Tangible Capital Assets

As public servants, it is our responsibility to utilize the taxpayer's dollars in the most effective and efficient way possible while adhering to laws and regulations governing those processes. There are many reasons for placing controls in various points in these processes that may appear bureaucratic, but are necessary to ensure guidelines are followed and there is accountability to the taxpayers.

This document does not address all possible circumstances that need to be considered when establishing internal controls or assessing risk for tangible capital assets. Each entity is responsible for reviewing their business practices and processes to determine where risks exist and where and how controls can be established to mitigate them.

Control Objectives:

1. Assets and records are appropriately safeguarded.
2. Adequate separation of duties exists.
3. Accountability is established as early as possible.
4. Transactions and activities are properly authorized.
5. Transactions and events are properly recorded.
6. Periodic verification of the existence and condition of assets occurs.
7. Compliance with asset reporting requirements.

Segregation of incompatible duties requires the following functional responsibilities be performed by different work units, or at a minimum, by different persons within the same unit:

1. Authorization to execute transactions: This duty belongs to persons with authority and responsibility to initiate and execute transactions such as additions and dispositions of capital assets.
2. Recording transactions: This duty refers to the accounting or record keeping function, which in most organizations, is accomplished by entering data into a capital asset system and related financial transactions into the accounting system.
3. Custody of assets involved in the transactions: This duty refers to the actual physical possession or effective physical control/safekeeping of capital assets. Capital assets may be maintained at a specific location or may be in the custody of an individual (such as mobile or assigned assets).
4. Periodic reviews and reconciliation of existing assets to recorded amounts: This duty refers to making comparisons at regular intervals and taking action to resolve differences between physical assets, capital asset system entries, and the general ledger accounts.

The advantage derived from proper segregation of duties is twofold:

- Fraud is more difficult to commit because it would generally require collusion of two or more persons, and most people hesitate to seek the help of others to conduct wrongful acts.
- By handling different aspects of the transaction, innocent errors are more likely to be found and flagged for correction.

Example Control Activities Questions:

A.	**Key Control Activities:**	**Yes**	**No**	**N/A**	**Comments**
1.	Is there a formal organizational chart defining the responsibilities of purchasing, receiving, recording, approving, and performing the inventory for capital assets?				
2.	Are there formal written procedures for performing a periodic physical inventory of capital assets?				
3.	Is a capitalization policy established which is consistent with purchase and contract requirements, federal rules and regulations, and GASB 34?				

Tangible Capital Assets

A.	Key Control Activities:	Yes	No	N/A	Comments
4.	Are capital asset records maintained that adequately classify and identify individual items?				
5.	Are development and construction records adequate to accumulate costs associated with the asset including labor and materials obtained from in-house inventory?				
Are procedures in place to ensure capital asset movements are recorded appropriately and promptly when:					
6.	assets are received?				
7.	asset location changes within the organization are made?				
8.	assets are transferred to State Surplus Property?				
9.	assets are sold?				
10.	assets are stolen, vandalized, or missing?				
11.	assets are reassigned to a different organizational entity or to another agency?				
12.	Are all disposals of property (including scrapping or dismantling) approved by a designated person with proper authority?				
13.	Are donated assets valued at fair-market value at the time of donation?				
14.	Are gains and losses properly recognized from disposals of capital assets in proprietary fund types?				
15.	Are property records reconciled periodically to capital asset accounts at least annually?				

B.	Segregation of Duties:	Yes	No	N/A	Comments
1.	Are responsibilities for approving capital expenditures separated from maintaining capital asset records?				
2.	Are responsibilities for purchasing capital assets segregated from those with authority to commit government resources?				
3.	Are responsibilities for maintaining property records segregated from custodial functions?				
4.	Are responsibilities for approving capital expenditures separated from recording accounting entries?				
5.	Are responsibilities for maintaining detailed property records separated from recording related accounting entries?				
6.	Are responsibilities for the periodic physical inventories of capital assets assigned to responsible officials having no custodial or record keeping responsibilities?				
7.	Does the entity use computer software to account for capital asset balance additions, deletions, balances, and depreciation?				
8.	Is access to computer programs, and functions within programs, limited to those who have a legitimate need?				
9.	Is access to make changes to capital asset master files restricted to appropriate personnel?				

C.	Procedural Controls:	Yes	No	N/A	Comments
1.	Are all asset purchases and receipts approved by a designated person with proper authority?				
2.	Are capital assets identified with inventory tags when				

Tangible Capital Assets

C.	Procedural Controls:	Yes	No	N/A	Comments
	received to ensure asset numbers can be tracked in property accounting records according to the entity's policy?				
3.	Has the entity established capitalization thresholds?				
4.	Are these capitalization thresholds documented?				
5.	Are the capitalization thresholds communicated to appropriate personnel?				
6.	Is there adequate physical security surrounding capital asset items?				
7.	Is there adequate insurance coverage of the capital asset items?				
8.	Is the total purchase price of the capitalized item, less discount and any expenditure required to place asset in its intended state of operation, included in the value to be capitalized?				
9.	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?				
10.	Does the recorded asset cost of building include: purchase price, contract price or job order costs plus any other expenditure 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?				
11.	Are the distinctions between expensing and capitalizing maintenance costs clearly defined in established policies and procedures?				
12.	Are the policies for expensing versus capitalization of capital asset maintenance costs consistently followed?				
14.	Are dismantling and scrapping costs accounted for properly?				
15.	Is 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?				
16.	Do financial accounting records properly distinguish between capital-projects fund expenditures and operating budget expenditures for capital assets?				
17.	Are financial records reviewed to ensure proper allocation of charges to capital asset and expenditure projects?				
Are periodic inventory of documents evidencing property rights (i.e.; deeds, leases, etc.) performed to ensure that deeds and titles are:					
18.	*properly prepared*?				
19.	*legally recorded*?				
20.	*properly safeguarded*?				
21.	Is there verification that the correct depreciation calculations are being made?				
22.	When assets are depreciated is the depreciation policy consistent from year to year?				

Tangible Capital Assets

C.	Procedural Controls:	Yes	No	N/A	Comments
23.	When assets are depreciated is the depreciation fully funded?				
24.	When assets are depreciated are useful lives reasonable?				
25.	Are depreciation charges discontinued when an asset or group of assets becomes fully depreciated?				
26.	Are records maintained of fully depreciated assets that are still in use?				
27.	When costs are charged against federal grants, are depreciation policies or methods of computing allowances in accordance with standards outlined in OMB circulars or grantor agency regulations?				
28.	Is executive or legislative approval obtained for all significant capital asset projects or acquisitions?				
29.	Is executive or legislative approval obtained for decisions regarding financing alternatives associated with major capital asset acquisitions?				