

November 1, 2007

Internal Audit Report 2007-11
Fixed Asset Accountability
Anchorage Fire Department

Introduction. Municipal Policy and Procedure (P&P) 24-13, *Fixed Asset and Infrastructure Accountability*, states that fixed assets are “. . . Items valued greater than \$100 with an expected useful life exceeding one year, typically purchased from the 5000 (Capital Outlay) accounts.” It is the Municipality’s policy to properly record the acquisition of fixed assets; to maintain accurate fixed asset records whether purchased, donated, or constructed; to safeguard the assets against loss; and to present accurate information on reportable fixed assets in the Municipal Comprehensive Annual Financial Report. For purposes of financial reporting, fixed assets are classified as either reportable or non-reportable, depending on the acquisition cost. Both reportable and non-reportable fixed assets are recorded in the PeopleSoft Asset Management Module (PeopleSoft). Computer hardware and software fixed assets with an acquisition price or donated value between \$100 and \$1,000 are recorded as non-reportable, and as reportable if greater than or equal to \$1,000. All other fixed assets are recorded as non-reportable with an acquisition price or donated value between \$100 and \$5,000, and as reportable if greater than or equal to \$5,000.

Objective and Scope. The objective of this audit was to determine if the Anchorage Fire Department (AFD) complied with P&P 24-13 in regards to reportable and non-reportable fixed assets. Our audit included a review of supply-related accounts to determine if there were any fixed assets charged to these accounts. We reviewed and compared the physical inventory of technology-related fixed assets to PeopleSoft records. We also reconciled an internal inventory of vehicles and vehicle-related equipment to PeopleSoft fixed asset records.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of

accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during June through July 2007. The audit was requested by the Administration.

Overall Evaluation. AFD has not complied with P&P 24-13. Specifically, AFD had not performed an annual physical inventory of fixed assets since 2000 and lacked sufficient controls to prevent the loss or misappropriation of fixed assets. In addition, we found that some fixed assets were coded to the wrong general ledger accounts. We also found that the Municipality's Purchasing Department was not notified of disposed fixed assets. Finally, we identified five Municipal vehicles that were not clearly marked as fire response vehicles or Municipal-owned vehicles.

FINDINGS AND RECOMMENDATIONS

1. Annual Inventory Not Performed.

- a. Finding.** AFD had not performed a department-wide annual physical inventory of fixed assets since 2000. Although some fixed assets have been inventoried, such as technology-related assets, these inventories were not fully reconciled to PeopleSoft fixed asset records. P&P 24-13 states that, "Annually, each Agency Fixed Asset Custodian will perform a physical inventory of all Agency fixed assets." P&P 24-13 further requires that the results of the reportable and non-reportable fixed asset inventories should be reconciled to the fixed asset records maintained in PeopleSoft. A physical inventory is essential to ensure the accuracy of the PeopleSoft fixed asset listing and the Municipal Comprehensive Annual Financial Report. In addition, if fixed assets are not adequately tracked and inventoried, loss or misappropriations may go undetected.
- b. Recommendation.** The Fire Chief should ensure that AFD performs an annual physical inventory of all fixed assets as required by P&P 24-13.

- c. **Management Comments.** Management stated, “AFD will have a physical inventory of all fixed assets (including Chugiak and Girdwood Fire Departments) completed by December 31, 2007. AFD will perform an annual inventory of all fixed assets during the fall months to comply with P&P 24-13. As of October 26, 2007, AFD has inventoried all of the Anchorage fire stations. AFD will inventory the AFD shop, training center, fire prevention office, HQ, station 71, the video center and the volunteer departments during the month of November 2007.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Fixed Asset System Lacked Sufficient Controls.**

- a. **Finding.** AFD’s fixed asset system lacked sufficient controls. As a result, losses of fixed assets could go undetected. We found the following problems:
 - 1. ***Fixed Assets Not Recorded*** - We identified numerous fixed assets not recorded in PeopleSoft. For example, we found 455 technology-related fixed assets that were not recorded in PeopleSoft. The items included computers, servers, flat panel and CRT monitors, laptops and a docking station, laser printers, color printers, and projectors. Moreover, we identified 23 vehicles and vehicle-related fixed assets that were not recorded in PeopleSoft. These fixed assets included vehicles, ambulances, snow machines, trailers, an air boat, a forklift, a ski sled, slide-in units, and generator sets.
 - 2. ***Fixed Asset Records Not Updated*** - We found 11 technology-related fixed assets, which reportedly had been disposed of, recorded in PeopleSoft as active fixed assets. In addition, we identified nine vehicles and vehicle-related fixed assets with tag numbers that did not match PeopleSoft records.

3. ***Fixed Asset Records Not Reconciled*** - The physical inventory of technology-related fixed assets conducted in November 2006 by AFD's Data Systems Division was not reconciled with records contained in PeopleSoft. We reconciled the inventory to PeopleSoft and identified 136 fixed assets recorded in PeopleSoft that were not found during the physical inventory. According to P&P 24-13, the results of the reportable and non-reportable fixed asset inventory ". . . should be reconciled by the Agency Fixed Asset Custodian to the listing of fixed assets from the PeopleSoft Asset Management Module."
4. ***Duplicate Fixed Asset Records*** - We identified 15 technology-related fixed assets that had duplicate records in PeopleSoft. These assets included printers, computers, laptops, monitors, servers, and a copier.
5. ***Fixed Assets Improperly Tagged*** - AFD's fixed assets were not properly tagged. We identified 68 technology-related fixed assets on the physical inventory list compiled by AFD's Data Systems Division that did not reference any Municipal bar code tags and some items that had duplicate tags. Moreover, we identified seven vehicle-related fixed assets, such as tenders and trailers, that had no visible Municipal vehicle numbers. According to P&P 24-13, "The Fixed Asset Custodian within each agency will . . . Obtain bar-code tags from the Fixed Asset Accountant for all reportable and non-reportable fixed assets. Affix one tag to each fixed asset The tags should be placed so that they may be easily read and scanned."
6. ***Fixed Assets Not Located*** - According to AFD, they could not locate numerous fixed assets listed in PeopleSoft records. Specifically, 13 vehicle-related fixed assets could not be located. These items included a pumper, trailers, boats, a pump unit with a slide-in, a wheel dolly, motors, brush units,

and a Motorola mobile. Moreover, we identified 67 technology-related fixed assets that were not located and, thus, marked as either missing, not found, or had the “inventory status” field as blank.

b. Recommendation. The Fire Chief should ensure that AFD complies with the following requirements of P&P 24-13:

1. Reconcile the physical inventory to the inventory records in PeopleSoft.
2. Research or investigate all inventory variances and file a police report if items appear to be stolen.
3. Correct inventory records in PeopleSoft to reflect the current on-hand balances and ensure the records are properly maintained to accurately show on-hand quantities.

Corrective actions were begun by AFD’s management during the audit to correct these deficiencies.

c. Management Comments. Management stated, “AFD has started reconciling the physical inventory to the PeopleSoft records. AFD recognizes that due to the high level of discrepancies between the physical inventory and Peoplesoft records, the full reconciliation might take six months to complete. AFD appreciates the assistance MOA Finance and Internal Audit has give AFD Finance in assisting in the reconciliation process.

“AFD is in the process of revamping its purchasing and inventory accountability systems. In response to the Audit, AFD has undertaken two pilot inventory projects. AFD has partnered with the University of Alaska Anchorage Logistics Department

to provide an opportunity for UAA students to study the AFD equipment procedures as a student project. In addition, AFD is working with NANA Corporation to install an RF/wireless inventory system at Fire Station 4 as a pilot project. This pilot project will test the usability of having a wireless system track fixed assets on the fire apparatus, in the station and for tracking EMS supplies. If successful, this system will be implemented in all stations, pending funding availability. While not a fixed asset issue, AFD has recognized the value of having a shop parts/supplies inventory system. AFD will implement a shop supply inventory system in 2008.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Fixed Assets Coded to Wrong General Ledger Accounts.**

- a. **Finding.** We found 30 fixed assets, totaling \$101,802, coded to the wrong general ledger accounts. As a result, there is no assurance that fixed assets are being properly tracked and reported. According to P&P 24-13, “Each agency head will . . . Ensure that all purchases of fixed assets are coded to the proper general ledger accounts on the purchasing documents.” Specifically, we found the following deficiencies:
1. Two reportable and 22 non-reportable assets, totaling \$11,898, were coded to accounts such as operating and computer supplies instead of being coded to fixed asset accounts.
 2. Office furniture, costing \$7,156, was coded as a non-reportable fixed asset instead of being coded as a reportable fixed asset.
 3. Five reportable fixed assets, totaling \$82,747, were recorded to account 5411 as computer hardware instead of being recorded to account 5401 as

machinery and equipment. These assets included a rescue boat, a rescue tool, a decontamination shelter, and brush units.

- b. **Recommendation.** The Fire Chief should ensure that all purchases of fixed assets are coded to the proper general ledger accounts.
- c. **Management Comments.** Management stated, “AFD Purchasing will be revising the current system of coding fixed assets.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Purchasing Department Not Notified of Disposed Fixed Assets.**

- a. **Finding.** AFD did not follow proper procedures when disposing of fixed assets. Mayor’s Directive 2, *Surplus Property*, requires that all surplus property be reported to the Purchasing Department. We found that the Fire Department did not go through the Purchasing Department to surplus technology equipment. Since 2005, 314 technology-related fixed assets were allegedly disposed of that were not suitable for reuse.
- b. **Recommendation.** The Fire Chief should ensure that the Purchasing Department is not circumvented when disposing of its surplus fixed assets.
- c. **Management Comments.** Management stated, “The AFD Data Systems Unit has been advised of the municipal purchasing procedures and will follow the surplus property directive.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Unmarked Official Vehicles.**

- a. **Finding.** We identified five Municipal vehicles that were not clearly marked as fire response vehicles or Municipal-owned vehicles. Only two of the five vehicles were painted red and none had visible labels or markings affixed to them, indicating they were official Fire Department vehicles. Also, according to Internal Revenue Service (IRS) Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, the value of unmarked fire vehicles provided by employers to employees for commuting between home and work is a taxable benefit.
- b. **Recommendation.** The Fire Chief should ensure that AFD's vehicles are clearly marked with appropriate insignia or report the benefit to the Payroll Department as taxable income.
- c. **Management Comments.** Management stated, "AFD has affixed AFD numbers and decals to the vehicles which already had low profile emergency light-bars and radios."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on September 20, 2007.

Audit Staff:
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