



JACKSON COUNTY

Oregon

Internal Audit Report

Capital Assets – Annual Department Reviews FY 2011-12

Date November 8, 2012

Presented to the
Jackson County Board of Commissioners
By the
Internal Audit Program

Audit Team

Debbie Taylor, County Auditor
Tanya Baize, Senior Auditor



**JACKSON
COUNTY**
Oregon

MEMO
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To: Board of Commissioners
From: Debbie Taylor, County Auditor
Subject: Capital Assets Audit
Date: November 8, 2012

The attached audit report provides information concerning capital asset reviews for certain departments. The audit was included in the fiscal year 2012-13 Internal Audit Plan as part of the work performed annually in support of the County's external audit and ongoing internal control and risk assessment work.

Audit results have been discussed with the department directors or managers who are responsible for the various capital assets reviewed. The results were also shared with the County's Audit Committee and external auditor.

My staff and I appreciate the cooperation and assistance we received from County staff throughout the audit process.

cc: Audit Committee
Moss Adams, LLP
John Neal, Roads and Parks Director
Shannon Bell, Finance Director

JACKSON COUNTY
Capital Assets – Annual Department Reviews

<i>Audit Authority</i>	We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the fiscal year 2012-13 Internal Audit Plan.
<i>Background</i>	Under the County’s Fixed Asset ¹ Property policy, each elected official and department director is responsible for controlling all property assigned to the department and for ensuring that the property is neither abused nor used by any employee for personal benefit. Total County capital asset cost for 2011-12 was \$561,551,643.
<i>Objectives</i>	The objectives of our audit were to determine if: <ul style="list-style-type: none">• The County’s capital asset list is complete and accurate; and• Internal controls over capital assets follow best practices.
<i>Scope and Methodology</i>	Testing procedures consisted of: <ul style="list-style-type: none">• Locating assets from the County’s capital asset list in the field; and• Looking for assets in the field that are not included on the list. Departments or programs included in the capital asset audit this year included: <ul style="list-style-type: none">• Assessment• Development Services• Facility Maintenance• Surveyor Total recorded value of items reviewed was \$842,272
<i>Criteria</i>	Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria consisted of the County’s Fixed Asset Property Policy 7-03 and best practices regarding capital assets.

¹ Also known as capital assets

Best practices for capital assets include:

- A complete and valid listing of all assets is maintained;
- Custodians are required to report any changes in the asset's status including disposal or transfer;
- Equipment is tagged with metal tags or otherwise labeled with identification when practical; and
- Periodic reviews are conducted.

Internal Controls

We gained an understanding of capital asset internal controls through a review of the County's Fixed Asset Property policy and discussions with the County's Capital Asset Accountant and other appropriate management staff.

The departments initiate the purchase of capital assets, which must be approved through the annual budget process. The County's Capital Asset Accountant is responsible for maintaining the County's capital asset system, which is a separate process from ordering and receiving. Property is tracked in the capital asset system if it:

- Has an expected normal, useful life of three or more years;
- Is not consumed, duly altered, or considerably reduced in value during use; and
- Has a value of \$5,000 or more.

Each year the Finance Department's Capital Asset Accountant distributes copies of the capital asset report to all County departments. Each department director or elected official is responsible for reviewing this list and noting any changes on the printout. The Capital Asset Accountant also reviews board orders, board agendas, and other County news sources for information on capital items the County has acquired that should be tracked in the capital asset system.

Privileged and Confidential Information

No information was withheld from the report because it was considered privileged or confidential.

Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Asset List

The County's capital asset list was complete and accurate for the departments and programs reviewed, except that some building improvements or machinery/equipment associated with a particular building were listed under Facility Maintenance while the building was listed under a different department.

Best practices for capital assets require a complete and accurate list of capital assets to be maintained. The County's Fixed Asset Property Policy requires each elected official and department director to control all property assigned to the department and to ensure that the property is neither abused nor used by any employee for personal benefit. It is therefore important that property is appropriately listed under each department. Approximately \$300,000 worth of building improvements or machinery/equipment associated with a particular building was listed under Facility Maintenance that should be listed under the department where the building associated with the asset is listed. Facility Maintenance is responsible for maintaining County buildings, and often purchases machinery, equipment and building improvement items for these buildings, which have inadvertently been left under Facility Maintenance.

Internal Controls

Capital asset internal controls for the departments and programs reviewed complied with best practices except for one vehicle that was not tagged.

The table below shows the County's compliance with best practices for capital assets.

Jackson County's Compliance with Capital Asset Best Practices

Best Practice	Jackson County Practice	Jackson County Compliance
A complete list of capital assets is maintained	Capital Asset Accountant maintains capital asset list	Yes
Custodians are required to report changes in asset status	Per policy, changes in asset status must be reported on annual department inventory	Yes
Equipment is tagged	Not specified in policy, but in practice, items are tagged if reasonable	See below
Periodic reviews are conducted	Annual department inventory	Yes

Maintaining a positive identification of assets is the primary purpose of tagging. Tagging involves assigning a unit number to the item, marking the item with the number, and tracking the item by the number in the capital asset system. The County's Capital Asset policy does not specify that equipment is to be tagged, but in

practice, items are tagged if reasonable. Motor Pool tags each vehicle with the unit number and also affixes a "Jackson County, For Official Use Only" sticker on the bumper. One tripper vehicle was noted during the capital asset review that did not have a unit number. (The tripper vehicles are listed under Motor Pool, which was not one of the departments or programs reviewed for this audit, but the vehicle in question was noted in the Motor Pool lot during the review of Assessment vehicles.) The Fleet Management Superintendent indicated that some drivers of the tripper vehicles would prefer that the vehicles not be identified as government owned, and sometimes remove the unit tag and "Official Use Only" sticker. The Motor Pool does not use permanent tags on the vehicles as this would reduce the resale value.

Recommendations

To improve control over capital assets:

1. The Finance Director should revise the Fixed Asset Property policy to specify that all assets will be tagged if reasonable.
2. The Capital Asset Accountant should work with the Facility Maintenance Superintendent to review Facility Maintenance additions on an annual basis to ensure that expenses associated with a building are appropriately reflected or listed in the appropriate department.
3. Motor Pool Management should routinely inspect vehicles to ensure the vehicle number and the "Jackson County, For Official Use Only" sticker has not been removed. If it can be determined that a specific County employee removed this information, the employee's supervisor should be notified. Management should also evaluate if there is a legitimate need to have an unmarked vehicle.

Management Response

The Director of Finance has read and agreed to recommendations #1 and 2. The Director of Roads and Parks response is attached.



To: Debbie Taylor
From: John Vial
Subject: Capital Assets – Annual Department Reviews
Date: October 4, 2012

This memo is in response to the Capital Assets – Annual Department Review/Audit completed last month which reviewed internal controls over capital assets.

The audit noted that the stickers placed on county Motor Pool vehicles stating “Jackson County, For Official Use Only” are sometimes missing or have been removed. The audit recommended that the Motor Pool staff should routinely inspect vehicles to ensure that these stickers are present. The audit further recommends that if these stickers are being purposely removed, and if can be determined who removed them, their supervisor should be notified and appropriate action be taken. The Roads and Parks Department agrees with these recommendations and has implemented these action items.

The audit noted that “Management should also evaluate if there is a legitimate need to have an unmarked vehicle.” The Roads and Parks Department agrees with this recommendation but is finding it difficult to manage the issue as there is no clear county policy on marking county vehicles. The number of requests from departments for unmarked vehicles continues to increase and it is clear that staff prefer vehicles without the For Official Use Only stickers and without the Jackson County logo door stickers. The Roads and Parks Department agrees that there is a legitimate need for some vehicles to be unmarked, but without a formal policy on proper vehicle marking, this issue will continue to be difficult to manage and a high degree of inconsistency will continue to exist.

We thank the Audit Division for your thorough review and assistance in the management of our capital assets.

c: Mike James, Fleet Manager