Capital Asset Headaches: Common Deficiencies and How to Avoid Them

MAY 21, 2017  1:30 – 2:20 pm

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Capital Asset Headaches: Common Deficiencies and How to Avoid Them

Government Finance Officers Association
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Capital Asset Headaches: Common Deficiencies and How to Avoid Them

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Introduction and History

Reference quote of e-mail from a county in the Midwest and later PPT slide on allocation of capital asset accounts:

“... our capital assets were a mess and we had a $100 capitalization threshold. With a little guidance we created a new asset policy and put a plan of action in place – this made a seemingly monstrous task simple, manageable, and attainable.”
1. Dated Policy

- Existing policy is too long and complicated
- Policy is not clear
- Policy is difficult to understand
- Policy may have been ‘borrowed’ from other government
- Document needs definitions and examples
- Capitalization threshold and Recommended Practice and wording ... ‘no less than’
2. Dated Property Record

- GFOA Recommended Practice says ‘take a look at integrity’ at least every five years
- Database contains unreported retirements (more later)
- Database is missing previously unrecorded assets?
- In need of editing and possible need to re-classify assets
- Difference between monitoring and updating is not understood
3. Departmental Involvement

- All departments have capital assets
- Capital assets are central and necessary to provide governmental services
- Policy is not concise and clear
- Policy is not communicated to and understood by the departments
- Departments are crucial to initial implementation
- Departments are crucial to annual updating
4. No maximization of efforts or Top-Down Approach

- Have never attempted high level analysis of $ and %
- Abbreviated analysis of account and classification totals
- Per GASB Statement No. 34 and where is the money?
- Good examples in solutions to follow
5. Unreported Retirements

- ... get them out of the property record!
- Risk of overstated balances
- Reflection on management
- Can reflect on integrity of property record
- Can lead to confusion
6. No Control of Minor but Sensitive Items at Department Level

- Items cannot be controlled centrally
- As stated, will only be possible at department level
- Refer to GFOA Recommended Practice on ‘control of minor but sensitive items’
- Already being done by some departments (IT, Fire, Police) and needs only to be formalized?
7. No definitions or written examples of capital, expense, improvement, repair, maintenance

- Current policy is a ‘vague’ document
- Often ‘boilerplate’ with no real clarity
- Often no definitions – capital asset, expense, improvement, repair/maintenance
- Often no examples – capital asset, expense, improvement, repair/maintenance
- Usually no examples (additions, retirements, partial retirements)
8. Inadequate or Non-existing Information on Construction-in-Progress

- Often no reporting
- Many questions regarding capital v. expense
- Questions on elements of historical cost, asset lifing, date of acquisition
- Either too much or too little detail
9. No Schedule or Timeline for Reporting Capital Assets at Year End

- Often wait until end of the year
- Often think about capital assets after auditor suggestion
- Too late
- No timeline translates to problems
- Result leads to hurried and incomprehensive data gathering
How to Avoid Deficiencies - Possible Solutions

- High level analysis and planning
- Start with new policy and new procedures
- Procedures to spell out the who, what, where, when, how, and why of the process
- Strive for simplicity (per Yogi Berra – ‘don’t let the perfect get in the way of the good’)
- Be honest about capabilities to implement and to annually update
- Next 19 slides delineate solutions
1. New Capital Asset Policy and Procedures

- Simple
- Short
- Understandable
- GFOA Recommended Practices on capitalization threshold and on property control of minor but sensitive items
2. High Level Analysis of Existing Property Record

- Organization of data
- Consistency of classifications
- As stated, analysis of $ and %
- Need for editing, roll-up, break-out, and check of classification and possible re-classification of assets
- Inclusion/exclusion
3. Communication with Departments

- Finance Department can’t do it all
- Need for additions and retirements annually (and adjustments)
- Department that uses and maintains an asset has a responsibility to assist any related ‘reporting’
- Need to be clear as to expectations and timing
4. Analysis and Allocation of Asset Account Balances

- Allocation by dollar amount
- Allocation by percentage of total
- This high level analysis takes minutes
- This process can assist setting priorities
Actual mid-size County

Where’s the Money

- Land $ 857,652
- Infrastructure/ROW 85,598,074
- Buildings 14,930,643
- Improvements other 107,356
- Equipment/vehicles 6,561,663
- Software 1,187,095

$109,242,483
Actual mid-size County

Money by percentage of total

- Land .008
- Infrastructure/ROW .784
- Buildings .137
- Improvements other .001
- Equipment/vehicles .060
- Software .011

100.00%
5. Deal with Unreported Retirements Once and For All

Large County in the Midwest – abbreviated case study

- Adds centrally then report sent to each department for indication of retirements
- Takes one week
- Process has worked for over 10 years
- System is very simple Excel application
Annual retirements

Data may be difficult to establish centrally so departments are key to gathering the information.

Data may be incomplete and include only trade-ins but not items scrapped or disposed of at departmental level.

Resolve communication problems and lack of understanding.

Departments unable or unwilling to determine retirements - so provide a current list of all assets for an indication of those to be retired.
6. Establish Control of Minor but Sensitive Items

- GFOA Recommended Practice
- Departments to decide asset types and class codes to be included for control
- Not by dollar amount
- A ‘control’ and stewardship process is not subject to accounting and financial reporting information requirements
7. Definitions and written examples of capital, expense, improvement, repair, maintenance

Samples of definitions and examples

- increased capacity and efficiency
- extended useful life (beyond original expectation)
- new asset meeting criteria for capitalization
- improvement
Deciding what is a capital asset

- New asset that meets all criteria for capitalization
- Increased capacity – adding square footage to an existing building
- Increased capacity – adding new lanes to an existing road
- Increased efficiency – same size etc., but service provided at less cost
- An extended estimated useful life usually involves an extension beyond original useful life expectation
Deciding what is a capital asset

- Specific written examples of each can help (in policy document and procedures documentation)
- Repairs and maintenance usually restore an asset to original service potential and do not necessarily comprise an improvement
- Potential checklist
- Example from GFOA Capital Asset Seminar
8. Policy and Procedures to address Construction-in-Progress

- Apply the who, what, where, when, how, and why questions to the process
- Significance of construction-in-progress
- Good discipline for future capitalization of new asset and retirement of replaced asset
- Applies to buildings and general infrastructure
9. Formal Schedule for Annual Update

Assume a 6-30-17 fiscal year end

- 4-1-17 – gather information on additions
- 4-15-17 – separate capital and expense
- 5-1-17 – update report by department
- 5-15-17 – send update to departments for retirements
- 6-1-17 – update list
- 6-30-17 – prepare financial report
If you remember anything from today’s presentation …

- Streamline your capital asset accounting
- Establish simple and clear policy and procedure documents
- Monitor your property record
- Commit to the annual update

… remember, you can do this!
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Controller, Montgomery County, Maryland
Rockville, Maryland
Practical Examples

- Background
- Annual Updating of Capital Asset Information (related to outline C, E, I and prior slides)
- Capitalizing Capital Projects (related to outline H, I and prior slides)
- Identifying Non-Cash Capital Asset Transactions (related to outline C, I and prior slides)
- Sensitive Assets (related to outline F and prior slides)
BACKGROUND
Capital Budget

FY18 County Executive Recommended

$13.84 Billion

The Capital Budget Provides The Spending Authority County Agencies Need To Implement Projects.

This includes expenditure funding for the entire life-cycle of the active project across all agencies (Montgomery County Government, Montgomery County Public Schools, Montgomery College, Maryland-National Capital Park and Planning Commission, Revenue Authority, and the Housing Opportunities Commission). It only contains project statuses for Department of General Services and Department of Transportation administered projects.
Montgomery County, Maryland
Functional Organization Chart

Background

Montgomery County, Maryland

Legislative Branch
- County Council
  - Boards, Committees and Commissions

Executive Branch
- County Executive
- Chief Administrative Officer

Residents

Judicial Branch
- Board of Education
- Montgomery County Public Schools

Other Agencies
- Board of Appeals
- Inspector General
- Legislative Oversight
- Merit System Protection Board
- People's Counsel
- Zoning & Administrative Hearings

General Government
- County Executive
- Board of Elections
- Commission for Women
- County Attorney
- Ethics Commission
- Finance
- General Services
- Human Resources
- Human Rights
- Intergovernmental Relations
- Management & Budget
- Public Information
- Regional Services Centers
- Technology Services
- Urban Districts

Transportation
- Transportation

Community Development & Housing
- Economic Development
- Housing and Community Affairs
- Permitting Services

Public Safety
- Consumer Protection
- Correction and Rehabilitation
- Emergency Management and Homeland Security
- Fire and Rescue Service
- Police

Conservation of Natural Resources
- Environmental Protection

Health & Human Services
- Health & Human Services

Libraries, Culture & Recreation
- Community Use of Public Facilities
- Libraries
- Recreation

Liquor Control
- Liquor Control

Housing
- Opportunities Commission

Finance
- General Services

Human Resources
- Human Rights

Human Rights
- Intergovernmental Relations

Intergovernmental Relations
- Management & Budget

Public Safety
- Consumer Protection

Public Information
- Regional Services Centers

Regional Services Centers
- Technology Services

Technology Services
- Urban Districts
Annual Updating of Capital Asset Information

1. System report of all asset listings as of 05/31
2. Report is separated out and sent to departmental contacts. With recording instructions for any additions, and subtractions not on the report.
3. Report is returned by departmental contact with any changes and signed by the director.
4. Negative confirmation is sent with end of 6/30 information combined with information previously received from departments.
5. All changes are reviewed and updated if considered valid.
6. No response means all assets are accounted for. If a response is received then corrections are made until department is satisfied.
## System Report Listing

### Journal Entry Reserve Ledger Report

**Period: MAY-2016**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Name</th>
<th>Expense Account</th>
<th>Reserve Account</th>
<th>Cost Center</th>
<th>Asset Number</th>
<th>Description</th>
<th>Major Category</th>
<th>Minor Category</th>
<th>Tag Number</th>
<th>Serial Number</th>
<th>Date Placed In Service</th>
<th>Depm Method</th>
<th>Life Yr. No</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>900</td>
<td>General Fixed Asset Account Group</td>
<td>80010</td>
<td>16900</td>
<td>72100</td>
<td>25685</td>
<td>R-STRATHMORE CONCERT HALL &amp; PERFORMING ARTS CENTER</td>
<td>BUILDING</td>
<td>BUILDINGS</td>
<td>G7307B1-1132</td>
<td>15-Nov-2004</td>
<td>STL</td>
<td></td>
<td>95,199,661.49</td>
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<td></td>
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<td>CC 72100 Totals:</td>
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<td>Account 80010/16900 Totals:</td>
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<tr>
<td>900</td>
<td>General Fixed Asset Account Group</td>
<td>80010</td>
<td>16900</td>
<td>42100</td>
<td>174</td>
<td>MONTGOMERY COUNTY CORRECTIONAL FACILITY</td>
<td>BUILDING</td>
<td>BUILDINGS</td>
<td>G4508B</td>
<td>01-Dec-2002</td>
<td>STL</td>
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<td>92,230,682.50</td>
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</tbody>
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Example of Inventory Sheet

FY16 PHYSICAL INVENTORY
Fixed Asset Custodian/Physical Inventory Cover Sheet

Organization Name: Permitting Services

The following employee has been designated as the fixed asset custodian:

Fixed Asset Custodian: ________________________________
Job Title: ________________________________
Mailing Address: ________________________________
                                           ________________________________
Phone: ________________________________
Signature: ________________________________

I have reviewed and agree with the results of the physical inventory:

Department Director: ________________________________
                        Diane Schwartz Jones

Date: ________________________________
Example of change form

MONTGOMERY COUNTY, MARYLAND
DIVISION OF THE CONTROLLER
FIXED ASSET INVENTORY CHANGE FORM

<table>
<thead>
<tr>
<th>Originating Department</th>
<th>Receiving Department (including Surplus Warehouse)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Org. Name:</td>
<td>Org. Name:</td>
</tr>
<tr>
<td>Org. Code:</td>
<td>Org. Code:</td>
</tr>
<tr>
<td>Location:</td>
<td>Location:</td>
</tr>
<tr>
<td>Date:</td>
<td>Date:</td>
</tr>
<tr>
<td>Phone:</td>
<td>Phone:</td>
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<tr>
<td>Signature:</td>
<td>Signature:</td>
</tr>
<tr>
<td>Print Name:</td>
<td>Print Name:</td>
</tr>
<tr>
<td>Director Signature:</td>
<td>(for disposals by department/agency)</td>
</tr>
</tbody>
</table>

**NOTE:** Signatures of originating and receiving departments are required for all transfers between departments/Agencies. This includes transfers to the Surplus Warehouse.

<table>
<thead>
<tr>
<th>Inventory Tag Number</th>
<th>Asset Description</th>
<th>Serial Number</th>
<th>Disposition of Asset (sold, scrapped, transfer, trade-in)</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>
Capitalizing Capital Projects -- Example of closed out project list

**PART III: CAPITAL IMPROVEMENTS PROJECTS TO BE CLOSED OUT**

The following capital projects are closed out effective June 30, 2016, and the appropriation for each project is decreased by the amount of the project's unencumbered balance.

<table>
<thead>
<tr>
<th>Project Title (Project #)</th>
</tr>
</thead>
<tbody>
<tr>
<td>401 Hungerford Drive Garage (P500705)</td>
</tr>
<tr>
<td>Temperature Controlled Liquor Warehouse (P850500)</td>
</tr>
<tr>
<td>5th District Police Station (P470900)</td>
</tr>
<tr>
<td>Travilah Road (P500101)</td>
</tr>
<tr>
<td>Clarksburg Town Center Development District: Roads (P500423)</td>
</tr>
<tr>
<td>Norbeck Road Extended (P509321)</td>
</tr>
<tr>
<td>Shady Grove Access Bike Path (P500600)</td>
</tr>
<tr>
<td>Dale Drive Sidewalk (P500904)</td>
</tr>
<tr>
<td>Silver Spring Traffic Improvements (P508716)</td>
</tr>
<tr>
<td>Takoma/Langley Park Transit Center (P500715)</td>
</tr>
<tr>
<td>Children's Resource Center (P641300)</td>
</tr>
<tr>
<td>White Oak Community Recreation Center (P720101)</td>
</tr>
<tr>
<td>Plum Gar Neighborhood Recreation Center (P720905)</td>
</tr>
<tr>
<td>Scotland Neighborhood Recreation Center (P720916)</td>
</tr>
<tr>
<td>Gaithersburg Middle School Pool (P721402)</td>
</tr>
<tr>
<td>DPL Network and Telephone Infrastructure (P711401)</td>
</tr>
<tr>
<td>Sonoma / Ayrlawn Storm Drain Improvements (P500509)</td>
</tr>
<tr>
<td>Town of Chevy Chase Storm Drain Improvements (P500808)</td>
</tr>
<tr>
<td>Maple Avenue Storm Drain &amp; Roadway Improvements (P501100)</td>
</tr>
<tr>
<td>Henderson Avenue Storm Drain &amp; Roadway Improvement (P501108)</td>
</tr>
<tr>
<td>Fenton Street Village Pedestrian Linkages (P760500)</td>
</tr>
<tr>
<td>Glenmont Metro Parking Expansion (P500552)</td>
</tr>
</tbody>
</table>
MONTGOMERY COUNTY GOVERNMENT
SUPPLIES & EQUIPMENT
MANAGEMENT PROCEDURE
TEMPLATE

Cover Sheet and Instructions

INSTRUCTIONS TO DEPARTMENTS
1. This template is intended to help MCG departments and offices that receive, store, order, safeguard and dispose Supplies & Equipment with creating an effective department-specific Supplies & Equipment Management procedure. Use this template as a starting point and customize it as appropriate.
2. Modify the language to accurately describe your department’s specific procedures.
3. Maintain the format and organization of the template.
4. Ensure the modified procedures comply with Montgomery County Government required policy.
5. When complete, delete this cover page and other instructions in the template (in-template instructions and options appear in a green font) and save the file under a new name in the format of DEPARTMENT-Supplies & Equipment Management Procedure-Date.docx.
6. Send a copy of the finished procedure to the General Accounting Section at Finance, GenAccounting.Finance@montgomerycountymd.gov.
Sensitive Assets – Examples of Sensitive Assets

<table>
<thead>
<tr>
<th>Attachment A</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Possible Sensitive Assets/Property</td>
</tr>
<tr>
<td>1. Firearms</td>
</tr>
<tr>
<td>2. Ammunitions / Munitions</td>
</tr>
<tr>
<td>3. Drugs and Narcotics</td>
</tr>
<tr>
<td>4. Hazardous Materials and Chemicals</td>
</tr>
<tr>
<td>5. Desktop Computers</td>
</tr>
<tr>
<td>6. Laptops/Tablets</td>
</tr>
<tr>
<td>7. Computer peripherals (Wi-fi cards, external hard drives, computer batteries, modems, etc.)</td>
</tr>
<tr>
<td>8. Printers (3D Printers), Fax Machines, Scanners, etc.</td>
</tr>
<tr>
<td>9. Cellular Phones</td>
</tr>
<tr>
<td>10. Audiovisual equipment (Projectors, DVD players, etc.)</td>
</tr>
<tr>
<td>11. Televisions/Display Monitors</td>
</tr>
<tr>
<td>12. Communication Equipment (Radios, Handheld Radios, Transceivers)</td>
</tr>
<tr>
<td>13. Cameras</td>
</tr>
<tr>
<td>14. Digital Cameras</td>
</tr>
<tr>
<td>15. Lab/medical equipment</td>
</tr>
<tr>
<td>16. Musical Instruments</td>
</tr>
<tr>
<td>17. Protective Masks and Suits</td>
</tr>
</tbody>
</table>
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Summary

Conclusion

Questions