

3.

ACCOUNTING

3.3 Capital Assets

3.3.5 Physical Inventory

3.3.5.10 A physical inventory of the capital assets is necessary to verify that the assets still exist; it also provides updates on the condition of the assets. This information demonstrates that the local government is exercising its custodial responsibility for the asset and is beneficial when establishing an insurance claim because it substantiates both the existence and the condition of the asset near the time of loss or damage.

3.3.5.20 The simplicity or complexity of inventory taking will depend on the government's size, the sophistication of the capital asset accounting system and the level of automation. All governments should have a method to perform a physical inventory to verify the existence and condition of capital assets. Whatever approach the government takes, the following procedures are required:

1. Policies and Procedures. Policies and procedures governing the taking of regular physical inventories should be documented. These policies should require an inventory or inventories to be taken at a reasonable interval based on the nature of assets, number of assets and extent of decentralization. Policies should also conform to any statutory or regulatory requirements, such as the requirement for counties to annually inventory all capital assets per RCW [36.32.210](#) or the requirement for all assets over \$5,000 per unit purchased with federal grant funds to be inventoried at least once every two years per the OMB Circular A-102 Common Rule. The policy should define the categories or types of assets to be inventoried, the threshold of such assets to be inventoried, state who is responsible for performing the physical inventory or inventories, is responsible for following up on any missing assets and how often the inventory or inventories must take place.
2. Develop a Work Plan. The local government must centralize control over the inventory taking process and reconcile inventory records to book values. An inventory supervisor should be assigned the responsibility for developing the work plan and training and coordinating the inventory takers.
 - a. The work plan should include instructions for using prelistings of existing assets. In an ongoing system, this listing should be up-to-date and reasonably complete and should include both capitalized assets and small attractive assets that are not capitalized. (Variances between the prelisting and the actual inventory should be reconciled. See item 4 below.) Unless the government is very small, these prelistings should be sorted by location rather than asset type, because it is more efficient and accurate to count all assets in one location before proceeding to the next location. For larger governments, inventory takers should have building floor plans and maps to aid in identifying sites to inventory. By crossing off rooms or areas as they are completed, inventory takers can better assure that all assets were inventoried and that there have not been any duplications.
 - b. The inventory takers should be trained in inventorying procedures, including what to do about items located but not on the prelisting and items on the prelisting that cannot be located. (Reconciling these add-ons/deletions must be done by the inventory supervisor or accounting department after the inventory is taken. See item 4 below.) The procedures should also explain how to evaluate and record observations about the physical conditions of assets.

- c. Governments that are using individual capital asset records as their subsidiary ledger may sort these records by location and use them as the prelisting. Inventory takers also need the listing by location of small attractive assets that are not capitalized.

3. Choice of Inventory Takers

Ideally, the person(s) assigned custody for assets should not be the inventory taker, although the custodian should review the completed inventory. If using the custodian is the only practical means of taking inventory, then either the inventory supervisor or someone from the accounting department should spot check the inventory to test its validity. It will help assure that the inventory is carefully taken if the employees are aware that their work will be checked.

4. Reconciliations

Once the physical inventories are complete, they must be reconciled to the individual capital asset records or the listings of small attractive assets. Since the prelistings are generated from these records, the reconciliation is limited to: (1) identifying those assets that were purchased or transferred-in but not added to or changed on the individual capital asset records or listings of small attractive assets, and (2) investigating the disposal or transfer-out of assets not located.

There are several other reconciliations that need to be made. See [Capital Assets System Accounting](#) for a complete list.