

COUNTY COUNCIL OF WICOMICO COUNTY, MARYLAND

2014 Legislative Session

Legislative Day No. 07

Resolution No. 29-2014

Introduced by: The President of the Council

A RESOLUTION ADOPTING THE
WICOMICO COUNTY ASSETS AUDIT REPORT.

WHEREAS, under Section 305, titled "County Internal Auditor" of the Charter of Wicomico County, Maryland, the Internal Auditor is charged with the duty to report on internal accounting controls, administrative and operating practices and procedures, and other pertinent financial and compliance matters within Wicomico County; and

WHEREAS, the Internal Auditor has submitted a Wicomico County Assets Report for the County Council's consideration that focuses on the policies and procedures for tracking, booking, and depreciating assets, as well as the level of compliance with those procedures and controls.

NOW, THEREFORE, BE IT RESOLVED, by the County Council of Wicomico County, Maryland that the Wicomico County Assets Audit Report submitted by the County Internal Auditor, attached as Exhibit A, is approved and adopted.

Done at Salisbury, Maryland, this 1st day of April, 2014.

ATTEST:

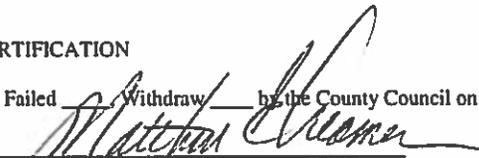

Matthew E. Creamer,
Council Administrator

COUNTY COUNCIL OF
WICOMICO COUNTY, MARYLAND

Matt Holloway,
Council President

CERTIFICATION

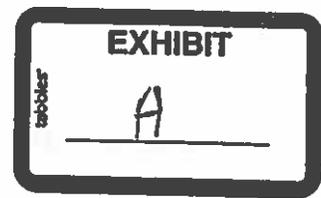
This Resolution was Adopted , Adopted with Amendments , Failed , Withdraw by the County Council on April 1, 2014.

Certified by 
Matthew E. Creamer, Council Administrator



Wicomico County, Maryland
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Steve Roser, CPA, CIA/CRMA, CFE
Internal Auditor

February 14, 2014

Internal Auditor's Report

The County Council and County Executive of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 106-2013, the Office of the Internal Auditor (IA) has conducted an operational audit of the assets belonging to Wicomico County. A report is submitted herewith. The purpose of the audit was to determine the adequacy of procedures and controls along with the level of compliance with those procedures and controls for the process accounting for assets belonging to Wicomico County.

IA conducted the audit with due professional care, and IA planned and performed the audit to obtain reasonable assurance about whether the current practices for tracking, booking, and depreciating assets are in compliance with applicable policies and procedures and whether those policies and procedures are adequate to obtain an acceptable level of control.

The audit revealed that the county maintains a system for controlling assets that is adequate for its stated purposes. We expanded the scope of the audit to evaluate equipment and vehicle usage over time for selected departments. Additionally, we evaluated county real property assets.

IA extends our appreciation to Management and Staff of Wicomico County across numerous departments for their timely assistance, cooperation, and candid assessment of county-owned property.

Respectfully submitted,

Digitally signed by J. Stephen Roser, CPA
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c=US
Date: 2014.02.14 12:27:34 -05'00'

J. Stephen Roser, CPA
Internal Auditor

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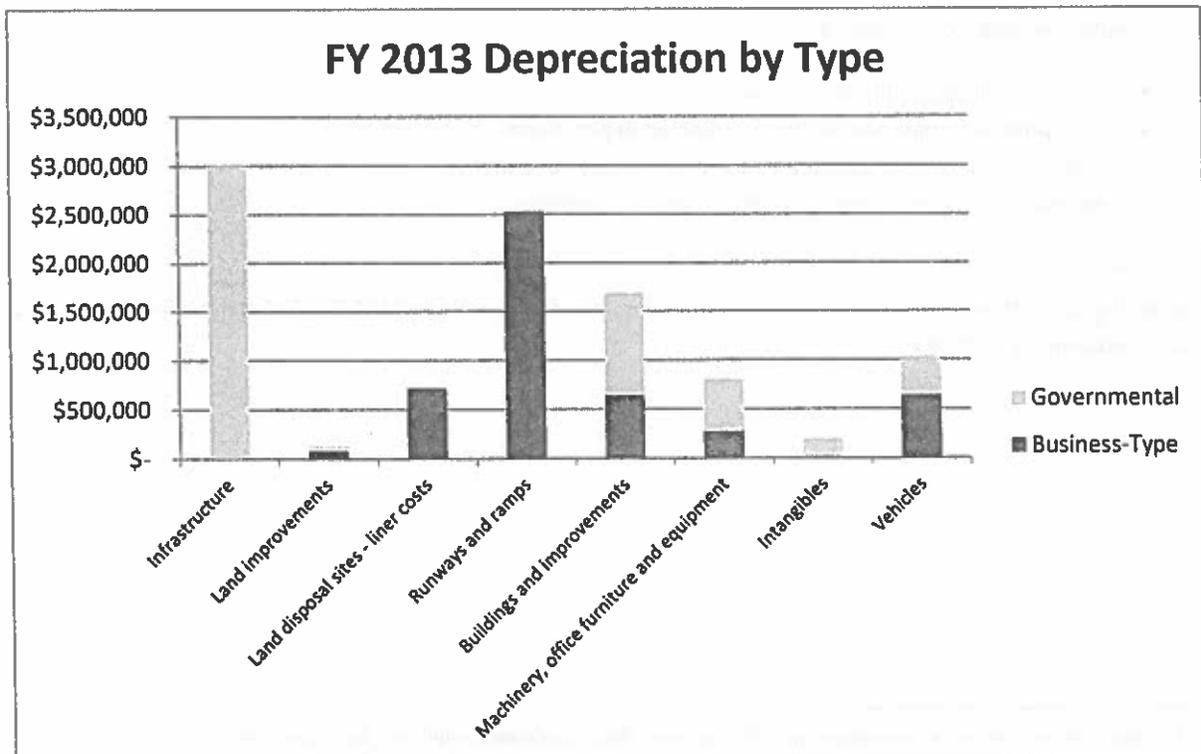
Audit Report

Background

Assets appear on government balance sheets in several forms including cash, some financial instruments, real property (land and buildings), and personal property. The original focus of this audit was personal property, subsequently expanded to include real property. Personal property includes a vast array of items including equipment, vehicles, furniture, and computers. A general rule of thumb in accounting states that if an item is designed to last more than one year, that item should be booked as an asset and depreciated. It is of related significance to differentiate between repairs (expenses) and capital expenditures. Additionally, as a practical matter, the county must apply some dollar threshold for booking capital assets in order to avoid an unworkable number of items booked as assets. As evidenced by the aforementioned, the concept of an asset is not a simple matter. Additionally, differences exist (both practical and required by various standards) in accounting for assets between government and business sectors.

Classes of Assets - Class Life

Class life and related depreciation as concepts have implications for both business and government. A newly purchased asset is booked at cost and depreciated over the class life assigned to that asset. The calculated annual depreciation becomes a non-cash expense for the associated period. For business, depreciation reduces net profit and associated income taxes. In general, government entities appropriate funds for depreciable items through budgeting. Government does not have stockholders and associated dividend payments driven by net profit, nor do governments (as a general rule) pay income taxes. One could conclude therefore that depreciation for government has different implications than that of the private sector. A graphical representation of depreciation by type for Wicomico County for fiscal year ending June 30, 2013 follows:



Class life assignments used by the county mirror those prescribed by the State of South Dakota¹ and appear reasonable. MUNIS² automatically calculates depreciation for the county each year based on class lives assigned. IA reviewed the data and found satisfactory results.

Audit Objectives

The objectives of the audit were to:

1. Assure that procurement of assets meets the County's policies, procedures, and limit of authority³
2. Assure that tangible fixed assets are properly recorded at cost/valuation
3. Assure that tangible fixed assets physically exist

Scope of the Audit

The audit period examined on a test basis was FY 2013. The Scope was open ended. Observations and Inquiries with appropriate personnel were conducted, as well as examination of various documents pertaining to accounting for tangible fixed assets including, but not limited to:

- Identifying internal controls over tangible fixed assets
- Review procedures for purchasing decisions and authorization
- Review payment authorization procedures
- Review maintenance of a fixed asset register
- Determine frequency of physical checks and reconciliation of the register
- Review physical safeguard (e.g. control over unauthorized access and movements of tangible personal assets)

IA expanded the scope of the audit to include:

- Limited evaluation of real property assets
- In-depth equipment evaluations for selected departments
- Lease-buy analysis for selected Public Works heavy equipment
- Review of a new Public Works policy concerning mowers

General Highlights and Statistics

According to the Wicomico County Financial Statements, the county owned \$136,174,686 in net assets on June 30, 2013. Breakout is as follows:

¹ For more information see www.state.sd.us/legislativeaudit/Municipalities/Useful_Life_Table_body.htm

² MUNIS is an acronym for the accounting software employed by the county

³ Please note that a more in-depth analysis of the procurement process may be found in the Contract Procurement Audit (report dated November 25, 2013) along with scheduled subsequent follow-up

	Government	Business Type ⁴	Total
Land	6,499,654	8,154,168	14,653,822
Intangibles (non-depreciable)	7,643,683	27,500	7,671,183
Construction in Progress	4,916,141	5,688,990	10,605,131
Infrastructure	168,015,414	-	168,015,414
Land Disposal Sites - Liner Costs	-	18,480,245	18,480,245
Land Improvements	1,083,164	3,773,745	4,856,909
Runways and Ramps	-	53,508,195	53,508,195
Buildings and Improvements	36,201,377	32,055,670	68,257,047
Machinery, Office Furniture, and Equipment	7,241,468	5,209,292	12,450,760
Intangibles (depreciable)	1,901,141	113,807	2,014,948
Vehicles	11,327,468	8,076,756	19,404,224
Total Assets	244,829,510	135,088,368	379,917,878
Less Accumulated Depreciation	(172,285,303)	(71,457,889)	(243,743,192)
Net Assets	72,544,207	63,628,469	136,174,686

The chart shows total asset basis of roughly \$380 million less \$244 million in accumulated depreciation. The highlighted areas represent the original focus of the audit.

Asset Cycle

There are two ways to capture assets on the county books. On a weekly basis, an accountant in the Finance Department manually monitors vouchers and invoices paid in order to separate capital expenditures from regular expense and book them as assets with the correct coding in MUNIS. Alternatively, MUNIS has a purchase order import function designed to streamline the process. The county uses a \$5,000 threshold for capitalizing assets. Additionally, Finance personnel must monitor purchase card transactions for capital expenditures. Once identified an asset gets proper coding in MUNIS and a class life assigned. Depreciation calculation is automatic as part of the year-end closing process. Please see Appendix I for a block diagram representing the entire cycle.

Valuation

Accounting rules require asset valuation at cost. This is normally a straightforward process. Situations arise, however, in which an asset is constructed over time, or improved upon, extending its class life. County accountants must remain vigilant in order to pick up situations such as construction in progress to assure proper coding.

Conclusion

Based on testing, evidence gathered, and interviews performed pursuant to the County Assets Audit, IA is of the opinion that the procurement, recordation, and existence of county assets are at a level satisfactory⁵ to the criteria tested.

⁴ Business type activities for Wicomico County include Solid Waste, the Airport, the Nursing Home, Urban Services, Convention and Visitors Bureau, and the Civic Center

⁵ For the purposes of this audit, IA uses a three-tier grading system recommended by the International Professional Practices Framework (IPPF) as expressed by the IPPF Practice Guide issued March 2009. The three tiers are Inadequate System of Internal Control, Adequate System of Internal Control, and Satisfactory System of Internal Control. Satisfactory findings indicate that overall controls are satisfactory, although some enhancements may be recommended. It is the highest rating on the scale.

Schedule of Findings and Recommendations

The findings listed below represent some key issues that bear discussion as an added feature to the audit process. It is noteworthy that Wicomico County assets procurement, recordation, and existence, as stated in the conclusion, are satisfactory. The audit revealed no evidence of material weakness or significant deficiencies in the areas tested. The findings are both positive and negative and they do not rise to the level of concern that material weakness or significant deficiencies would garner.

1. Risk and Materiality

Risk associated with assets centers around misappropriation and excess. Misappropriation occurs when assets are "borrowed" or stolen. The risk of misappropriation is the risk of an employee "borrowing" a front-end loader over a weekend to smooth his driveway, or the risk that someone commandeers a county laptop computer for personal use. Management must remain vigilant to prevent such occurrences by securing assets and through observation. Additionally, the county provides an avenue for whistle-blower protection through its hotline program to help mitigate misappropriation risk.

Excess is the risk of purchasing unneeded assets. We obtained evidence that the county is involved in a robust effort to evaluate needs prior to purchasing vehicles and equipment. The county purchasing process, including the use of website tools and the creation of a new purchasing manual, enhances the evaluation effort. Additionally, IA discussed materiality considerations for depreciation with our external auditors. Depreciation expense represents a low risk for material misstatement of the county financials.

As mentioned in the Asset Cycle section of the General Highlights and Statistics portion of this report, the county has a \$5,000 threshold for booking assets in order to prevent an unworkable number of assets on the books for depreciation and financial reporting. A large number of tools and equipment fall below the threshold (computers, for example). In order to mitigate the risk for assets that fall into this category, the county utilizes a module in MUNIS that allows for the tracking of these types of assets without inclusion in financial asset/depreciation reporting. Tracking for these assets occurs by applying permanent numbered stickers to these items and inclusion in the MUNIS database. Discovery sampling of this process indicates that the process could be improved.

2. Asset Recording and Existence

Booked Assets (Assets > \$5,000)

As mentioned in the previous section of this report, the county *books* assets costing over \$5,000. IA developed a non-statistical sample of booked assets from MUNIS records. We then attempted to locate the chosen assets in the field. None of the departments tested showed any difficulty locating assets when presented with the MUNIS description. That is, all assets tested were easily located and none of the assets tested were missing. IA makes no recommendations regarding booked assets.

Tracked Assets (Assets < \$5,000)

The county *tracks* assets costing between \$1,000 and \$4,999 for the purpose of internal control without placing these items on the balance sheet and calculating associated depreciation. According to Finance personnel, all Laptop computers costing less than \$5,000 (as a rule) fall into this category. IA tested tracked assets by randomly selecting seventeen items on the third floor of the Government Office Building that likely fell into the tracking category. Five of the seventeen items did not have numbered stickers and only one of the items appeared on the MUNIS tracking list. Management may want to evaluate tracked assets to determine if enhanced controls pass the cost/benefit test. IA, with Council's permission, stands ready to assist in the process if desired.

3. Real Property

IA performed a study of real property booked by the county. We asked for, and received, a listing of real property holdings from the Wicomico County Finance department. We secured another list of real property under the name of "Wicomico County" from the County Courthouse. The courthouse list contained 181 properties and the county list from Finance contained 146 properties. A comparison revealed that the vast majority of the additional properties in the courthouse listing appear to belong to outside entities with "Wicomico County" in the entity name (e.g. Wicomico County Housing Authority). We next compared the Finance Department list for book value to the State of Maryland Website and found 99.67% accuracy for matched properties. We therefore make no recommendation regarding county booking of real property.

4. Vehicle Evaluation

IA evaluated equipment and vehicle usage for Public Works and Recreation/Parks Departments. We evaluated 197 vehicles and pieces of equipment for Public Works and 72 vehicles for Recreation and Parks. We calculated fuel consumption (gallons) for each asset to breakout three main criteria:

- Three-month rolling average
- Seasonal usage
- Annual usage

Fuel data contained in the county fuelmaster system dates from May 2009 to the present. We used all available data until the cutoff date (August 1, 2013). Additionally we subjectively evaluated volatility of usage based on three-month rolling average of fuel consumption. We then provided the data to the affected departments to assist their evaluation of overall needs. Appendix II contains an example of graphical analysis of a Roads Division dump truck.

5. Lease or Buy Decisions

Some vehicles and equipment used by Wicomico County are purchased, others are leased⁶. We expanded the scope of the audit to determine if leasing made sense for the county. We evaluated a wheel loader from Solid Waste as an example. Variables considered included the following:

- Parts, labor, and transportation costs charged by the lessor
- Wicomico County in-house parts
- Maintenance costs over time
- Length of lease/use
- Maintenance increase factors for aging
- Purchase price
- Sum of lease payments with imputed interest
- Sunk costs (e.g. fuel)

In the process, we created a pro-forma spreadsheet that decision makers can use for other evaluations. We determined that, for the wheel loader tested, it was less expensive to purchase than to lease if the county uses the vehicle for ten years or more. It is interesting to note that maintenance costs for this wheel loader trended flat over five years.

⁶ It should be noted that the lease reviewed is not an operating lease, it is a capital lease. That is, the county makes lease payments that contain imputed interest and title of the equipment can pass to the county at the end of the lease period. The lease is essentially a finance arrangement. There are, however, other considerations concerning the lease; including provided maintenance, etc.

6. Mower Study Evaluation

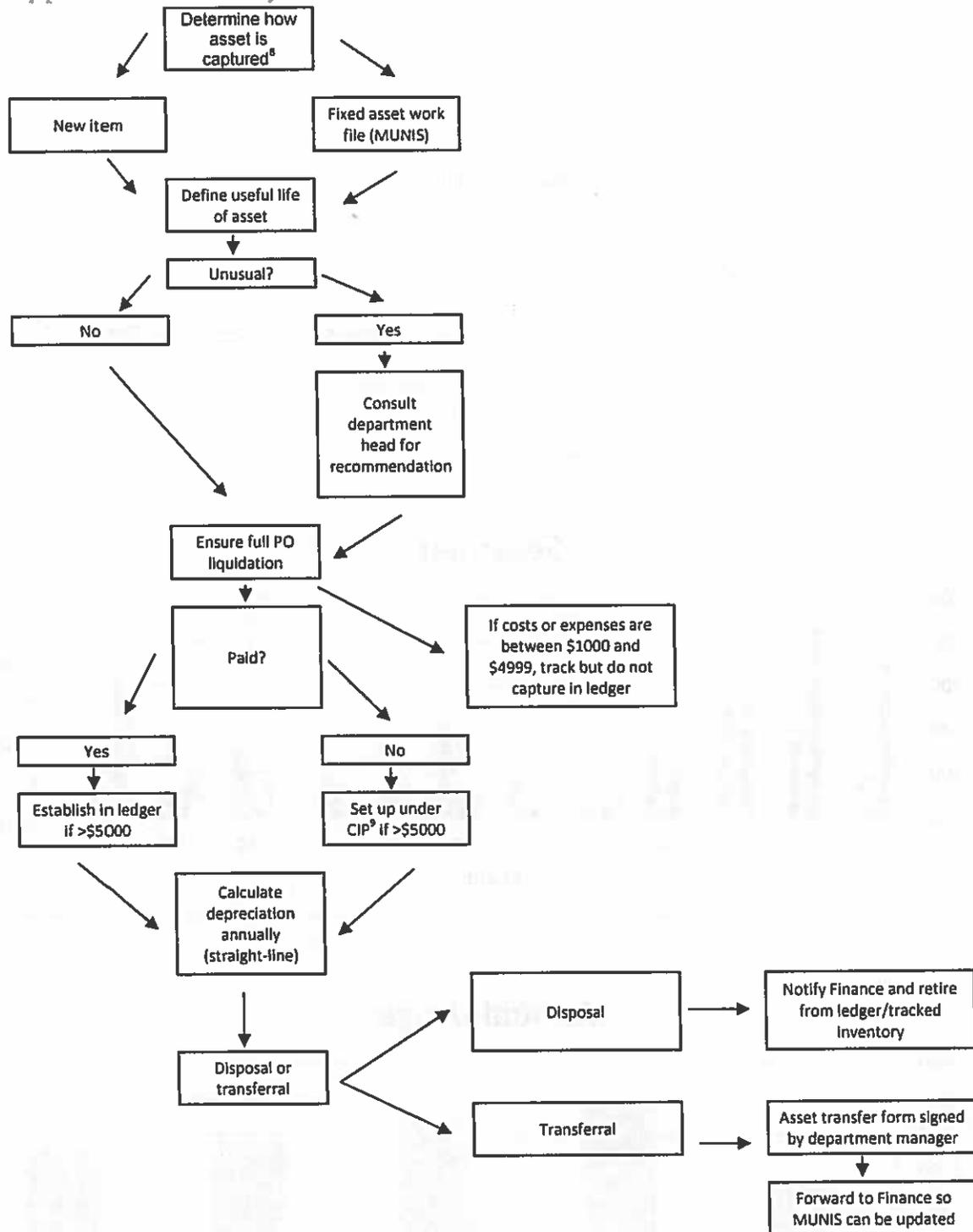
IA evaluated a tractor (mower) analysis performed by Roads Division management. The project was a comprehensive evaluation of Roads Division needs concerning type and function of the mowers employed to keep the grass cut along county roadways. The study indicated that economies of scale could be gained using flail⁷ mower decks along with a single manufacturer of tractors. Additionally, Roads Division considered many of the same variables in the lease/buy analysis. A high-level review found no significant problems with the analysis.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from numerous Wicomico County Departments for their timely cooperation and assistance during the audit.

⁷ According to Grounds Maintenance Magazine: "By definition, a flail mower uses banks of flails (or "knives") instead of blades. A flail is a short piece of metal that operates by beating the grass (flailing it) and breaking it off. At high speeds, the job is done quite efficiently." For more information see http://grounds-mag.com/mag/grounds_maintenance_mowing_gets_rough/

Appendix I – Asset Cycle Flow Chart



⁸ Assets can be captured by importing the purchase orders directly into MUNIS software (fixed asset work file), or by manually monitoring the invoices paid on a weekly basis

⁹ Construction in process – the asset has not been fully constructed/purchased

Appendix II - Graphical Evaluation for Vehicle 095 (2005 International Dump Truck)

