



CITY OF GARLAND, TEXAS

Police Peripheral Inventory Audit

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Authorization

We have conducted an audit of the Police Peripheral Inventory. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

Our objective for this audit was to determine if a system is in place to account for Police peripheral inventory items such as laptops and radios and test of the design and effectiveness of that system through sampling. In order to achieve our objective we relied on the following sub-objectives:

1. Inventory reflected in the accounts represents a complete listing of peripheral items owned by the police department, and such assets are physically on hand, in transit, or stored at outside locations at the balance sheet date.
2. Inventory listings are accurately compiled, extended, footed, and summarized, and the totals are properly reflected in the accounts.
3. Inventory is valued in accordance with generally accepted accounting principles consistently applied, at the lower of cost or market.
4. Inventory accounting practices comply with the regulatory requirements.
5. Inventory assets storing sensitive information are erased prior to being destroyed.

Scope

The scope of this Audit was limited and restricted to the accounting systems and listings utilized to account for peripheral items. The period covered in this audit is from January 1, 2008 to August 30, 2010.

Methodology

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 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. Our standard procedures included inquiry, observation, and inspection of the City of Garland resources applicable to this audit. We obtained an understanding of internal controls significant to the audit objective, and considered whether specific internal control procedures had been properly designed and placed in operation.

While we report to the Mayor and the City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff or line management functions that we are auditing. Therefore, this audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

Overall Conclusion

The City of Garland through the Finance Capital Asset Guide Policy and Financial Services Directive# 005 (Fixed Asset Management) has established formal procedures in order to account for fixed assets. The Finance and Telecommunication departments are not following the specific provisions relating to peripheral items inventory. Interdepartmental communication between Finance and the various other departments needs to improve. Finance has the responsibility to set the tone and expectation on how to properly account for these inventory items. Finance should make a determination as to what Police peripheral items constitute fixed assets and maintain a listing of these items. Consistency and standardization should be established as to the accounting treating of these peripheral items. Currently they are expensed and depreciated individually and as bulk items. This proliferation prevents departments from conducting inventory audits for Police peripheral items and provides accurate accounting results back to Finance. An initial effort is needed to first identify, and then track these items. The OMS system is not designed appropriately to track police peripheral inventory.

#	Objective	Findings	Conclusion
1	Inventory reflected in the accounts represents a complete listing of peripheral items owned by the police department, and such assets are physically on hand, in transit, or stored at outside locations at the balance sheet date.	1 2 5 7 6 4	The OMS system does not attach peripheral add-ons to police vehicles. Finance does not provide Telecommunication team with a listing of peripheral items in order to conduct their annual audit. Failure Level: Design
2	Inventory listings are accurately compiled, extended, footed, and summarized, and the totals are properly reflected in the accounts	1 2 7 6 4	There is no consensus between the Finance and Telecommunication departments on what items constitute peripheral add-ons. Failure Level: Design

3	Inventory is valued in accordance with generally accepted accounting principles consistently applied, at the lower of cost or market.	1	<p>There is no consistency in the methods utilized to account for peripheral items. The same item may be expensed or depreciated depending on the ability of Finance to tie it to a Police vehicle or if the volume of units purchased exceeds \$5,000.00.</p> <p>Failure Level: Effectiveness</p>
4	Inventory accounting practices comply with the regulatory requirements.	8 3	<p>Departmental Fixed Asset Capitalization policy is not reviewed on an annual basis. Management signature approval is not evidenced on the document.</p> <p>Failure Level: Effectiveness</p> <p>The Fixed Asset Capitalization policy is not complied with. The Financial Services Directive# 005 which mandates for an annual audit of fixed asset inventory (including add-ons).</p> <p>Failure Level: Effectiveness</p> <p>At the beginning of our audit the inventory destruction process was not formalized. As a result of our finding a policy was created. The policy however does not take into account specific grant</p>

			provisions. Failure Level: Design
5	Inventory assets storing sensitive information are erased prior to being destroyed.	3	At the beginning of our audit the inventory destruction process was not formalized. As a result of our finding a policy was created. The policy however does not take into account specific grant provisions. Failure Level: Design

Background

As a result of a Sarbanes-Oxley review that was conducted for the Finance department by an independent consultant, it was recommended that Police peripheral items be looked at. During this audit we had some difficulty deciphering what exactly would constitute peripheral items. We initially consulted with the Financial Services Directive# 005 (Property and Equipment Stewardship) and noted that the General Administration Section 2 stipulates that Department heads shall receive from the fixed asset accountant, prior to inventory taking, a report listing all fixed assets for the department to facilitate the annual inventory. However we were informed that peripheral inventory items such as vehicle add-ons are not tracked. Per the Finance Capital Asset Guide Policy, it was noted that Capital assets should be recorded and reported at their historical costs, which include the vendor's invoice (plus the value of any trade-in), initial installation cost, modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. The following items were classified as Police peripheral inventory and included in our audit:

We inspected a total of 38 police patrol vehicles and 100 laptops with an average unit price per laptop of \$3,200.00 and a total cost of \$320,000.00. Our primary focus was aimed on the following add-ons that were identified by the IT Radio Communications Manager:

Item	Description	Qty	Unit Cost	Total Cost
▪ Laptops	Laptop utilized by Police.	100	\$3,200.00	\$320,000.00
▪ Gun Lock	Apparatus attached to a car where guns are locked.	32	\$397.99	\$12,735.68
▪ Global positioning systems	(GPS) space-based global navigation satellite system that provides reliable location and time	37	\$79.95	\$2,958.15

▪ Docking Station	Provides a simplified way of “plugging-in” an electronic device such as a laptop computer to common peripherals.	38	\$327.00	\$12,246.00
▪ Radar	Object-detection system that uses electromagnetic waves specifically radio waves to identify the range, altitude, direction, or speed of both moving and fixed objects such as aircraft, ships, spacecraft, guided missiles, motor vehicles, weather formations, and terrain.	35	\$1,197.71	\$41,919.85
▪ MPC01 (Light Box)	Multi-Purpose controller hardware that manages lighting items.	38	\$296.80	\$11,278.40
▪ Siren Amplifier	Device utilized to activate siren tones by using the Vehicle’s steering wheel horn ring.	38	\$240.80	\$9,150.40
▪ Strobe Power Supply	High voltage device that powers the strobe lights of Police vehicles.	38	\$128.50	\$4,883.00
▪ Serial Control Box	Hardware equipment that manages Police peripheral items.	38	\$252.00	\$9,576.00
▪ Two-way Radio	Police two-way radio.	38	\$2,876.80	\$109,318.40
▪ Camera	Camera device that records Police videos.	38	\$600.00	Part of Camera System.
▪ Camera Displays	Monitor that displays camera footage.	38	\$300.00	Part of Camera System.
<u>Total</u>				<u>\$534,065.88</u>

Toughbooks are assigned to either Police personnel (Personal Computer) or vehicles (Add-On) for professional usage. These laptops contain sensitive information that should be safeguarded throughout their useful life until they are auctioned off where the hard drives should be wiped-off, degaussed, or destroyed. Accountability for these items is essential. The lack thereof poses various privacy risks. The City of Garland has developed policies in order to ensure that all financially material and critical inventory items are accounted for. Department heads are responsible for the proper custody, care, maintenance, and safekeeping of City property possessed by their department or area of responsibility. In addition, department heads must designate either themselves or one of their employees as fixed asset custodian. The fixed asset custodian is responsible for reporting all fixed asset activity for the department according to the instructions and reporting timetable in the Fixed Asset System Property Accounting Manual.

According to the Financial Services Directive# 005 (Property and Equipment Stewardship) Department Heads must conduct an annual physical inventory of specified City-owned fixed assets in their area of responsibility to verify the presence and condition of those assets. Specified city owned fixed assets include capital which is susceptible to theft or mysterious disappearance. Department heads will receive from the fixed asset accountant, prior to inventory taking, a report listing all fixed assets for the department to facilitate the annual inventory.

Upon completion of the annual inventory, department heads are responsible to document the fixed asset inventory by forwarding to Accounting a statement of inventory completion. Completed Fixed Asset Transaction Forms are to be sent to Accounting to update the fixed asset master file (applicable forms should be obtained from the Fixed Asset Accountant).

The authoritative pronouncements utilized to conduct this audit came from three different documents. Two of these documents were issued by the City of Garland and include: The Financial Services Directive# 005 (Property and Equipment Stewardship), and the Capital Asset Policy created by the Finance department. The Department of Justice's 2009 Financial Guide was also utilized since funding from its Bureau of Justice Assistance Fund was utilized to purchase 28 Police patrol toughbooks.

Management Accomplishments

Finding number 2:

The ITS department currently tracks all Police peripheral items within the Service Desk Express (SDE) Work Order System. During the initial stages of the audit, these assets were tracked using Microsoft Excel sheets. Prior to the audit being completed, a new Work Order system was implemented. The introduction of the new Work Order System allowed for a streamlined process and the ability to accurately track these assets using one tool. The Microsoft Excel sheets were abandoned and the assets were entered in the inventory control module of the SDE Work Order System.

While the audit was being conducted these discrepancies were noted by Mr. Thony. We informed Mr. Thony of the transition to the new SDE Work Order System and that was the reasoning for abandoning the Microsoft Excel sheets. We were able to produce work order documentation showing the assets being moved from in service to stock locations. The new system passed the ability to track the assets.

The ITS department will continue to use the SDE Work Order System to track city assets in an effort to control capitalized items and report these items when requested by the Finance Department.

Finding number 3:

The ITS department is currently in the process of adding all of the Police computer assets in the Service Desk Express (SDE) Asset Management Module.

Finding number 4:

The annual audit requests that the ITS department receives from Finance does not include Police peripheral items. The ITS department currently tracks these Police peripheral inventory items within the SDE Work Order System. Upon any request this information is readily available.

Finding number 5:

While the audit was being conducted 3 of these devices were being utilized by the Fire Department for application testing which accounted for the discrepancy in the findings. These devices have been returned to the IT department and placed in storage. The final device was being utilized in the field at the time of the audit and remains in use at this time. The asset inventory has been updated to reflect this.

Finding number 7:

These assets are the property of the Police Department. Based on the Financial Services Directive #5, the responsibility to audit these assets would fall upon the Police Department. ITS does track the inventory information in our Work Order software system and we would assist them in the audit process as requested.

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)	Recommendation	Management Response
1 (Obj. 1, 2, & 3)	Vehicle add-ons are not attached to vehicles in the OMS financial system. The historical cost of vehicles does not list all add-ons that are included.	Inventory reflected in the accounts represents a complete listing of peripheral items owned by the police department, and such assets are physically on hand, in transit, or stored at outside locations at the balance sheet date.	The valuation procedures used by the Fixed Asset Team to determine Police vehicle cost does not include add-on peripheral items.	Inaccurate valuation of Fixed Asset inventory. Lack of Accountability.	Utilize OMS system parent (vehicles) and children (add-ons) settings in order to accurately reflect police vehicle cost and better value these assets.	**Please refer to response below on page 14.
2 (Obj. 1 & 2)	The inventory listings maintained by the Telecommunication department's designee is not updated to reflect changes such as replacements (inaccurate).	Inventory listings are accurately compiled, extended, footed, and summarized, and the totals are properly reflected in the accounts.	Items are not recorded accurately on the inventory listing.	The lack of a complete departmental listing of peripheral assets does not allow the City to track all its peripheral items. Theft and fraud cannot be detected since there is no accountability for the item(s).	Capitalized items including vehicle additions should be recorded on the departmental inventory listing and reported to Finance Fixed Assets.	**Please refer to response below on page 15.

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)	Recommendation	Management Response
<p align="center">3 (Obj.4 & 5)</p>	<p>a) There is no documented evidence available for destroyed inventory.</p> <p>b) Inventory destruction policy does not abide by the Bureau of Justice Association grant disposal requirements that state that items should be returned to the State in order for them for their disposal.</p>	<p>Data storage devices for inventory storing sensitive information are erased prior to being destroyed.</p> <p>The Office of Justice Program Financial Guide 2009.</p>	<p>The inventory destruction process is not formalized.</p>	<p>The risk of non-compliance with rules and regulations might expose the city to potential lawsuits and revocation of grant awards.</p>	<p>The inventory destruction process should be formalized. All inventory items should be accounted for on the inventory destruction sheet. Signatures from two different witnesses should be required if equipment is destroyed.</p> <p>The inventory destruction policy should incorporate all relevant grant requirements.</p>	<p>**Please refer to response below on page 15.</p>

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)	Recommendation	Management Response
<p align="center">4 (Obj. 1 & 2)</p>	<p>The Finance department does not currently receive annual audit feedback for Police peripheral inventory items.</p>	<p>Upon completion of the annual inventory, department heads are responsible to document the fixed asset inventory by forwarding to Accounting a statement of inventory completion. Completed Fixed Asset Transaction Forms shall be sent to Accounting to update the fixed asset master file (applicable forms shall be obtained from the Fixed Asset Accountant).</p>	<p>Telecommunication and Police departments must notify Finance of peripheral items count and status once their annual inventory audit is completed according to the General Management Section 3 of Financial Services Directive# 005 (Property and Equipment Stewardship) policy.</p>	<p>The Finance department does not have an accurate account of all outstanding Fixed Assets and their current condition.</p>	<p>General Management Section 3 of Financial Services Directive# 005 (Property and Equipment Stewardship). Policies and procedures should be observed and followed. Training should be provided to Department Heads on how to better manage peripheral inventory items.</p>	<p>**Please refer to response below on page 16.</p>

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)	Recommendation	Management Response
5 <i>(Obj.1)</i>	Performed an inventory count of all laptops currently assigned to storage on 08/06/10. We noted that the following laptops were missing from the department listing: TB- 71, TB- 72, and TB- 75.	According to Section 1 under the General Administration of the Financial Services Directive# 005, (Property and Equipment Stewardship), Police peripheral items should be tracked and accounted for in the inventory listing.	Not all laptops are accounted for on the inventory destruction sheet. Inappropriate record keeping.	The risk of fraud, theft, and private data exposure when items are not accounted for increases. The detection of theft, fraud, and private data exposure becomes impossible.	All inventory items should be accounted for on the inventory destruction sheet. Signatures from two different witnesses should be required if equipment is destroyed. Inventory should be managed more accurately.	**Please refer to response below on page 17.
6 <i>(Obj.1 & 2)</i>	The fixed asset listing sent to the Police department for the annual inventory audit does not include a complete and detailed list of peripheral add-ons to vehicles. Subsequently, there is not a standard agreement between the Finance and Police departments on what peripheral items should be tracked.	Department heads shall receive from the fixed asset accountant, prior to inventory taking, a report listing all fixed assets for the department to facilitate the annual inventory as stated in the Financial Services Directive# 005 (Property and Equipment Stewardship).	The Fixed Assets team does not maintain a list of peripheral inventory items. The Fixed Assets team from Finance does not provide a listing of all fixed items that should be tracked to the Police department.	This increases the risk of: misappropriation, incorrect valuation, and depreciation of assets. Since items are not tracked by Fixed Assets they are not accounted for.	Finance should improve its process by collaborating with the Purchasing department in order to find a solution on how to track items prior to sending them to their corresponding departments as stated in the Financial Services Directive# 005 (Property and Equipment Stewardship). Policies and procedures should be observed and followed.	**Please refer to response below on page 17.

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)	Recommendation	Management Response
7 (Obj.1 & 2)	No annual inventory was conducted for fiscal year 2009 – 2010 by the Telecommunication department for Police vehicle peripheral inventory items.	Department heads shall conduct an annual physical inventory of specified City-owned fixed assets as stated in the Financial Services Directive# 005 (Property and Equipment Stewardship).	Peripheral item inventory is not conducted annually.	The risk of inventory theft and misappropriation increases.	Department heads should conduct an annual physical inventory of specified City-owned fixed assets as stated in the Financial Services Directive# 005 (Property and Equipment Stewardship) Policies and procedures should be observed and followed.	**Please refer to response below on page 19.
8 (Obj.4)	The Fixed Asset Capitalization Policy issued by the Finance department does not have any evidence of review, or approval dates.	Policies and procedures should be reviewed and approved by Management.	No evidence of Management review and approval.	Outdated and inaccurate policies may be utilized by the City to manage our capitalized assets. Lack of Accountability.	Management should document and evidence policy issuance, review, and approval dates.	**Please refer to response below on page 19.

- **Finding#1: Finance Management does NOT concur** - Add-ons are purchased as individual items that cost less than \$5,000. Therefore, add-ons do not meet the capitalization threshold of the city, state, or federal agencies and there is no requirement to track them in the fixed asset system. Add-ons are not material in value and there would be no cost benefit to adding additional resources to this time consuming function.

Auditor's comment: The Internal Audit department concurs with the fact that these items do not meet the \$5,000.00 threshold on a stand alone basis as denoted by the following listing provided by Jonathan Morgan, IT Radio Communications Manager, indicating the average cost of each individual peripheral item:

- Gun Lock \$397.99
- Global positioning systems \$79.95
- Camera systems \$4,550.00
- Docking Station \$327.00
- Radar \$1,197.71
- MPC01 (Light Box) \$296.80
- Siren Amplifier \$240.80
- Strobe Power Supply \$128.50
- Serial Control Box \$252.00
- Two way Radio \$2,876.80
- Camera \$600.00
- Camera Displays \$300.00

**The individual cost of a MDC unit purchased on 03/03/06 was \$4,230.00 (P.O. 11738).

Peripheral items qualify as capital due to the fact that they are equipment added to the vehicle to render it operational for its intended purpose. Our position is supported by the following stipulations extracted from state, city, and even Finance's own internal policies:

- Capital assets should be recorded and reported at their historical costs, which include the vendor's invoice (plus the value of any trade-in), initial installation cost, modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary

charges such as freight and transportation charges, site preparation costs and professional fees (The Fixed Asset Capitalization Policy, p.2, Capital Asset Acquisition Cost, “**Valuation**” – Developed by the Finance Department).

- “Capital expenditure” means the cost of the asset including the cost to put it in place. Capital expenditure for equipment means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired (Uniform Grant Management Standards, Rick Perry, Governor, p. 27, section 20, “**Valuation**”).
- “To Safeguard City Assets against loss” and “Specified city owned fixed assets include capital which is susceptible to theft” (Financial Services Directive # 5, Property and Equipment Stewardship, p. 1, “**Safeguarding**”).

▪ **Supplemental Guidance for best accounting practices:**

- Governmental Accounting, Auditing, and Financial Reporting – Using the GASB 34 Model. Stephen Gauthier (p. 253, **Capital Asset Valuation**”).

▪ **Contradictory Evidence (Finding#6):**

- Physical Verification of GPD Equipment 2009 Memo (p.1-2, “**Valuation**”).

▪ **Finding#2: ITS Management partially concurs** - During the time of the audit the ITS department was in the processes of transitioning to a new work order system, which includes an inventory control module. Therefore, the old inventory tracking system was not current and accurate. The new system is online and the information is current.

▪ **Finding#3: ITS Management concurs** - An inventory destruction policy will be created and will include the procedures for removal and destruction of grant funded devices. The inventory of these devices will be maintained in our existing Service Desk Asset Management system.

- This policy will be completed by January 31st, 2011.

Finance Management does NOT concur - a) Documentation is provided by the department when assets are being retired and no longer in service by the department. b) Procedures are in place by the city for disposition of assets that meets the requirements of the Office of Justice (Chapter 6) and State of Texas Uniform Grant Management Standards (UGMS). c) External audits have not found procedures to be deficient in this area

Auditor's comment: The position of the Internal Audit department is based on the inability by ALL the involved departments to provide to us documentation of policies and procedures concerning the disposal of city peripheral items with sensitive information that might result in legal privacy risk exposures such as the MDC units. The IT department's concurrence and efforts will provide coverage for such risks.

▪ **Authoritative Pronouncements:**

- The Department of Justice (Financial Guide, p.61, Disposal, "Compliance").

- **Finding#4: Police Management Partially Concurs** - The Police Department does not have a detailed list from Finance on what equipment to include in an Audit. A definition of peripheral inventory is needed along with a list of items to be accounted for by PD.

ITS Management concurs - The Finance department does not currently request Police vehicle peripheral equipment inventory information. The ITS department has the Police peripheral equipment inventory readily available when requested.

Finance Management does NOT concur - Finance Department provided the Police Department with an itemized list of fixed assets for fiscal year ending 2008, 2009 and 2010. The Police Department used the detail fixed assets list to audit the assets in their custody and returned an annotated list with their findings to the Finance Department. Finance used the annotated list to update the OMS fixed asset register to reflect the required adjustments, retirements or additions. The Police Department was not required to account for assets initially loaded as bulk assets or system assets because there were no details available when Finance originally loaded these assets. Finance asked Police to provide additional details if such detail was discovered during their audit.

Auditor's comment: The Internal Audit department noted that items that police peripheral items with individual unit prices below \$5,000.00 were included in Finance's requested Audit which contradicts Finance's initial stance in **Finding#1**, p. 13. Since these items were bulked up together, the level of details necessary to perform this audit was not captured by the Finance department thereby preventing Police from accounting for the listed inventory items. There is a proliferation in the accounting treatment of peripheral items regarding the method in which they are accounted for in the financial management system. Some items are expensed, others are bulked up, and some are even capitalized creating accounting inconsistencies. The current state does not allow the exercise of Financial Services Directive#5 in order to safeguard against city assets loss.

- **Authoritative Pronouncement:**
 - Financial Services Directive # 5 (Property and Equipment Stewardship, p. 1, goal: To Safeguard City Assets against loss, "**Safeguarding**").
- **Contradicting Evidence:**
 - Physical Verification of GPD Equipment 2009 Memo (p.1-2, "**Valuation**"; "**Safeguarding**").
- **Finding#5: Police Management Concurs** - The Police Department has an accurate inventory and audit of all current laptops. However destruction and disposal inventory accounting will be improved per Internal Audit recommendations.
ITS Management does concur - At the time of the audit TB 71, TB 72, and TB 75 were on loan to the Fire Department for application testing. These devices were not where they were listed to be and could not be located.
- **Finding#6: Finance Management does NOT concur** - Finance provided a list of individual Telecommunications assets under their stewardship to be audited, peripherals items installed on police vehicles are not under the stewardship of Telecommunications. Telecommunications is only responsible for receipt and installation of these items on the vehicles. Currently, these add-ons do not meet the criteria specified in Financial Services Directive # 5 or The

Office of Justice Program Financial Guide 2009 to be classified as fixed assets. Finance has recorded police add-ons as group assets even though individually these items do not meet the capitalization criteria. Finance's "Standard Operating Procedures" (SOP) for Fixed Assets will be reviewed and updated to reflect current procedures.

Auditor's comment: The Internal Audit department analyzed the **different stances** of the Finance department regarding the accounting treatment of peripheral inventory items. Some items are expensed, others are bulked up, and some are even capitalized as evidenced by the different findings below:

- **Finding#1:** Add-ons are purchased as individual items that cost less than \$5,000. Therefore, add-ons do not meet the capitalization threshold of the city, state, or federal agencies and there is no requirement to track them in the fixed asset system.
- **Finding#4:** Finance Department **provided** the Police Department with an **itemized list of fixed assets** for fiscal year ending 2008, 2009 and 2010. The Police Department used the detail fixed assets list to audit the assets in their custody and returned an annotated list with their findings to the Finance Department. Finance used the annotated list to update the OMS fixed asset register to reflect the required adjustments, retirements or additions. The Police Department was not required to account for assets **initially loaded as bulk assets** or **system assets** because there were **no details available when Finance originally loaded these assets**. Finance asked Police to provide additional details if such detail was discovered during their audit.
- **Finding#6:** Finance provided a list of individual Telecommunications assets under their stewardship to be audited, peripherals items installed on police vehicles are not under the stewardship of Telecommunications. Telecommunications is only responsible for receipt and installation of these items on the vehicles. **Currently, these add-ons do not meet the criteria specified in Financial Services Directive # 5** or The Office of Justice Program Financial Guide 2009 to be classified as fixed assets. Finance has recorded police add-ons as group assets even though individually these items do not meet the capitalization criteria.

Furthermore, it was noted that the Police department was unable to track these bulked items defeating the purpose of the inventory audit mandated by Financial Services Directive # 5. Evidence of that restriction can be noted on the "Physical Verification of GPD Equipment 2009" which outlines Police's inability to properly account for items since:

- “(35) Assets were not verified for reason that their descriptions are so broad. Thus, individually identifying them among the assets was not possible. Example of the assets is lockers, file cabinets, **emergency equipment in police vehicles**, furniture guns, police car light bars, etc...”
- “Included in the list were (19) assets described as computers. The list did not offer enough information to allow the Fixed Asset Coordinator to individually verify these items”.
- “There were (5) assets that could not be located. Descriptions of these assets range from antennas, digital recording monitor, and digital recorders”.
- “The list also included ten (10) assets described in the system as police car accessories, lights, strobes, etc.”

Based on the above statements we can certainly conclude that our rationale for what constitute peripheral items is accurate and that there are inconsistencies in the treatment of these peripheral items. Standardization and consistency is the basis for sound accounting practices.

- **Finding#7: ITS Management partially concurs** - These items are the property of the Police Department and therefore they would be responsible for completing any audits. ITS tracks inventory information and we would assist them in the audit process.
- **Finance Management does NOT concur** - Telecommunication Department is not responsible for auditing the assets under the stewardship of another department. The Justice Department’s requirement for fixed assets is \$5,000 per individual item, same as the City’s. The police peripherals do not meet the criteria to be fixed assets by the Justice Department or the City.

Please refer to **Finding#6** justification as it is applicable to this finding.
- **Finding#8: Finance Management partially concurs** - Review of the Fixed Asset Capitalization Policy in Directive # 5 did not reflect the latest revision date. The capitalization threshold increases from \$1,000 to \$5,000 effective October 1, 2002.

Auditor's comment: The Internal Audit department noted that Finance is not addressing the recommendation identified in Finding#8. The applicable policy is the "Fixed Asset Capitalization Policy" not the Financial Services Directive#5.