



A Report to the Galveston
City Council

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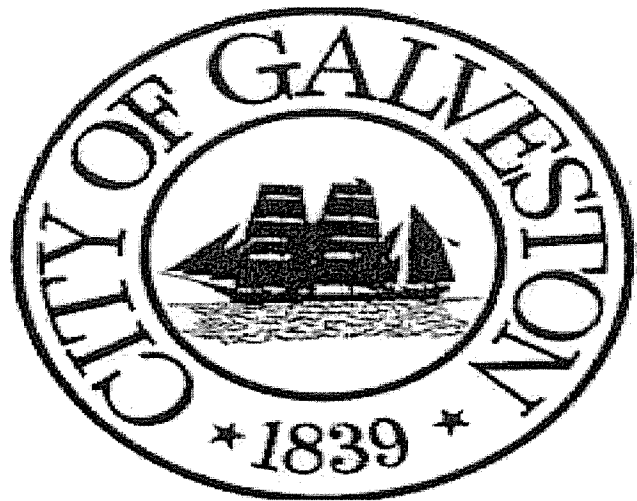
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Audit Report
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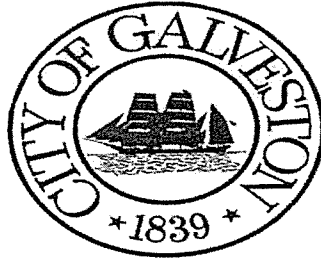
Capital Assets Audit Report



Report Summary

The City Auditor Department evaluated the design and operating effectiveness of the internal controls framework over capital. There is a significant deficiency in the City's capital assets internal control framework. The Finance Department maintains a manual spreadsheet for tracking capital assets acquired and disposed of by the City. This spreadsheet is not reviewed in a timely manner by management. Therefore, a material risk exists for the proper reporting of the City's capital assets. The Finance Department should implement internal controls for the adherence of monitoring capital assets spreadsheet.

Current Activity: The Finance Department is completing its implementation of its own previously unutilized automated system for tracking capital fixed assets. The Fixed Asset module in Banner, the City's financial system, is now populated with the 3,718 fixed assets previously maintained in spreadsheet form. Finance staff is completing its reconciliation of this data currently. Also, the new module has recognized and produced 506 fixed asset transactions as of June 13 in FY 2016 that are in suspense awaiting approval once the aforementioned reconciliation of FY 2015 is complete.



**CAPITAL ASSETS AUDIT- FINANCE DEPARTMENT
CITY AUDITOR**

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City of Galveston
Capital Assets Audit– Finance Department
City Auditor Executive Summary

June 1, 2016

Background

The intent of an organization's internal control framework over capital assets is to provide a comprehensive guide to be utilized in the definition, organization, and reporting of data for its capital assets. The Finance Director of the City is charged with establishing the internal control framework for the City's capital assets. The evaluation of the design and operating effectiveness of the City's capital asset internal control framework is the responsibility of the City Auditor's Department.

Objective

The objective of this report is to evaluate the design and operating effectiveness of the Finance Department's internal control framework over capital assets for (1) safeguarding capital assets, and (2) accounting and reporting capital assets. These objectives are further described below as:

(1)Safeguarding Capital Assets - The objective of internal controls for safeguarding capital assets is to ensure that assets are safeguarded against loss from unauthorized use or disposition.

(2)Accounting and Reporting - The objective of internal controls for accounting and reporting capital assets is to ensure that transactions are properly recorded and accounted for in the accounting system.

Scope

To evaluate the design and operating effectiveness of the two objectives of internal control over capital assets the City Auditor Department identified and evaluated the basic components of each objective for the City of Galveston as described in the supplemental appendices and below:

(1)Safeguarding Assets –

- a) Control Environment - The City of Galveston's control environment establishes the organizational tone that influences the control consciousness of its personnel.
- b) Risk Assessment - Risk assessment is the City of Galveston's identification and analysis of relevant risks to achieving the organization's objectives.
- c) Control Activities – The City of Galveston's control activities are the policies and procedures that are performed by personnel that help ensure that management's directives regarding compliance are carried out.

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- d) Information and Communication - The information and communication component includes the City of Galveston's identification, capture, and exchange of information in a form and time frame that enables personnel to carry out their responsibilities.
- e) Monitoring Activities - Monitoring activities assess the City of Galveston's quality of internal control performance over time.

(2) Accounting and Reporting

- a) Rights and Obligations - All account balances properly reflect amounts collected or should have been collected by the City of Galveston.
- b) Valuation and Allocation - All account balances properly value and allocate amounts that individuals or agencies paid to and by the City of Galveston.
- c) Occurrence - All transactions occurred within the City of Galveston.
- d) Completeness - All transactions have been captured by the City of Galveston.
- e) Accuracy - All transactions have been accurately recorded by the City of Galveston.
- f) Cut-off - All transactions are recorded by the City of Galveston in the correct accounting period.
- g) Classification - All transactions are correctly classified by the City of Galveston.

Fieldwork Performed

The City Auditor Department listed each essential internal control for capital assets compliance to a separate spreadsheet described and attached as Appendix 1 - Capital Assets Checklist. The internal controls were further divided in Appendix 1 into sub-categories as: (1) Acquiring and Safeguarding Capital Assets. (2) Depreciating Capital Assets. (3) Disposing of Capital Assets. (4) Maintaining the Capital Assets Subledger. (5) Assessing Assets for Impairment. Each internal control listed in Appendix 1 was then evaluated to determine if the control design and operations of the control proved to be effective over capital assets compliance at the City of Galveston. The City Auditor Department also noted if opportunities exist for the improvement of documentation for those internal controls.

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Audit Findings

There is a significant deficiency in the City's capital assets internal control framework. The Finance Department maintains a manual spreadsheet for tracking capital assets acquired and disposed of by the City. This spreadsheet is not reviewed in a timely manner by management. Therefore, a material risk exists for the proper reporting of the City's capital assets. The Finance Department should implement internal controls for the adherence of monitoring capital assets spreadsheet.

Staff Conduct

All staff acted in a professional and timely manner.

City Manager's Response

Current Activity: The Finance Department is completing its implementation of its own previously unutilized automated system for tracking capital fixed assets. The Fixed Asset module in Banner, the city's financial system, is now populated with the 3,718 fixed assets previously maintained in spreadsheet form. Finance staff is completing its reconciliation of this data currently. Also, the new module has recognized and produced 506 fixed asset transactions as of June 13 in FY 2016 that are in suspense awaiting approval once the aforementioned reconciliation of FY 2015 is complete.

History: The new module replaces over forty spreadsheets, with varying formats, depreciation and useful life standards. This long-used method of recording and reporting fixed assets was the subject of a finding in the FY 2014 audit. For the sake of accuracy and consistency, the audit recommended the City convert its fixed assets tracking process to a single computerized system that would automate fixed asset accounting and reporting.

In response, the City Finance leadership team initiated a project to document the current workflow, develop system requirements, evaluate alternatives, and identify a replacement solution with the following characteristics:

1. A unified single data source application that captures, near real time, fixed assets;
2. Integration with the City's general ledger, purchasing and payable systems thereby minimizing any independent manual entry; and
3. Achieve compliance with GASB and GAAP.

The Banner Fixed Asset module already owned by the City was determined to be the most cost effective software choice. After four months of configuration, setup and detailed testing, this module was placed into production in January, 2016. Included in the implementation was the conversion of the capital asset data that had been tracked in spreadsheets through FY 2015 year end. Prior to production, it was also necessary to identify and repair system deficiencies of the Fixed Asset module to restore technical capacity previously untested and unutilized by the City. As of January, 2016, capitalizable fixed asset purchases and payments are identified in the system using configuration settings (decision rules) defined by and specific to Galveston.

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Remaining Steps: Work that remains will be complete by August is as follows:

1. Complete the reconciliation of converted data against final FY 2015 CAFR figures.
2. Complete journal entries to move FY2015 year end balances to new fixed asset funds.
3. Ensure FY 2016 fixed asset transactions to date in FY 2016 are posted to the general ledger.
4. Finalize policy on fixed asset reporting, tracking, monitoring, and disposition.

	Internal Control is Implemented and Effective	Documentation Could be Improved
Appendix 1: Capital Assets Checklist		
Acquiring and Safeguarding Capital Assets		
1. Management reviews the entity's financial statements on a periodic basis and investigates significant variances from budgets and expected results.	X	
2. Management or governing body approval of purchase orders is required for purchases that exceed established limits according to organizational policy.	X	
3. Management tracks capital asset acquisitions and remaining costs and compares to capital budgets.	X	
4. The entity has a capitalization and useful lives policy, and the policy has been formally reviewed and approved by management and communicated to departments that request capital asset purchases.	X	
5. Periodically, capital asset listings are routed to the appropriate managers to determine whether the assets still physically exist.	X	
6. Capital assets, when necessary, are located in an appropriately secured area, where access is restricted to authorized personnel.	X	
7. Prior to entry, accounting personnel compare capital asset information to the capitalization policy to ensure appropriate accounting treatment.	X	
8. The capital assets subledger is reviewed and reconciled to the general ledger.	X	
9. The City has written policies and procedures to ensure items considered (either capitalized or noncapitalized) meet the definition of collection and to track accessions and deaccessions of collection items.	X	
10. The City has written policies for determining the fair value of		

	Internal Control is Implemented and Effective	Documentation Could be Improved
Appendix 1: Capital Assets Checklist		
contributed capital assets, including collections, and adherence to those policies is periodically reviewed by the appropriate level of management or another appropriate person.	X	
11. Individuals are designated with responsibility for assuring compliance with the terms and conditions of all grants, restricted contributions, exchange contracts, etc., that relate to capital assets.	X	
12. Individuals are designated with responsibility for monitoring all significant construction projects.	X	
Depreciating Capital Assets		
13. Management reviews the entity's financial statements on a periodic basis and investigates significant variances from budgets and expected results.	X	
14. Capital asset depreciation charges are calculated correctly by the automated system and are reviewed for reasonableness by management.	X	
15. The automated system generates the depreciation journal entry, which is entered into the general ledger by accounting personnel and reviewed by management.		X
16. Prior to entry, accounting personnel compare capital asset information to the capitalization policy to ensure appropriate accounting treatment.	X	
Disposing of Capital Assets		

	Internal Control is Implemented and Effective	Documentation Could be Improved
Appendix 1: Capital Assets Checklist		
(Sales and Retirements)		
17. Management reviews the entity's financial statements on a periodic basis and investigates significant variances from budgets and expected results.	X	
18. Periodically, capital assets listings are routed to the appropriate managers to determine whether the assets still physically exist.	X	
19. The capital assets subledger is reviewed and reconciled to the general ledger.	X	
20. Disposals of capital assets are reviewed by management and entered into the capital assets subledger by accounting personnel in a timely fashion.	X	
21. Based on disposal information entered, the capital assets subledger automatically calculates any gain or loss on the disposal.	X	
22. Accounting personnel create a journal entry to record the disposal and any gain or loss on the disposal, which is reviewed and approved by management.	X	
Maintaining the Capital Assets Subledger		
23. Management tracks capital asset acquisitions and remaining costs and compares to capital budgets.	X	
24. Periodically, capital assets listings are routed to the appropriate managers to determine whether the assets still physically exist.	X	
25. Prior to entry, accounting personnel compare capital asset information to the capitalization policy to ensure appropriate accounting treatment.	X	

	Internal Control is Implemented and Effective	Documentation Could be Improved
Appendix 1: Capital Assets Checklist		
26. The capital assets subledger is reviewed and reconciled to the general ledger.	X	
27. Disposals of capital assets are reviewed by management and entered into the capital assets subledger by accounting personnel in a timely fashion.	X	
28. Capital asset depreciation charges are calculated correctly by the automated system and are reviewed for reasonableness by management.		X
29. The automated system generates the depreciation journal entry, which is entered into the general ledger by accounting personnel and reviewed by management.		X
30. Management reviews and approves write-offs or other adjustments to capital asset accounts.	X	
Assessing Assets for Impairment		
31. Management reviews the entity's financial statements on a periodic basis and investigates significant variances from budgets and expected results.	X	
32. Accounting policies and procedures specify correct treatment for calculating asset impairment, including those requiring management's estimates and judgments.	X	
33. Recorded capital assets are reviewed for impairment.	X	
34. A supporting analysis is prepared for calculating asset impairment. The analysis documents compliance with relevant GASB pronouncements and the City's accounting policies.	X	

	Internal Control is Implemented and Effective	Documentation Could be Improved
<p>Appendix 1: Capital Assets Checklist</p> <p>35. An independent review of significant judgments and estimates included in the financial records is performed at the end of every accounting period by knowledgeable personnel.</p>	X	