

SUBJECT: Executive Summary – Fixed Asset Audit

Background:

The City of Fort Smith uses a variety of assets to carry out its functions for the Citizens of Fort Smith. Based upon information provided by the Purchasing Department, the City maintains a fleet consisting of 538 vehicles valued at \$31,818,388; a fleet of 103 trailers valued at \$814,190; 205 pieces of equipment valued at \$10,900,633; and city property with a total insured value of \$240,000,000. The vehicle fleet averages an approximate 6,432,891 miles driven annually. These assets represent a significant public investment. Managing these assets includes making purchases, protecting them from loss or damage, and disposing of them appropriately when they have served their useful life or are no longer needed.

For accounting purposes, assets are categorized as capital or non-capital. Typically, the type of asset and its total cost determined how it was defined. For the most part, the City's accounting policies define capital assets as those that cost at least \$5,000 and have a useful life of at least one year. Non-capital assets are those tangible assets that are under \$5,000 and usually can be expensed with a useful life less than three years. The Finance and Purchasing Departments are responsible for tracking the City's assets to ensure they are accurately accounted for in its financial statements.

Although the cost of individual non-capital assets may be low, taken together they add up to a substantial investment. According to the Finance Department from June 2014 through April 2015, the City of Fort Smith spent \$138,679 for items described as office or operating supplies.

Scope of Work:

The purpose of this audit was to assess the City of Fort Smith capital and non-capital assets, specifically controls over the assets, both financially and by department. The objectives were to determine whether assets could be located, that the purchasing and the finance department had the correct VIN number, serial number, license plate numbers, and had the asset coded to the correct department. Additionally, the 2013 external audit report identified that the depreciation schedules contained assets purchased in prior years that were not being depreciated, resulting in necessary adjustments to the financial statements.

CONFIDENTIAL: Not to be distributed without prior permission of Internal Audit Department.

Interviews were conducted with different City department personnel. A review of policies and procedures was performed to assess the overall procedures for adequacy and, where necessary, recommend improvements to avoid further reporting discrepancies.

Conclusion:

After conducting the interviews, identifying assets within the different departments, and reviewing the reporting procedures, it was determined that:

- 1) The Purchasing or Finance Department does not have an adequate Fixed Asset Software Program, and the process (Lotus 1 2 3) being used currently does not interface with the current financial system software.
- 2) A majority of the departments do not maintain an on-site based inventory, complete with annual updates.
- 3) The Purchasing Department does not have fixed asset policies and procedures
- 4) Items that are missing are not researched or reported.
- 5) Assets are not etched with the VIN number, serial number, identifying number, or asset tags were removed.
- 6) Assets no longer in use are not disposed of properly, auctioned, or scrapped.
- 7) Disposed or auctioned assets were still listed on the City's inventory list.
- 8) Assets are not listed with uniform description for all like items.
- 9) Some City departments left keys in vehicles while not being utilized.
- 10) All purchases do not process through the Purchasing Department, as well as all ITS items are not approved by the ITS Department before it is purchased.
- 11) The Purchasing Department does not have a location to store fixed assets or to store items for auctions.
- 12) Policies and procedures have not been updated and communicated to the Department Heads for employees driving City vehicles home.
- 13) Purchasing Department manual has not been updated since 2008.
- 14) The City does not utilize preferred vendors for purchases.

The following are observations noted during the audit of fixed assets:

- A) Vehicles, equipment, trailers, and other assets should be purchased based upon product information, warranty, repair costs, vendor's ability to repair or replace the asset. Additionally for assets under warranty the location of the repair/service center should also be considered.
- B) The City does not review each year the driving record for employees who drive City vehicles.
- C) Currently the City employees who are randomly alcohol and drug tested are employees who drive for the City that holds a CDL or is a driver for the Transit Department.
- D) Utilizing the local school district for print shop and other contractual services.
- E) Utilizing Govdeals.com for assets to be auctioned.
- F) The City does not utilize the ability to make bulk purchases for items like paper towels, toilet paper, etc....
- G) The City does not have a specific supplies list for purchasing.
- H) The Street Department, Transit Department and the Parks Department currently does not have a maintenance tracking software.