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# **CITY OF SAN ANTONIO**

## **OFFICE OF THE CITY AUDITOR**



Audit of the Finance Department

Citywide Inventory

Project No. AU16-012

September 8, 2017

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department, specifically, the Citywide inventory of capital assets and tracked property. The audit objective, conclusions, and recommendations follow:

**Determine if COSA capital assets and tracked property inventories are managed in compliance with city policies and accounting procedures.**

Capital assets and tracked property inventories are managed in accordance with Administrative Directive 8.7. The department has effective controls to ensure all purchases over \$5,000 are capitalized.

However, we identified areas that need improvement. We noted the Finance department does not have consistent inventory management processes for tracked property. Also, we identified two areas where controls could be implemented to improve the inventory count process. Additionally, capital assets and tracked property master files were not complete and/or accurate.

We recommend the Director of Finance:

- Develop and implement Standard Operating Procedures that provide clear guidance to departments regarding inventory management. The SOP should include but not limited to tracked property thresholds, types of tracked property to maintain, disposal periods, and timeliness of inventory updates. Finally, departments should be provided periodic training of SOPs.
- Implement additional controls within the inventory count process to include verification that physical inventory counts occurred and obtain a management sign off of inventory counts submitted by departments.
- Accept accountability and implement a process to confirm submitted tracked property inventory lists from departments have been submitted and uploaded to SAP. Also, review submitted inventory lists from all departments to verify they are complete and information is adequate.

Finance Department Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 7.

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## Background

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The Finance Department provides quality, efficient, and accurate financial services and is focused on delivering organizational and community needs. The department has a fiduciary responsibility to safeguard the City's financial assets and manage its financial resources in accordance with the goals of the City Council and City Manager, and in compliance with applicable laws and generally accepted accounting and financial principles. The department provides a range of professional services including: Accounting, Financial Management, Purchasing and Central Services, Public Utilities, Compliance and Resolution, Risk Management, and Fiscal Shared Services.

As part of the Fiscal Shared Services, the Finance Department acts as the top-level control and oversight for all capital assets and tracked property. They are responsible for accurately reporting the value of all capital assets in the City's Comprehensive Annual Financial Statements, creating and maintaining master data for all capital assets and tracked property and scheduling, coordinating and reviewing inventories to be taken by City Departments.

The Finance Department maintains oversight of all capital assets and tracked property. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives longer than one year and meet the City's \$5,000 capitalization threshold. Capital assets are generally acquired through procurement, construction, lease purchase agreements and donations. Tracked property is assets that would otherwise have been capitalized except for the fact that its cost was below the City's capitalization threshold. Such items are rolling equipment, electronic devices, computer equipment and software and furniture and fixtures.

## Audit Scope and Methodology

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The audit scope included citywide inventory processes for both tracked property and capital assets that occurred in fiscal year 2015 and fiscal year 2016.

We interviewed Finance department staff to obtain an understanding of the inventory processes for the capital assets and tracked property. We interviewed departmental fiscal administrators (DFA) from certain departments that maintain high volumes of inventory to obtain an understanding on how assets are tracked and inventoried. In addition, we spoke with DFA's who have low volume of inventory in the SAP master list to obtain an understanding of their inventory process and insight into their inventory counts. Testing criteria included the City Administrative Directive 8.7 Financial Management of Capital Assets and Tracked Property.

We reviewed the capital assets inventory process to determine if sufficient controls were in place to ensure accurate inventory. We reviewed the capital assets master file in SAP to determine if all departments reported their capital assets. We selected a sample of 25 capital assets from 3 departments to verify the accuracy of the master file by reviewing asset descriptions, verifying proper asset class categories and useful life used for depreciation. Finally, we reviewed a statistical sample of 178 out of 1,410 purchase orders from fiscal year 2016 to verify asset purchases that qualify as capital assets were properly documented in SAP.

We reviewed the tracked property inventory process to determine if sufficient controls were in place to ensure accurate management of inventory. We reviewed the tracked property master file in SAP to determine if all City departments reported their assets. We analyzed the master file to determine anomalies in the tracked property reported in SAP and narrowed our scope to test those inconsistencies that were found. We judgmentally selected four departments and performed physical inventory counts at Parks and Recreation, TCI, Animal Care Services and the Aviation department.

We relied on computer-processed data in the SAP to validate the master list of both capital assets and tracked property inventory data used to conduct physical inventory counts. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing verifying inventory counts by performing physical observation of assets. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

## Audit Results and Recommendation

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### A. Inconsistent Inventory Management Processes

The Finance Department does not have consistent inventory management processes for tracked property. We identified inconsistencies such as the type of items inventoried, how often inventory lists are updated, when to dispose of assets and the inventory count of assets on hand. For example, one department mentioned they only inventory tracked property over \$100. Another department does not consider chairs and tables to be tracked property while other departments included them in their inventory. In addition, we identified some departments that maintain and update tracked property inventory as they receive it and others only update inventory every other year while conducting physical counts. One department tracked and labeled assets even though they are no longer in usable condition. Overall, department personnel had different definitions of what assets qualified as tracked property and indicated that there are no clear guidelines on maintaining and conducting tracked property inventory.

As a best practice, all significant processes and policies should be consistent, documented and readily available to all relevant personnel.

The Finance department does not have Standard Operating Procedures that provide guidance for and consistency among departments. As a result, departments have inconsistent inventory management processes that lead to inefficiencies and risks of inaccurate and unreliable inventory records due to inappropriate recording of transactions.

### Recommendations

The Finance Director should develop and implement Standard Operating Procedures that provide clear guidance to departments regarding inventory management. The SOPs should include but not be limited to tracked property thresholds, types of tracked property maintained, disposal periods, and timeliness of inventory updates. Finally, departments should be provided periodic training of SOPs.

### B. Strengthen Controls over Inventory Count Process

The physical inventory count process for capital assets and tracked property lacks sufficient controls to ensure completeness and accuracy of existing assets. Departments are required to confirm inventory counts every other year. They submit documentation to the Central Finance department who then upload the inventory counts to SAP. Within this process, we identified two areas where

controls can be implemented to strengthen the process. First, insufficient evidence exists to verify physical inventory counts occurred. Second, department management is not required to provide evidence physical inventory counts actually occurred. For capital assets, departments simply agree or disagree with the inventory count provided to them by the Finance department. For tracked property, the Department Fiscal Administrators (DFA) sends an email to the Finance department with an attached spreadsheet of their physical inventory counts.

Per Administrative Directive 8.7 Financial Management of Capital Assets and Tracked Property, Finance is responsible for scheduling, coordinating and reviewing inventories to be taken by City Departments.

The Finance department controls are not sufficient to ensure actual inventory counts have taken place in the process. As a result, the physical inventory counts may not be complete or accurate.

### **Recommendation**

The Finance Director should implement additional controls within the inventory count process to include verification that physical inventory counts occurred and obtain a management sign off of inventory counts submitted by departments.

### **C. Completeness of Master File**

Capital Assets and Tracked Property master files were not complete and/or accurate. We tested a sample of 75 capital assets from 3 departments to verify the master file included adequate identification of assets, correct asset classes and useful life for depreciation. We noted 7 out of 75 were not adequately identified with an asset tag number, VIN number, or license plate. In addition, we noted 3 out of 75 had the incorrect useful life for depreciation.

In addition, we tested the current tracked property master file to verify completeness, accurate identification and location of inventory items. We noted 5 departments did not have their tracked property uploaded to the master file. In addition, 8,152 out of 63,362 tracked property inventory items were not adequately identified with a license plate, serial number or asset tag number.

Per Administrative Directive 8.7 Financial Management of Capital Assets and Tracked Property, Finance is responsible for creating and maintaining master data for all capital assets and tracked property.

The Finance department does not require departments to submit their inventory list with complete information. In addition, they do not have a process to verify all departments have submitted their master file inventory listing.

## **Recommendation**

The Finance Department should accept accountability and implement a process to confirm submitted tracked property inventory lists from departments have been submitted and uploaded to SAP. Also, review submitted inventory lists from all departments to verify they are complete and information is adequate.



## **Appendix A – Staff Acknowledgment**

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Buddy Vargas, CIA, CFE, Audit Manager  
Danny Zuniga, CPA, CIA, Auditor in Charge  
Nastasha Leach, Auditor

## Appendix B – Management Response



### CITY OF SAN ANTONIO

P.O. Box 839966  
SAN ANTONIO TEXAS 78283-3966

April 25, 2017

Kevin W. Barthold, CPA, CIA, CISA  
City Auditor  
San Antonio, Texas

RE: Management's Corrective Action Plan for Audit of Finance Department Citywide Inventory

The Finance Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p><b>Inconsistent Inventory Management Processes</b></p> <p>The Finance Director should develop and implement Standard Operating Procedures that provide clear guidance to departments regarding inventory management. The SOPs should include but not be limited to tracked property thresholds, types of tracked property maintained, disposal periods, and timeliness of inventory updates. Finally, departments should be provided periodic training of SOPs.</p>	3	Accept	Melanie Seale/ Assistant Finance Director	December 31, 2017

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b></p> <p>GASB Statement Number 34, <i>Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments</i> was implemented by the City in 2002, which required the City to record capital assets in its "government-wide" financial statements. With this implementation, capitalization thresholds were adjusted from the City's historical capitalization amount of \$100 to \$5,000 for financial reporting of moveable capital assets such as automotive; machinery; equipment &amp; software. Subsequently, it was discovered that a centralized database was also necessary to track property less than \$5,000 due to grant reporting requirements and high risk of items being convertible to personal use or susceptible to theft.</p> <p>As a result, the Finance Department and ITSD developed a "tracked property" process within SAP to allow departments to track property with values less than \$5,000 in a central repository for review, inventory and monitoring. Administrative Directive (AD) 8.7 was issued in 2011 to provide policy direction to departments for the Financial Management of Capital Assets and Tracked Property. The AD provided departments with the flexibility to meet their individual requirements for tracking property due to grant or contractual requirements and established minimum standards for tracking electronics (such as computers, printers, cameras) and other items able to be easily converted for personal use.</p> <p>Finance is revising AD 8.7; it will be effective December 31, 2017. Some of the changes being incorporated into the revised AD include: tracked property thresholds; types of tracked property maintained; disposal periods; timeliness of inventory updates; and department management review. However, Finance will continue to defer to departments' operations and allow them to tailor their individual department policies to reflect the nature of their operations. Citywide training will be completed in tandem with the issuance of the revised AD.</p>				
<b>B</b>	<p><b>Strengthen Controls over Inventory Count Process</b></p> <p>The Finance Director should implement additional controls within the inventory count process to include verification that physical inventory counts occurred and obtain a management sign off of inventory counts submitted by departments.</p>	<b>4</b>	Accept	Melanie Seale/ Assistant Finance Director	December 31, 2017

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b></p> <p>The inventory count for both capital and tracked property will be signed off by the department directors or assistant directors. This requirement will be added to AD 8.7 and the departments' SOPs.</p> <p>An updated itemized listing was provided to City departments on August 17, 2017 as part of the year-end close out process. Departments are required to complete the inventory; make the necessary changes to SAP for their tracked property; and provide Finance with adjustments needed for capital property no later than November 30, 2017. Finance will complete capital property adjustments no later than December 31, 2017.</p>				
C	<p><b>Completeness of Master File</b></p> <p>The Finance Department should accept accountability and implement a process to confirm submitted tracked property inventory lists from departments have been submitted and uploaded to SAP. Also, review submitted inventory lists from all departments to verify they are complete and information is adequate.</p>	4	Accept	Melanie Seale/ Assistant Finance Director	December 31, 2017
	<p><b>Action plan:</b></p> <p>Finance has a designated accountant within the Controller's Office who manages the City's tracked property program and inventory submissions. The City currently has over 19,000 capital and over 79,000 tracked property assets. Due to the volume of the City's inventory of tracked assets, the Controller's Office provides itemized inventory listings to each department and requires them to fill in any missing asset fields.</p> <p>An updated itemized listing was provided to City departments on August 17, 2017 as part of the year-end close out process. Departments are required to complete the inventory; make the necessary changes to SAP for their tracked property; and provide Finance with adjustments needed for capital property no later than November 30, 2017. Finance will complete capital property adjustments no later than December 31, 2017.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

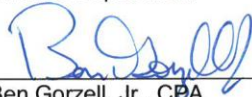
Sincerely,



Troy Elliott, CPA  
Deputy Chief Financial Officer  
Finance Department

8/16/2017

Date



Ben Gorzell, Jr., CPA  
Chief Financial Officer  
City Manager's Office

8/29/2017

Date