



# MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT  
Internal Audit Division

## INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager  
VIA: Kathie G. Brooks, Budget and Performance Improvement Director   
FROM: James J. Sutter, Internal Auditor 

DATE: May 3, 2011  
AUDIT: Fixed Assets  
PERIOD: October 1, 2007, through June 30, 2009

This report is the result of an audit performed on the City's fixed/capital assets in accordance to our Audit Plan.

### INTRODUCTION

The City's fixed/capital assets are segregated into and recorded by the Proprietary and Governmental funds holding the assets. Proprietary funds are further segregated into Enterprise and Internal Service funds. Enterprise funds, also referred to as Business-Type activities for financial reporting purposes, consist of Water and Sewer, Storm Water, Sanitation, Convention Center Complex, and Parking. Internal Service funds consist of Fleet Management, Property Management, Central Service, Risk Management, and Information Technology. Governmental funds include General Fund functions/departments associated with City government, such as Mayor and City Commission, Administrative Support Services, Public Safety, Public Works, Economic Development and Cultural Arts, etc. For financial reporting purposes, Governmental and Internal Service funds are also referred to as Governmental activities.

The Finance Department is responsible for the accounting for the City's fixed/capital assets; ensuring proper internal controls are established for recording of the transactions, transfer, and disposal of assets; and maintaining proper accountability and records for these assets. However, it is the responsibility of each department director or manager to identify and safeguard the assets assigned to their respective departments. The Finance Department has developed Fixed Assets Policies and Procedures, establishing the guidelines to be followed for citywide recording of assets. Once a year, the Finance Department provides all departments with a listing of assets in their custody as recorded in Eden's Fixed Assets system. Each department is then required to perform a physical inventory of these assets and advise the Finance Department of any deletions or transfers not reflected in the system. At the present time, only fixed/capital assets held by Proprietary fund departments are being required to perform this physical inventory.

Fixed/capital assets are defined as property of a non-consumable nature with a life expectancy of one year or more and a value of at least \$500. These fixed/capital assets include land, buildings and structures, the City's infrastructure, construction in progress, permanent improvements, vehicles, miscellaneous equipment, furniture and fixtures, etc. Most of the record keeping for the City's fixed/capital assets is maintained in the Fixed Assets system by the Finance Department. At the commencement of our audit, as of June 30, 2009, there were approximately 11,200 active assets recorded in the Fixed Assets system maintained on the City's Eden Enterprise system. Other records, such as most of the City's existing infrastructure (street, alley and sidewalk portions; street lighting; curb/gutters, etc.), as well as construction in

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progress projects are maintained manually on spreadsheets.

New assets are entered into the Fixed Assets system upon receipt of appropriate support documentation. A unique asset number is automatically assigned by the system at this time. Construction in progress projects are added to the Fixed Assets system upon completion and receipt of all expenditures associated with the project; then they are marked as closed on the spreadsheet where these records are kept by the Finance Department.

The disposal of surplus stock assets is usually done via public auction, which is the responsibility of the Procurement Division. Each department determines the usefulness of their assets and communicates to the Procurement Division when these assets are obsolete, inefficient or not economical to maintain. Once the assets are disposed of, the Finance Department is to be informed along with proper support documentation and the Fixed Assets system is updated with the necessary entries to reflect the retired status of the asset.

Depreciation of fixed/capital assets held by Proprietary funds is calculated and posted to the general ledger on a quarterly basis, while depreciation of assets for Governmental funds is calculated and posted at year end.

The Finance Department reconciles asset balances and accumulated depreciation of fixed/capital assets held by Proprietary funds at the end of each quarter and fiscal year end, to include year-to-date additions, deletions, and any other adjustments necessary. Currently, balances for fixed/capital assets held by Governmental funds are reconciled only at the end of the fiscal year to account for additions, deletions and adjustments. These reconciliations are used as a source for preparation of year-end financial reporting for Governmental and Business-Type activities on the City's Statement of Net Assets in the Comprehensive Annual Financial Report (CAFR). The following represents the City's fixed/capital asset balances:

CAPITAL ASSETS	<sup>(1)</sup> Balances as of September 30, 2008	<sup>(2)</sup> Balances as of June 30, 2009
Land	\$ 70,106,624	\$ 70,106,625
Construction In Progress	\$ 413,814,125	\$ 438,215,127
Buildings and Structures	\$ 303,423,735	\$ 301,672,181
Permanent Improvements	\$ 130,026,644	\$ 172,364,617
Machinery and Equipment	\$ 161,731,929	\$ 158,859,803
Infrastructure	\$ 215,077,252	\$ 215,413,780
Capital Assets Subtotal	\$ 1,294,180,309	\$ 1,356,632,133
Less Accumulated Depreciation	\$ (400,171,375)	\$ (405,472,213)
<b>Net Capital Assets Total</b>	<b>\$ 894,008,934</b>	<b>\$ 951,159,920</b>

**Source:** <sup>(1)</sup> Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended September 30, 2008  
<sup>(2)</sup> Property, Plant & Equipment/Accumulated Depreciation reports for the Quarter Ended June 30, 2009

Over the past several years considerable progress has been made in the processing and accounting of the City's fixed assets. That process has been a work in progress covering several changes made in the software systems, including limited resources being directed to the fixed asset process, and improvement made in departmental communication for additions and deletions of fixed assets.

## OVERALL OPINION

As a result of our testing during the audit, we were able to assess the magnitude and complexity that the fixed/capital assets' function represents to the Finance Department and, in general, to the City of Miami Beach. We acknowledge that this function has gone through various phases and system conversions, and noted that considerable progress has been accomplished during the past two years. However, continuing efforts remain in order to further improve this function and the City's fixed/capital asset records. Areas that were in need of improvement are summarized below:

1. The Finance Department prepares reports of assets and accumulated depreciation balances for Proprietary funds at the end of each quarter and fiscal year end and a similar report for Governmental fund assets is prepared at fiscal year end. Reconciliations are not signed off by the preparer and reviewer, and supporting documentation could be better maintained for subsequent retrieval.
2. Some fixed/capital assets sold through public auction have not been retired from the Fixed Assets system, and either remain active or were never recorded in the system.
3. The threshold value amount being used to determine if an asset qualifies as a fixed capital appears to be too low, considering the time/benefit required for accountability of these assets.
4. Fixed Assets Policy and Procedures need updating to reflect current practices as it relates to the identification of new fixed/capital assets not consistently done with property tag numbers and forms and procedures currently used for purchases of new fixed/capital assets do not correspond to the described requirements. These procedures should be shared with user departments.
5. Annual physical inventories of fixed/capital assets have not been required for assets held by Governmental fund areas. Several Proprietary fund areas are also not complying with the request to perform physical inventories and there is no follow up of non-complying areas.
6. The Fixed Assets system is not properly editing acquisition dates during data entry, since it is allowing recording purchase dates in the future.

Additional details regarding the above mentioned and other areas in need of correction have been provided on the Findings, Recommendations, and Management Responses section of this report.

## PURPOSE

The purpose of this audit was to ensure that the City's assets are properly accounted for by reviewing records maintained in the Fixed Assets system, as well as manual records, general ledger information, quarterly asset reconciliation reports, and fiscal year end reports.

## SCOPE

1. Evaluate the adequacy of, and adherence to established policies and procedures for fixed assets to ensure the proper management of the City's assets.
2. Verify that the City's assets are uniquely identified and properly accounted for.
3. Determine that fixed asset information is accurately recorded in the City's Fixed Assets system and capitalized according to established policies and procedures
4. Confirm that proper documentation is on file to support additions, disposal and retirement of fixed asset transactions.
5. Verify accuracy of fixed asset records to the City's Fixed Assets system and financial reports.

## FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Finding – *Supporting Documentation for Reconciliations of Fixed/Capital Assets*  
The Finance Department prepares a report of fixed/capital asset balances for all Proprietary funds at each quarter end and fiscal year end. This report, PP&E/Accumulated Depreciation (PPE/AD), summarizes asset and accumulated depreciation balances by asset classification. A similar summary report of fixed/capital assets held by the Governmental fund is prepared, but only at the end of the fiscal year in preparation of the Comprehensive Annual Financial Report (CAFR). Both reports include cumulative balance changes from additions, deletions and adjustments to the respective funds during the period/year and the resulting balance at the end of this period. However, the Finance Department does not maintain copies of all supporting reports as of the quarter end or fiscal year end that would allow proper documentation of the reconciliation process.

### Recommendation

Reconciliations should be reviewed by someone other than the preparer and signed off by both reviewer and preparer. Supporting documentation for balances and information included in the reconciliations should be better maintained to allow for adequate review. We also recommend that electronic copies of quarter end and fiscal year end reports be maintained for future reviews of these balances.

### Management's Response

The Finance department currently prepares reconciliations for the Enterprise funds and Internal Service funds, in keeping with the full accrual method of accounting, for these funds. The reconciliations are prepared showing the beginning balances, additions, deletions, adjustments and ending balances. It also includes depreciation expense and the net book value of the accumulated assets in each of these fund types. These reports reconcile the Fixed Asset system balances to the General ledger balances. Quarterly reconciliations are currently submitted to the Chief Accountant for review and approval. Supporting documentation including electronic copies of reports will be maintained with the reconciliation.

Governmental fund types, which include the general, special revenue and capital project funds do not carry capital assets on the balance sheet or record depreciation and as such are not reconciled or reported in the same manner as mentioned above. Reconciliations for these fund types are completed on an annual basis to ensure proper financial reporting.

2. Finding - Auctioned Vehicles

We reviewed the assets sold by the Procurement Division through public auctions on 6/28/08 and 9/27/08, to ensure documentation was available to support the disposal of these assets and verify they were properly retired from the Fixed Assets system. Since auctioned items were mostly vehicles from the City's fleet, as detailed on Fleet Management's Deletions from Inventory listing, this group of assets (identified with an asset number) was used as our population for testing, with the following results:

- a) We selected samples of vehicles sold from a 6/28/08 auction (15 of 113) and from a 9/27/08 auction (10 of 49). We verified that 13 of the 15 from the 6/28/08 auction and all from the 9/27/08 auction had their status changed to "retired" in the system. However, from our 6/28/08 sample we found one vehicle with asset #0010033 that remained in "active" status; this vehicle has also continued to be depreciated after being sold. Another vehicle (serial # 1FMZU72K43UB36398) does not appear as active or retired in the system.
- b) There was another group of 16 vehicles/equipment (without asset numbers) on Fleet Management's Deletions from Inventory listing dated 6/28/08. We selected 7 of the 16 to search the Fixed Assets system by tag #, VIN or vehicle description, but could not locate any of these items on the City Fixed Asset system. We were informed by Fleet Management and Finance Departments that most of these vehicles/equipment belonged to RDA departments 1122 and 1124.

Recommendation

We recommend that the status of vehicle with asset #0010033 be changed to "retired" to properly reflect that it was sold. The depreciation expense posted after the vehicle was sold should be reversed accordingly. We also recommend that all fixed/capital assets held by the City, such as the ones reported above, regardless of the area or fund are recorded in the Fixed Assets system for proper accountability.

Management's Response

The status of the vehicle mentioned above was changed to retired and the reversal was done accordingly. Subsequent to the audit, , all fixed assets including RDA funded for fiscal year 2008 were entered and accounted for in the fixed assets module.

3. Finding - Low Threshold Amount for Fixed/Capital Assets

The Fixed Assets Policy and Procedures defines a fixed/capital asset as one with a value of \$500 or more. We obtained a listing of currently "active" assets acquired during the audit period (10/1/07 – 6/30/09) to review compliance with this requirement; a total of 1,381 assets were identified. These assets were grouped into four cost ranges, as shown in the table below, to determine the feasibility of the established \$500 threshold. We discussed the current threshold amount with the Finance Manager responsible for fixed/capital assets, who indicated that an increase of this threshold is under consideration. Using \$2,500 as a potential threshold amount <sup>(3)</sup>, the table shows the breakdown of assets purchased during a 21-month period and capitalized under \$2,500 to be 47% of the total number, while their cost is less than .5% of the total amount. From a time/benefit perspective, assets capitalized under \$2,500 require close to 50% of the labor utilized by Finance and all other departments involved in the process, but the cost of these assets does not justify the time and effort spent.

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Current Cost Range	Number of Assets	% of Number	Asset Totals	% of Cost
Less than \$1,000.00	212	15 %	\$ 149,563.03	.07 %
\$1,000.00 to \$2,499.99	435	31 %	\$ 782,599.02	.39 %
\$2,500.00 and over	734	53 %	\$ 199,984,288.67	99.54 %
	1,381		\$ 200,916,450.72	

(3) 'Accounting for Capital Assets-A Guide for State and Local Governments' published by Government Finance Officers Assoc. states "no government, regardless of size, should ever have a capitalization threshold of less than \$5,000" (pp. 118-119).

Recommendation

The Finance Department should consider an increase in the fixed/capital asset value threshold for capitalization. The threshold amount used in our table only represents what we consider to be a reasonable amount for capitalization purposes. A threshold amount increase should also alleviate the volume of work currently phased by Finance Department staff responsible for this function, and would allow them to dedicate more time to continue their cleanup effort of fixed/capital asset records.

Management's Response

Currently the Finance Department and Administration are discussing increasing of the fixed/capital asset value threshold.

4. Finding – Policy and Procedures need updating to reflect current practices:

The Fixed Assets Policies and Procedures reflect the following practices no longer utilized by the City.

- a. Procedures states for the acquisition of assets that the unique asset number assigned by the Fixed Assets system is the same as the CMB property tag number to be physically placed on these assets. However, there is no similarity between asset numbers assigned by the system and the tag numbers placed on these assets. It was noted that property tag numbers are not used consistently by all areas, and that duplicate tag numbers exist for totally unrelated assets. We selected a sample of equipment purchased from 10/1/07 to 6/30/09 using Information Technology (IT) as our sample area, due to the volume of purchases they make. This resulted in 292 of the 648 items purchased during the audit period that do not have property tag numbers recorded on the system, although IT places property tag numbers on their equipment. It should be noted that the assignment of property tag numbers is under the control of the departments making the purchases, not the Finance Department's fixed assets function.
- b. Twenty new fixed/capital assets added to the Fixed Assets system between 10/1/07 and 6/30/09 were selected for our review. Support documentation required by the Fixed Assets Policy and Procedures was requested from the Finance Department. The documentation provided was evaluated for evidence of established review processes, approval, and payment prior to adding new assets to the Fixed Assets system. Although our review found this documentation to reasonably support the purchase of the new assets, in general the documentation maintained did not fulfill all that is required according to the current policy and procedures. We were informed by the Finance Department that current acquisition procedures and forms are not as described in the policy and procedures, since forms, review and approval processes are currently done online.

Recommendation

- a. The Finance Department should review the requirements for property tag numbers, and whether the Fixed Assets system "asset number" should be the same as the property tag number. We also recommend that Finance determines how the tag number will be assigned, and whether the function of distributing the property tags should be centralized. Either way, there should be a method to tie the physical asset to the fixed asset system. The Fixed Assets Policy and Procedures should also be revised accordingly.
- b. The acquisition requirements and procedures for new assets should be reviewed and updated according to current practices for purchases of fixed/capital assets.

Once completed, these procedures should be shared with user departments to ensure compliance.

Management's Response

The process will have to be reviewed and analyzed to see the best way to properly tag the assets. It is difficult to have the tag number and the asset number in the fixed Asset system be the same due to the fact that the numbers in the system are sequential. The current system has the ability to track a separate tag number. The current procedures will be reviewed and updated accordingly and distributed to user departments.

5. Finding - Year-End Records of Physical Inventories:

The Fixed Assets Policy and Procedures states that once a year each department will be instructed to conduct a physical inventory of the assets assigned to their area, according to the list provided by the Finance Department. Their most recent annual physical inventory request was initially sent on 3/17/09 to areas of Proprietary funds, with a deadline for physical inventory results by May 1<sup>st</sup>. A second request was sent on 5/15/09, since physical inventory results did not show a good response rate (4 of 9), but additional follow-up of not-responding areas was not pursued. Additionally, the last physical inventory request for Governmental fund departments was sent April 2007. We were informed that physical inventories of Governmental fund assets were not an annual initiative after 2007 due to a decision of the Finance Department to limit these requests to Proprietary fund areas. As of 6/30/09, assets for the Governmental fund totaled \$467,623,654, representing 49% of total net capital assets, and Proprietary funds totaled \$483,536,266, representing the other 51%.

Recommendation

Policy for physical inventory of fixed/capital assets for Governmental funds should be established to perform an inventory on a rotational basis to verified assets based on a stratification of dollar value and/or risk of loss. Furthermore, an effective follow-up strategy should be established for the next scheduled physical inventory, to ensure all departments/areas of the City respond to this annual initiative in a timely manner. Proper accountability of the City's fixed/capital assets may be lessen unless there is physical verification of these assets.

Management's Response

The Finance Department will implement a stratified sampling inventory format where high volume and high risk departments are required to perform an annual fixed asset inventory review while other departments are required to perform periodic inventory reviews. These

procedures will be formalized and added to the department's policies and procedures.

6. Finding - Incorrect Acquired Dates in Fixed Asset System

During our review of fixed/capital assets acquired during the audit period in the Fixed Assets system, we found the two assets listed below with an incorrect date of acquisition. In both instances the error seemed to occur during input, and the Fixed Assets system editing controls did not reject/prevent a date in the future from being accepted as the date of acquisition. These dates were corrected during the audit by retiring the assets with the incorrect dates and creating new asset records with the correct acquisition dates.

Asset #	Description	Acquired Date Entered	Correct Acquired Date
0015963	2007 TOYOTA PRIUS TAG# 1586	3/26/2207	3/26/2007
0019057	ABA XTREME HP IIIA PROTECTIVE VEST	7/24/2009	7/24/2008

Recommendation

Although the Finance Department took the necessary corrective action for this finding, they should report to the Eden system vendor the lack of proper editing by the system to prevent an invalid date from being accepted during data entry.

Management's Response

The system error was corrected by Eden. The system no longer accepts acquire dates outside the current period.

**EXIT CONFERENCE**

An exit meeting was held to discuss the audit report and to solicit management responses to the findings noted above. Attendees were Georgina Echert, Sara Patiño, James Sutter and Luis López, Internal Audit Contractor. Subsequent meetings were held to discuss the findings and present further substantiation to the findings. Management responses were received shortly thereafter. All were in agreement with the contents of this report.

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Audit performed by Luis López, Internal Audit Contractor

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cc: Patricia D. Walker, Chief Financial Officer  
Georgina P. Echert, Assistant Finance Director  
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