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December 2001

The County Council and County Executive
of Prince George's County, Maryland

We have conducted a performance audit of the

OFFICE OF CENTRAL SERVICES

in accordance with the requirements of Article III, Section 313, of the Charter for Prince George's County, Maryland. Our report is submitted herewith. The scope of the audit and our findings, comments, and recommendations are summarized on the following page.

Successful implementation of some of the recommendations that appear in this report will require action by the Chief Administrative. Implementation of other recommendations will require the cooperation of agencies whose activities affect those of the Office of Central Services.

We have discussed the contents of this report with appropriate personnel of the Office of Central Services, and wish to express our sincere gratitude to them for the cooperation and assistance extended to us during the course of this engagement.

David H. Van Dyke, CPA
County Auditor

Donna M. Ervin
Staff Auditor

Mackenzie Lewis
Staff Auditor

OFFICE OF CENTRAL SERVICES

SUMMARY OF PERFORMANCE AUDIT

DECEMBER 2001

The Office of Audits and Investigations performed an audit of the Office of Central Services in accordance with the County Charter. We reviewed the process for maintaining the County's fixed assets inventory, and conducted a complete physical inventory of all fixed assets assigned to County agencies. We evaluated the adequacy of the goals, objectives and standards of the Fleet Management Division, examined vehicle maintenance and repair data, and reviewed the established vehicle retirement/replacement criteria. Additionally, we examined the operations of the Motor Pool and evaluated the adequacy of internal controls over the vehicle parts inventory. The major areas addressed in our report are:

- The revisions to the Fixed Assets Procedures Manual need to be updated and completed.
- Agency Fixed Asset Representatives need to be appointed and properly trained.
- There is the potential for purchases of fixed assets to be excluded from the fixed asset system.
- Inadequate documentation was maintained, in some instances, for assets turned-in, transferred, and retired.
- Certain agencies have assigned fixed assets that cannot be accounted for (see Schedule A of report).
- Comprehensive goals, objectives and standards for the Fleet Management Division need to be established.
- The M/4 CS Fleet Management System is not being utilized to its full potential. Various data is currently unavailable to make a determination as to whether the Fleet Management Division is operating efficiently.
- Long-range information technology planning should be considered for the Fleet Management Division.
- Retirement/replacement criteria should be developed for classes of vehicles other than administrative and emergency sedans.
- Allocation of vehicles to the Motor Pool should be reevaluated, along with rental charges.
- Motor Pool vehicle usage by non-County employees should be reconsidered; additional records should be maintained related to Motor Pool vehicle users.

We wish to thank the Office of Central Services for its assistance and cooperation. We are available to provide assistance in implementing the recommendations contained in this report, or in any other area where the agency may have concerns.

CHAPTER 1

FIXED ASSETS INVENTORY SYSTEM

INTRODUCTION AND SCOPE

The Office of Central Services (OCS) is responsible for inventory control and management of the County's fixed assets. The Materiel Management Section, Fixed Assets Unit (FAU) is responsible for maintaining an accurate inventory of general fixed assets. The Fleet Management Division (FMD) is responsible for maintaining an accurate inventory of vehicles and the Surplus Property Acquisition and Disposal Unit (SPADU) is responsible for the marketing and distribution of surplus supplies, materials and equipment owned by the County.

Administrative Procedure 691, revised May 12, 1994, assigns responsibilities for establishing and maintaining an inventory of fixed assets and the authority of the fixed assets manual. The Procedure states the Office of Finance and the Office of Central Services shall develop and maintain a fixed assets manual. Administrative Procedure 608, revised May 8, 1981, establishes uniform procedures and proper coordination and accountability for the acquisition and disposition of County and Federal surplus and excess materials, supplies and equipment. The Fixed Assets Procedures Manual, dated March 1982, revised May 1985, establishes the detailed procedures and represents a comprehensive plan of operations for the County's fixed assets system.

A fixed asset is defined as an item purchased that has a useful life of not less than one year and has an initial acquisition cost of \$5,000 or more when purchased with County/Federal funds and \$500 or more when purchased with State funds. A fixed asset can also be an item that is considered sensitive in nature such as a weapon.

Each County agency is to assign at least one staff member as a Fixed Assets Representative (Representative) who serves as the liaison with the FAU, SPADU and the FMD. The Representative is to ensure that the agency's fixed assets information is provided to the FAU, SPADU and FMD, and that the fixed assets are recorded on the fixed assets inventory records. The Representative is also responsible for performing quarterly and biennial physical inventories of the agency's fixed assets as required in the Fixed Assets Procedures Manual.

As of May 2000, the County maintained an inventory of 3,130 general fixed assets valued at \$16,235,805, and as of April 2000, an inventory of 5,347 vehicles valued at \$36,202,717.

During our audit, we reviewed the process for maintaining the County's fixed assets inventory, and conducted a complete physical inventory of all County general fixed assets and vehicles. We have selected for presentation in this chapter those areas for which we are recommending improvements or which otherwise merit discussion.

FINDINGS, COMMENTS AND RECOMMENDATIONS

Fixed Assets Procedures Manual

The Fixed Assets Procedures Manual (Manual) establishes specific procedures for processing fixed assets from the time they are purchased through disposal. The Manual establishes who is specifically responsible for the various processing steps.

We noted that efforts have been taken to update the Manual in previous years; however, the revisions have not been completed. The Manual is currently in the process of being revised to be in compliance with the new Governmental Accounting Standards Board (GASB) Statement No. 34. In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, that established a whole new financial reporting model, for state and local governments. Included in this new financial reporting model are changes in how state and local governments

record fixed assets and depreciation of these fixed assets on their financial statements. Certain aspects of this Statement affect the County's fixed assets system and will require revisions to the Manual.

In addition to the needed revisions for GASB Statement No. 34 requirements, we learned that the Manual does not include how fixed assets purchased through CIP projects (such as renovations) should be processed to ensure they are entered into the system. We recommend that:

- 1. The Director of Finance, in conjunction with the Director of Central Services, complete the revisions to the Fixed Assets Procedures Manual within the near future. The revisions should include provisions for compliance with GASB Statement No. 34, and procedures for recording fixed assets purchased through CIP projects. Additionally, CIP project managers should advise the Office of Finance and the related agency when a fixed asset has been purchased. The agency's Fixed Assets Representative should submit the proper form to the FAU so that the item is recorded in the fixed assets system.**

The Manual requires that each agency designate at least one staff member as a Fixed Assets Representative who serves as the liaison between the agency and the FAU, SPADU and FMD, and is responsible for maintaining the agency's fixed assets records and conducting inventories on fixed assets. During our audit, we found that agencies are not always reassigning duties of the Fixed Assets Representative to another person when the prior Representative is relieved of these duties. We learned that new Representatives were unfamiliar with the Manual and procedures, and that they are not receiving training from the FAU or the prior Representative. Additionally, we learned that the FAU has no formal routine training schedule for Representatives. Adequate training should be provided to Representatives since they are a vital link to ensuring that fixed assets are properly accounted for and processed accordingly. We recommend that:

- 2. Department/Agency heads ensure that replacement Fixed Assets Representatives are appointed when necessary and that they receive proper training to process fixed assets.**
- 3. The Chief of the Materiel Management Section establish a routine schedule of training courses for Fixed Assets Representatives.**

New Fixed Assets

Fixed assets are acquired through various procurement methods and by donations or gifts. The primary procurement methods used by the County to purchase fixed assets are direct purchase orders and purchase agreements.

When a fixed asset item is acquired through a direct purchase order, the purchase requisition should be coded with the appropriate account number that designates the item as a fixed asset. When the item is actually purchased, an electronic notification is automatically generated at the FAU or FMD advising staff that a fixed asset is being purchased. Once the item has been received, tagged and processed appropriately by agency representatives or FMD staff, the fixed asset's data is entered into the fixed assets system by FAU or FMD staff.

When a fixed asset item is acquired through a purchase agreement, the purchase requisition is not coded with the account number that designates it as a fixed asset, but coded with a reimbursable account number because of the financing method. Once the item has been received, the Fixed Assets Representative is to notify the FAU or FMD so that it can be processed and entered into the fixed assets system.

According to discussions with FAU staff, some fixed assets do not get entered into the fixed assets system because the FAU does not receive the electronic notification, which is a result of requisitions not being coded with the proper account code. Additionally, the Fixed Assets Representatives failed to advise the FAU when the items were received.

We reviewed purchases of 56 vehicles and 17 fixed assets made through two purchase agreements (in 1996 and 1998). We found that 17 general fixed assets and 5 vehicles purchased through the agreements were not entered into the fixed assets system. This was the result of the items not being coded with the proper account number designating the item as a fixed asset, and the Fixed Assets Representatives not notifying the FAU and FMD that the items were received. In addition, we noted five other items purchased under the agreements where a determination by the FAU and FMD needed to be made regarding the items fixed asset status.

It appears that occasional monitoring is performed to ensure items are properly coded, but monitoring is not done on a consistent basis. According to discussions with staff in the Office of Management and Budget, the Office of Central Services/Procurement Division, and the Office of Finance/Accounting Division, no one monitors the purchasing of fixed assets on a consistent basis. The FAU does not receive copies of purchase orders; therefore, they cannot monitor what is being purchased and what should be entered into the fixed assets system.

During our review and discussions with various agencies' staff we determined that there is poor communication between agency purchasing staff and agency Fixed Assets Representatives. Purchasing staff are not notifying the Representatives when fixed assets are purchased. Additionally, purchasing staff have not received adequate training regarding the purchasing of fixed assets or the process for maintaining fixed assets records.

To ensure that fixed assets are properly coded and entered into the fixed assets system when purchased, we recommend that:

- 4. Department/Agency heads ensure that staff who are responsible for procurement activities are familiar with the Fixed Assets Procedures Manual.**

5. **Department/Agency heads take steps to ensure that staff who purchase fixed assets properly code purchases as fixed assets when they enter a direct purchase order requisition; and require the purchasing staff to properly inform the appropriate agency Fixed Assets Representative that a fixed asset is being purchased. The Fixed Assets Representative then needs to ensure that the fixed asset is properly recorded in the fixed assets system.**
6. **The Director of Central Services and/or Office of Finance request the Office of Information Technology and Communications evaluate the MSA procurement system to determine if the system can be revised to provide an exception report listing line item purchases at \$5,000 and above for purchases made with County/Federal funds and \$500 and above for purchases made with State funds. The exception report should be used by the Fixed Assets Unit and the Fleet Management Division for review and monitoring purposes to ensure all fixed assets have been recorded in the fixed assets system.**

During our review, we learned from FAU staff that Fixed Assets Representatives are not advising the FAU when replacement component parts or equipment is purchased for a fixed asset. The FAU needs to be advised regarding renovations, upgrades, or major repairs to fixed assets so that new information related to the fixed assets (i.e., new serial numbers, values) can be reviewed. A determination should then be made as to what new data needs to be recorded in the system. Additionally, when the County purchases a building, the FAU does not inspect the building to ensure that any fixed assets in the building are noted and entered into the fixed assets system. We recommend that:

7. **Department/Agency Fixed Assets Representatives advise the Fixed Assets Unit when replacement component parts or equipment are purchased as an upgrade to a current fixed asset. The FAU should then make a determination as to what new data should be entered into the fixed assets system records.**
8. **The Director of Central Services establish a review method for inspections of buildings purchased by the County to ensure that any fixed assets in the facility are recorded in the fixed assets system.**

Fixed Assets Turned In or Transferred

A Property Turn-In Report (PGC #8) is to be submitted to the SPADU or the FMD when an agency no longer needs a fixed asset or the fixed asset is no longer usable. The general fixed

asset or vehicle is inspected by the SPADU or FMD to determine whether the item/vehicle is still usable. The fixed asset is retired from the agency's fixed assets list and recorded under a holding agency until the item/vehicle is transferred to another agency or is disposed. If a vehicle is to be disposed, a copy of the Property Turn-In Report is submitted to the SPADU for processing. Once the vehicle is disposed, information is recorded on a copy of the Property Turn-In Report regarding disposal actions taken, which is then forwarded to the FMD. The FMD will then delete the vehicle from the fixed assets system.

A Notice of Loss or Damage form is to be submitted to the FAU or FMD when an item/vehicle is lost, stolen or damaged. The FAU or FMD will then retire the item/vehicle from the agency's fixed assets list. A Transfer of Fixed Assets form is to be submitted to the FAU or FMD when an agency transfers an item/vehicle within a department (from one activity or subactivity to another) or to another agency. The FAU or FMD will then retire the item/vehicle from the transferring agency's fixed assets list and add it to the receiving agency's list.

We performed a physical inventory of fixed assets assigned to County agencies only based on the fixed assets listings produced and maintained by the Office of Central Services. The general fixed assets lists were as of May 2000, and the vehicle lists were as of April 2000. The actual physical inventory was conducted during fiscal year 2000-01. The vehicle inventory included a verification of vehicle identification numbers, tag numbers, and make and model of all vehicles included on the asset listing. The general fixed assets listing included a verification of the fixed assets tag and a manufacturer's serial number where applicable. We also inventoried all weapons assigned to the Police Department, the Office of the Sheriff, the Department of Corrections, the Fire Department, and the Office of the State's Attorney.

The results of our physical inventory by agency are shown on Schedule A of this report.

Based on our review of the process of accounting for fixed assets and our physical inventory, we found the following deficiencies:

- There were instances where no documentation existed as to a fixed asset's location and/or disposition (See Schedule A). We considered these fixed assets unaccounted for.
- As discussed earlier in the report, we noted instances where various agencies had fixed assets that were not included on the fixed assets listings.
- Property Turn-In Report forms, Transfer of Fixed Assets forms and Notice of Loss or Damage forms are not always submitted to the FAU, SPADU or FMD by agencies when fixed assets or vehicles are turned in, transferred to another agency, lost, stolen or damaged.
- The FAU, SPADU or FMD are not retiring items from the fixed assets system in a timely manner when these forms are received from an agency, in some cases. We noted that items had not been retired after a few months and up to 2 or 3 years.
- Agency Fixed Assets Representatives are not following up closely with the FAU, SPADU or FMD on fixed assets transferred, turned in, lost, stolen or damaged to ensure items/vehicles are retired from their fixed asset list.
- FMD is not deleting vehicles from the fixed assets system after vehicles have been sold or junked.
- FMD is not following up closely on vehicles sent to the SPADU. Vehicles were supposedly sent to the SPADU to be disposed, but the SPADU had no records/forms on hand to verify that the Unit received the vehicles and sold them.
- FAU does not record fixed assets under the holding agency when fixed assets are held for possible future reuse by an agency. Therefore, the fixed asset's value is not maintained in the fixed assets system for recordation and depreciation purposes.

To ensure that the fixed assets are properly safeguarded and fixed assets records are adequately and accurately maintained, we recommend that:

- 9. Agency Fixed Assets Representatives submit Property Turn-In Report forms, Transfer of Fixed Assets forms, and Notice of Loss or Damage forms (as applicable) to the Fleet Management Division, Fixed Assets Unit or Surplus Property Acquisition and Disposal Unit for vehicles and general fixed assets that are turned in, transferred, lost, stolen, or damaged. The Representatives need to closely follow-up on all items and vehicles that are turned in or transferred with the applicable organizational unit to ensure that items or vehicles are retired from their agency's fixed assets listing.**
- 10. The Fixed Assets Manager retire items from agency fixed assets lists in a timely manner.**

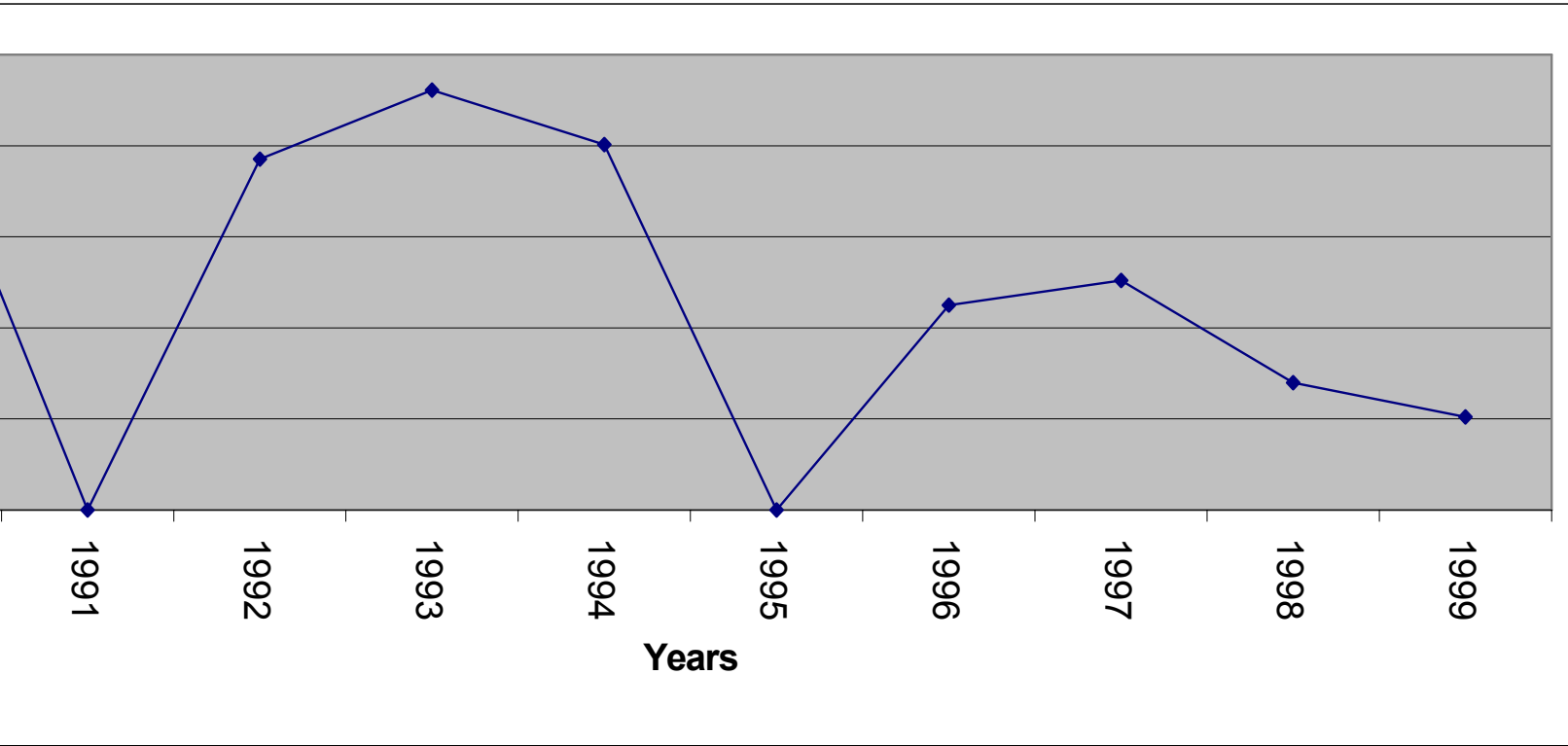
- 11. The Fixed Assets Manager record fixed assets under the holding agency in the fixed assets system for items that are held as surplus. The fixed assets should remain under this holding agency until the item is sold, disposed of, or transferred to another agency.**
- 12. The head of the Fleet Management Division take steps to have vehicles deleted from the fixed assets system once they are sold, and have vehicles retired from an agency's vehicle listing when vehicles are turned in or transferred.**
- 13. The Fleet Management Division's Supply Manager closely follow-up on all vehicles sent to the Surplus Property Acquisition and Disposal Unit.**

Periodic Inventories

Quarterly and biennial inventories are to be conducted by agency Fixed Assets Representatives to help maintain accurate fixed assets records. The quarterly inventory is conducted by the Representatives to ensure that any additions or deletions to the agency's fixed assets list since the last inventory have been processed. The biennial inventory is conducted by the Representatives to ensure that all fixed assets are on hand, as well as, ensure all items have been added and deleted since the last quarterly inventory. After an inventory has been conducted, the Representatives must return to the FAU either an updated/corrected fixed assets list or a written statement that the fixed assets list is correct and requires no changes.

During our audit, we learned that agency Representatives are not always conducting quarterly or biennial inventories and advising the FAU of the status of fixed assets. The FAU advises the Director of Central Services of those agencies that do not conduct an inventory. The FAU does not advise the agency head that inventories were not conducted. The inventories are an important control in maintaining an adequate and accurate record of fixed assets. We recommend that:

- 14. The Director of Central Services advise Department/Agency heads when the Fixed Assets Representatives do not perform the quarterly and biennial inventories.**
- 15. The Fixed Assets Manager periodically conduct sample physical inventories of agency fixed assets records to ensure that agency fixed assets listings are accurate.**



Schedule C

