

**Office of the State Controller**

Self-Assessment of Internal Controls

**Capital Assets Cycle**

Objectives and Risks

Agency \_\_\_\_\_

Year-End \_\_\_\_\_

<u>Objectives</u>	<u>Risks</u>
All capital asset transactions are initiated by authorized individuals in accordance with established criteria.	<ul style="list-style-type: none"> <li>• Fictitious purchases or payments to contractors or suppliers, with or without kickbacks to employees.</li> <li>• Purchases from vendors whose interests are in conflict with the organization.</li> <li>• Purchases of unnecessary assets.</li> <li>• Disposal or scrapping of serviceable assets.</li> <li>• Purchases of assets which do not meet established quality standards.</li> </ul>
Advance approval is obtained for all significant capital asset transactions.	<ul style="list-style-type: none"> <li>• Unauthorized purchases, construction contracts or leases with companies or individuals related to executive or legislative representatives.</li> <li>• Purchases from related parties without the knowledge of senior officials.</li> <li>• Delay or cancellation of a project.</li> <li>• Expenditures in excess of originally approved amounts without review and approval.</li> </ul>
Adequate project cost records are maintained, and in-progress and completed project reports are issued.	<ul style="list-style-type: none"> <li>• Actual costs that exceed projected amounts.</li> <li>• Overpayments to contractors.</li> <li>• Misclassification of costs between capital and operating budgets.</li> </ul>

<p>All capital assets are accurately recorded in detail records which are compared with existing assets at reasonable intervals. All capital assets are adequately safeguarded.</p>		<ul style="list-style-type: none"> <li>• Use of equipment or other assets for other than the unit of government's benefit.</li> <li>• Theft of tools and equipment, maintenance or supply parts.</li> <li>• Payment of insurance on assets no longer owned.</li> <li>• Unauthorized disposals of assets or diverted proceeds from sales of assets.</li> <li>• Physical loss of assets through inadequate security or insurance coverage.</li> <li>• Continued ownership of obsolete or otherwise nonproductive assets.</li> <li>• Preparation of financial statements which do not accurately reflect existing assets.</li> </ul>
<p>All capital assets transactions are properly accumulated, classified and summarized in the general ledger accounts.</p>		<ul style="list-style-type: none"> <li>• A misstatement of reported financial position and results of operations.</li> <li>• Violations of loan covenants and/or rules and regulations of various grantor agencies.</li> <li>• Financial or operational decisions based upon erroneous information.</li> </ul>

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Control Policies and Procedures

Agency \_\_\_\_\_

Year-End \_\_\_\_\_

**Bolded questions identify critical controls. A critical control is a control that will prevent or detect an error in the event that all other controls fail.**

**A. Control Activities / Information and Communication:**

Yes No N/A

- |             |    |  |
|-------------|----|--|
| ___ ___ ___ | 1. | Is there a formal organizational chart defining the responsibilities of purchasing, receiving, recording, approving and performing the inventory?                        |
| ___ ___ ___ | 2. | Are there formal written procedures for performing a physical inventory?   |
| ___ ___ ___ | 3. | Is a capitalization policy established which is consistent with Purchase and Contract requirements and Federal rules and regulations?                                    |
| ___ ___ ___ | 4. | Are fixed asset records maintained that adequately classify and identify individual items?   |
| ___ ___ ___ | 5. | <b>Are the fixed asset system and control accounts reconciled monthly?</b>   |
| ___ ___ ___ | 6. | Are construction records adequate to accumulate costs associated with constructed capital assets including force (in-house) labor and materials obtained from inventory? |
| ___ ___ ___ | 7. | Is the individual responsible for capital assets notified when:  |
| ___ ___ ___ |    | a. assets are received?  |
| ___ ___ ___ |    | b. assets are donated?   |
| ___ ___ ___ |    | c. asset location changes are made?  |
| ___ ___ ___ |    | d. assets are transferred to State Surplus Property?   |
| ___ ___ ___ |    | e. assets are sold?  |
| ___ ___ ___ |    | f. assets are stolen, vandalized or missing?   |
| ___ ___ ___ |    | g. assets are reassigned to a different organizational agency or to another agency?  |

- \_\_\_ \_\_\_ \_\_\_ 8. Are gains or losses properly recognized from disposals of capital assets in proprietary fund types?
- \_\_\_ \_\_\_ \_\_\_ 9. Are capital assets tagged when procured?
- \_\_\_ \_\_\_ \_\_\_ 10. **Are the capital asset subsidiary accounts reconciled to the capital asset control accounts monthly?**
- \_\_\_ \_\_\_ \_\_\_ 11. **Are property records reconciled to property accounts at least annually?**
- \_\_\_ \_\_\_ \_\_\_ 12. **Are the beginning balances, additions, disposals and ending balances reflected in the note disclosures reconciled to the fixed asset system?**
- \_\_\_ \_\_\_ \_\_\_ 13. Are capital asset additions properly valued?
- \_\_\_ \_\_\_ \_\_\_ a. Is the total purchase price, less discount and any expenditure required to place asset in its intended state of operation the amount capitalized?
- \_\_\_ \_\_\_ \_\_\_ b. Does the recorded asset cost of land purchases include: purchase price, legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, and site preparation costs?
- \_\_\_ \_\_\_ \_\_\_ c. Does the recorded asset cost of buildings include: purchase price, contract price or job order costs plus any other expenditures necessary to put a building or structure into its intended state of operation, including professional fees, damage claims, cost of fixtures, insurance premiums, interest, and related costs incurred during the period of construction? Are maintenance costs expensed rather than capitalized?
- \_\_\_ \_\_\_ \_\_\_ 14. **Are the following duties performed by different people:**
- \_\_\_ \_\_\_ \_\_\_ a. **Custodian of the capital assets and taking the annual inventory?**
- \_\_\_ \_\_\_ \_\_\_ b. **Reconciliation of the Fixed Asset System with the control accounts and making entries in the Fixed Asset System?**
- \_\_\_ \_\_\_ \_\_\_ c. **Custodian of the capital assets and tagging?**
- \_\_\_ \_\_\_ \_\_\_ d. **Custodian of the capital assets and investigating the missing capital assets?**
- \_\_\_ \_\_\_ \_\_\_ e. **Custodian of the capital assets, making entries in the Fixed Asset System and making entries in the general ledger?**
- \_\_\_ \_\_\_ \_\_\_ 15. **Are all asset purchases and receipts approved by a designated person with proper authority?**

- \_\_\_ \_\_\_ \_\_\_ 16. **Are all disposals of property approved by a designated person with proper authority?**
- \_\_\_ \_\_\_ \_\_\_ 17. If other than the Statewide \$5,000 capitalization threshold, has agency management chosen and documented the threshold level in the Internal Policy/Procedure Manual?
- \_\_\_ \_\_\_ \_\_\_ 18. Has the agency documented the inventory level below \$5,000 that will be utilized?
- \_\_\_ \_\_\_ \_\_\_ 19. Is someone assigned custodial responsibility by location for all assets?
- \_\_\_ \_\_\_ \_\_\_ 20. Is access to the perpetual capital asset records limited to authorized individuals?
- \_\_\_ \_\_\_ \_\_\_ 21. Is there adequate physical security surrounding the capital asset items?
- \_\_\_ \_\_\_ \_\_\_ 22. Are assets believed to be stolen or vandalized reported to the State Bureau of Investigation (SBI) according to state law?

**B. Monitoring:**

- \_\_\_ \_\_\_ \_\_\_ 23. **Are the Physical Inventory Worksheets approved by the Chief Fiscal Officer or responsible supervisor before the fixed asset officer makes changes to the Fixed Asset System?**
- \_\_\_ \_\_\_ \_\_\_ 24. **Are capital asset inventory worksheets (physical count) reconciled to the fixed asset listing at year-end?**
- \_\_\_ \_\_\_ \_\_\_ 25. Is insurance coverage independently reviewed periodically?
- \_\_\_ \_\_\_ \_\_\_ 26. Has the Internal Policy/Procedure Manual been updated with any changes in the agency or agency philosophy?
- \_\_\_ \_\_\_ \_\_\_ 27. Is a physical inventory of capitalized assets and inventoried items taken each time there is a change at a management or supervisory level that has responsibility for the assets?
- \_\_\_ \_\_\_ \_\_\_ 28. Are missing items investigated and explanations documented?