



**Office of Inspector General  
City of New Orleans**

**City of New Orleans Fixed Asset Internal Control Performance  
Audit  
OIG-A&R-10PAU004**

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Inspector General**

**Issued June 16, 2011**

**Fixed Asset Internal Control Performance Audit**  
**OIG-A&R-10PAU004**

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## EXECUTIVE SUMMARY

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The City of New Orleans (City) had a significant amount of fixed assets<sup>1</sup> (also referred to as capital assets) as of December 31, 2009. The City's Statement of Net Assets reported fixed assets as having a net book value of \$1,327,057,675, approximately 80% of the City's total assets. The significance of the fixed asset balance makes it critical that they be adequately recorded, reported, disposed of and monitored.

The 2009 audit report<sup>2</sup> by the City's external auditors, Postlethwaite & Netterville (P&N), found that the City "did not have adequate policies, procedures, and internal controls in place to ensure all capital assets were fairly stated in its financial statements on a timely basis." The finding noted that the City dedicated significant additional resources to improve tracking of fixed assets compared to the previous year's finding. However, P&N stated that the:

- "City included non-capital expenditures in the Construction in Progress (CIP) balance;
- City did not perform a complete inventory of its non-street assets, including buildings and other infrastructure that are included in their capital asset listing; and
- City's detailed fixed asset registers did not always include sufficient information to specifically identify fixed asset items."

P & N's finding indicated that the City's internal controls over fixed assets were inefficient and ineffective.

The United States General Accounting Office defines internal controls as "an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations."<sup>3</sup>

The Office of Inspector General conducted a performance audit (audit) of the City's fixed asset internal controls for the period January 1, 2009 through December 31, 2009. The objective of this audit was to evaluate the effectiveness of the City's internal controls related to recording, reporting and safeguarding the City's fixed assets. In addition, the audit evaluated the process for managing such assets at the departmental level.

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<sup>1</sup> City Policy Memorandum No. 48 defined a fixed asset as "any tangible property having a useful life of more than one year and a cost of \$500 or more for personal property and \$5,000 or more for real property... Fixed assets generally may be categorized as moveables (furniture, fixtures and equipment), and immovables (land, land improvements, buildings and extraordinary renovations)."

<sup>2</sup> The most recent period audited by the City's external auditors.

<sup>3</sup> Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999.

Our audit revealed that certain components of the City's fixed asset internal control processes were ineffective, which could create an opportunity for a material misstatement of the financial statements. The City had several policies in place outlining fixed asset controls; however, the policies failed to address timely recording, notification of additions and disposals, tagging, and inventory requirements.

The recommendations in this audit report, if adopted, should improve the City's fixed asset internal controls and reduce the opportunity for fraud, waste, and abuse.

## I.OBJECTIVES, SCOPE, AND METHODOLOGY

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The objective of the audit was to test and evaluate the adequacy of the City's internal controls related to recording, reporting, monitoring, and disposing of the City's fixed assets. The audit covered the period of January 1, 2009 through December 31, 2009.

This audit was conducted in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book) and *Generally Accepted Governmental Auditing Standards* (GAGAS or the "Yellow Book").

To accomplish the audit's objectives, the auditors:

1. Conducted interviews with the City's external auditors;
2. Conducted interviews with City employees responsible for the receipt, accounting, and disposal of the City's assets;
3. Reviewed the City's fixed asset policies and procedures;
4. Reviewed controls over the acquisition, accounting, transfer and disposal of assets;
5. Tested the accuracy of the fixed asset register by tracing a random sample of assets to their physical locations using information in the fixed asset software;
6. Tested completeness by tracing fixed assets from their physical location to the fixed asset register;
7. Researched best practices; and
8. Reviewed City ordinances.

A finding indicates a material or significant<sup>4</sup> weakness in controls or compliance that was not detected or corrected by the City in the normal course of performing its duties.

Findings in a performance audit can be *any one or a combination* of the following:<sup>5</sup>

1. Significant deficiencies in internal control,
2. Fraud and illegal acts,
3. Violations of contract and grant agreements, and/or
4. Abuse.

The audit includes findings, recommendations, and conclusions relating to the City's fixed asset internal controls.

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<sup>4</sup> Significance is a "judgment call" by the auditor and is usually based upon the frequency and magnitude of the deficiency.

<sup>5</sup> General Accounting Office. (July 2007 Revision). *Government Auditing Standards* (p. 165) United States Government Accountability Office by the Comptroller General of the United States.

## II. FIXED ASSET INTERNAL CONTROL FINDINGS

### **Finding # 1**

**Condition:** Fixed assets were purchased without evidence of proper approvals.<sup>6</sup> In a sample of 90 additions<sup>7</sup> out of a population of 605 additions, we noted the following exceptions in Table 1:

	<b>PO Not Approved</b>	<b>Check Did Not Agree to Invoice</b>
# of Exceptions in Sample	<b>10</b>	<b>2</b>
% Error in Sample	11.11%	2.22%

**Criteria:** The City's purchasing process required approvals by the Department head, the Chief Administrative Officer, and the Financial Systems Administrator.

**Cause:** Fixed assets purchased with grant funding were entered into AFIN<sup>8</sup> rather than BuySpeed;<sup>9</sup> AFIN did not maintain evidence of the electronic approvals. In addition, the City was unable to provide the documentation that supported proper approval.

**Effect:** Without evidence of approvals, the auditors could not verify that proper approvals were given.

**Recommendation:** The City should consider replacing AFIN with a system that documents approvals or develop some alternative procedure to support the electronic approval process (i.e. print screen).

**City Response:** "The OIG noted the same finding in their recent report on the City's Purchasing and Accounts Payable Internal Control Performance Audit. The finding addresses the limitations inherent in the AFIN accounting system which is currently used for grants and capital funding. This finding is a key example of the limitations of this old and nearly obsolete system. AFIN has security and user access features typical of a system developed in the 80's and only allows for some limited system segregation of duties, and has insufficient audit trails for all processes. The City's auditors have noted similar issues in the past, based on the same outdated system architecture.

<sup>6</sup> The OIG's Accounts Payable Internal Control Performance Audit released on May 12, 2011, shares this finding.

<sup>7</sup> Additions are fixed asset purchases added to the fixed asset register.

<sup>8</sup> AFIN is a DOS-based general ledger system from the 1980s that maintains the financial records for all of the City's grant programs and capital projects. Due to the age of the software, it does not have the capability to provide audit trails. Additionally, the software is outdated and no longer supported by the vendor, which in the event of a system failure, all grant and capital project information contained on that system could be lost. Furthermore, there are no system discs for AFIN, so AFIN could not be reinstalled.

<sup>9</sup> BuySpeed is an internet-based procurement software used by the City.

In the 1980s, it was acceptable to supplement system security with paper audit trails to document internal controls. To this day, the City verifies that before any check is printed a paper request with the appropriate signatures is submitted to the Accounts Payable Unit. While not ideal, this paper-based additional verification does serve to improve control over the system-based features alone.

The City concurs with the report's recommendations that the City consider replacing the AFIN system. In the 2011 budget, the City Council did provide funding for the Mayor's request to begin the process of replacing the city's entire financial system infrastructure with a new ERP system. The City will also assess if additional audit verification can be added to the current system's process.”

**OIG Comment:** Although this finding was reported in the Accounts Payable Performance Audit, the OIG has an obligation to report all findings that have not been resolved.

Note: It is still “acceptable to supplement system security with paper audit trails to document internal controls.”

**Finding # 2**

**Background:** In 2009, the Bureau of Accounting manually searched the capital expenditure account to identify fixed assets purchased throughout the year because the Bureau of Accounting was not notified when a new asset was received. Once expenditures relating to fixed asset purchases were identified, the Bureau of Accounting manually recorded the assets purchased into the City’s fixed asset register.

**Condition:** The City did not consistently record fixed assets when the asset was received. In a sample of 90 additions out of a population of 605 additions, we noted 17 exceptions (19% of the sample) where the asset was recorded in the incorrect period.

Several assets in our selection were purchased as early as 2005, but were first recorded in 2009. As a result, these 17 assets were recorded at the 2009 net book value. See Table 2 below.

**TABLE 2: EFFECT OF RECORDING ASSETS IN INCORRECT PERIOD**

<b>Year Purchased</b>	<b>Total Amount (Under)/Overstated</b>
2005	\$ (43,368)
2006	(27,490)
2007	(25,003)
2008	381
2009	3,114
2010	158,439
<b>NET TOTAL</b>	<b>\$ 66,073</b>

**Criteria:** AICPA State and Local Governments Audit Guide required capital assets to be reported at actual or estimated historical cost in the period purchased.

**Cause:** The City did not follow Generally Accepted Accounting Principles by recording assets in the wrong period and at net book value.

**Effect:** Recording assets in the incorrect period misrepresented the City's financial statements for that period. See Table 2.

**Recommendation:** The City should develop a fixed asset policy requiring the departments to notify the Bureau of Accounting when an asset is received and placed into service to ensure timely recording.

**City Response:** "The City concurs with the report's recommendation that a fixed asset policy should be distributed to departments annually, which will be done by September 30, 2011."

### **Finding # 3**

**Condition:** In 2009, the City erroneously recorded the same asset multiple times. The duplicate recording of assets overstated the Statement of Net Assets and may have overstated depreciation expense in the Statement of Activities. The City did not identify fixed assets with a unique identification tag. The OIG noted<sup>10</sup> ten duplicate assets recorded in the City's fixed asset report resulting in an overstatement of \$224,215.<sup>11</sup>

The failure to tag items and uniquely identify them led the City to erroneously record five different assets, all valued above \$5,000,<sup>12</sup> as one asset on the fixed asset register.

Although these assets were properly recorded at total historical cost, the City would not be able to distinguish between the five assets individually when the asset was retired. The City could erroneously understate fixed assets by removing assets recorded in this manner.

Note: Based on our fixed asset inventory testing, four out of seven departments tested have unique systems for tagging inventory. Although some departments may have a tagging system, the City does not provide uniform tags that could be used by all departments.

**Criteria:** Best practices for fixed asset controls suggest affixing an identification tag to all fixed assets. A unique identification tag would aid in performing inventory counts, identifying a specific asset, and allowing both the Bureau of Accounting and the departments to maintain a uniform fixed asset register.<sup>13</sup>

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<sup>10</sup> The OIG could not perform a duplicate asset analysis with our software due to the condition of the City's Fixed Asset Report. The duplicates were identified by an employee at the departmental level.

<sup>11</sup> These duplicates were based on the seven departments visited in our testing.

<sup>12</sup> City Policy Memorandum No. 48 required all assets above \$5,000 to be capitalized.

<sup>13</sup> Steven Bragg, *Accounting Control Best Practices 2<sup>nd</sup> ed.* (John Wiley & Sons, Inc., 2009), 246.

**Cause:** The City did not have a policy requiring City assets to be marked with a unique identification tag when received.<sup>14</sup>

**Effect:** By not tagging assets, the City did not have an accurate method of identifying and safeguarding assets.

**Recommendation:** The City should require all assets to be tagged with a unique identification tag which should correspond to the asset identification in the City's and each department's fixed asset registers. The City's Department of Homeland Security has an operable tagging machine that could be used to assist the City in tagging assets for the entire City.<sup>15</sup>

**City Response:** "The City will make a determination before December 31, 2011 as to whether the tagging system in the Department of Homeland Security can be used citywide or whether a tagging system must be purchased, and will implement the appropriate solution for FY 2012."

#### **Finding # 4**

**Condition:** The City did not use meaningful asset descriptions, which prevented the auditor from identifying the existence of certain assets tested.

In a sample of 30 assets out of a population of 2,015 vehicles and equipment, the auditors were unable to confirm the existence of five assets (17% of the sampled items) because the description of the asset documented on the City's fixed asset register was too vague<sup>16</sup> which made it difficult to determine the asset's existence.

**Criteria:** Best practices require the asset description to be meaningful. The description should allow anyone undertaking a fixed asset inventory review to identify the item.

Property records should include:

- A description of the equipment;
- Manufacturer's serial number, model number or other identification number; and
- Location and condition of the equipment.<sup>17</sup>

**Cause:** The City did not use meaningful fixed asset descriptions.

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<sup>14</sup> Per discussion with the Bureau of Accounting, the City tagged assets in the past, but the tag maker broke prior to Hurricane Katrina. The City did not replace the equipment.

<sup>15</sup> There are some items for which a tag may not be practical. Judgment must be exercised as to which equipment is best left untagged. An example of items for which a tag may not be practical includes certain medical and laboratory instruments, or other unique items that are readily identifiable.

<sup>16</sup> Asset descriptions were considered vague when the description did not contain any identifying physical features of the asset in the description. For example, the purchase order number was used as a description; however, this number is not associated with the asset other than on the initial purchase form.

<sup>17</sup> Obtained from OMB Circular A-110 or the Uniform Administrative Requirements for...Other Non-Profit Organizations," which sets forth standards for obtaining consistency among non-profit organization's property records.

**Effect:** The departments were unable to confirm the existence of assets on the City's fixed asset register due to the vague descriptions contained in the register.

**Recommendation:** In addition to tagging each asset, the Bureau of Accounting should record assets with meaningful, concise descriptions.

**City Response:** "The City agrees meaningful and concise descriptions are needed in the fixed asset description fields."

#### **Finding # 5**

**Condition:** The City provided procurement for the New Orleans Aviation Board (NOAB). In 2009, the City erroneously recorded \$152,394 worth of assets owned by the NOAB, a component entity<sup>18</sup> of the City, in its general ledger and fixed asset register. Assets owned by component entities should not be recorded in the City's general ledger.

**Criteria:** A component entity is a legally separate entity. The City displays the NOAB as a discretely presented component entity in its government-wide financial statements. These assets should have been presented in the component entity statements and not the City's governmental fund statements.

**Cause:** The City incorrectly recorded assets belonging to the NOAB, a discretely presented component entity, in the City's Statement of Net Assets.

**Effect:** By recording assets that the City did not own, the City overstated its fixed assets. The depreciation expense associated with the assets overstated depreciation expense on the City's general ledger.

**Recommendation:** The Bureau of Accounting should not record assets belonging to a component entity in the City's governmental funds. In addition, the City should transfer and remove such assets from its fixed asset records and request reimbursement from the NOAB.

**City Response:** "The City has removed the fixed assets belonging to NOAB from its fixed asset listing."

**OIG Comment:** Although it is necessary to remove the fixed assets belonging to NOAB, it is also important that the City implement the necessary controls to ensure that future assets belonging to NOAB or other enterprise funds are not recorded in the City's fixed asset listing.

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<sup>18</sup> A component entity is a legally separate organization for which the elected officials of the primary government were financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. GASB Section 2100.119.

## **Finding # 6**

**Condition:** The City did not perform a fixed asset physical inventory count nor did it require each department to perform its own physical inventory counts.

**Criteria:** Best practices from the General Accounting Office state that performing regular inventory counts helps to “provide accurate inventory records for operational decisions and financial reporting.”<sup>19</sup>

**Cause:** The City did not have a policy requiring fixed asset physical inventory counts.

**Effect:** Without physical inventory counts, the City was not able to verify the assets’ existence and condition.

**Recommendation:** The City should require fixed asset physical counts at least annually. The physical inventory should then be reconciled to the accounting records for accuracy.

**City Response:** “The City will develop procedures to require each department to annually perform fixed assets counts, reviews and corrections. These procedures will be distributed by September 30, 2011.”

## **Finding # 7**

**Background:** Under the Governmental Accounting Standards Board (GASB) Standard No. 42,<sup>20</sup> there are a variety of circumstances under which the net book value of an asset should be reduced to its fair value, which could result in significant reductions in the recorded value of an asset.

Testing impairment<sup>21</sup> of an asset required significant knowledge of the issues that would indicate potential impairment. Consequently, only a person familiar with impairment issues should be relied on to determine impairment.

**Condition:** The City’s existing fixed asset policies<sup>22</sup> did not require impairment measurement prior to disposal as required by Governmental Accounting Standards Board (GASB) Standard No. 42.

**Note:** Based on our fixed asset inventory inspections, four out of seven departments, or 57% of the departments visited, were unaware of whom to contact to determine asset impairment.

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<sup>19</sup> Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property, United States General Accounting Office Executive Guide, March 2002.

<sup>20</sup> GASB was established to improve standards of state and local governmental accounting and financial reporting. GASB No. 42 is titled *Accounting and Financial Reporting for Impairment of Capital Asset and for Insurance Recoveries*.

<sup>21</sup> Impairment was defined in GASB No. 42 as a significant and unexpected decline in service utility.

<sup>22</sup> The following City Policy Memoranda were used: 24(R) - Services and Movable Property Procurements and Purchases; 48 – City Fixed Asset Capitalization Policy; 79(R) - MIS Work Order Request Procedure, and Acquisition of Computers; and, 109 - Regulations Pertaining to Assignment, Usage and Care, and Return of City Property by Employees.

**Criteria:** City Policy Memorandum No. 109 provided procedures for reporting “normal wear and tear of assigned City property.” The Policy required employees to notify an Appointing Authority of malfunction of assigned property due to normal wear and tear and required that person to arrange for repair or replacement of the asset.

GASB Summary of Statement No. 42 requires governments to report the effects of capital asset impairment in their financial statements when it occurs. The Statement required governments to evaluate major events affecting capital assets to determine whether they were impaired.

Those events included:

1. Physical damage;
2. Changes in legal or environmental factors, technological changes or obsolescence; and
3. Changes in manner or duration of use and construction stoppage.

**Cause:** The City permitted department heads to determine if an asset was impaired; however, the City provided no guidance as to how to test for impairment. The department head may not have the knowledge to determine if an asset was impaired as determined by GASB accounting standards

**Effect:** The lack of expertise by department heads could result in the removal or non-removal of an asset in accordance with GASB No. 42.

**Recommendation:** The City should require that a knowledgeable person perform an impairment<sup>23</sup> test on assets. The City should also require timely communication from all departments to the Bureau of Accounting regarding the impairment or disposal of an asset.

**City Response:** “In compliance with GASB 42, after the 2005 major event (Hurricane Katrina), the City hired an expert insurance adjuster to determine the level of impairment to City's assets. The insurance adjusters worked with department heads, members of Property Management Department and an independent CPA firm to properly record the impairment to City's assets.”

**OIG Response:** Although the City did perform an impairment analysis after Hurricane Katrina, an impairment analysis should be performed annually.

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<sup>23</sup> GASB 42 further states that impairment (should) be measured by using methods that were designed to isolate the cost of the capital assets' service capacity that had been rendered unusable by impairment. GASB Statement No. 42 described four different methods for calculating impairment losses for capital assets that would remain in service:

1. The restoration cost approach. This method was generally used for impairment associated with evidence of physical damage.
2. The service units approach. This method was used for impairments resulting from changes in legal or environmental factors or from technological changes or obsolescence. It may also be used to calculate impairments associated with changes in the manner or duration of use of a capital asset.
3. The deflated depreciated replacement cost approach. This method was used to calculate impairments associated with changes in the manner or duration of use of a capital asset.
4. The lower of carrying value or fair value approach. This method was used for capital assets that will no longer be used following impairment, as in the case of those associated with the stoppage of construction.

### **Finding # 8**

**Condition:** Fixed assets were not properly approved or supported prior to removal from the fixed asset register. Of the seven items selected for testing, out of a population of 42 disposals, none of the seven had proper approval or proper support for removal from the fixed asset register.

**Criteria:** Best practices recommended removing assets when they were no longer in service. Also, best practices recommended obtaining a signed fixed asset disposition form and/or supporting documentation of the disposition prior to recording the disposition.<sup>24</sup>

**Cause:** The City lacked a formal policy requiring departments to notify and provide support to the Bureau of Accounting when an asset was retired. In 2009, the City's informal process for updating dispositions on the fixed asset register required departments to note an "R" next to a retired asset on the register. The Bureau of Accounting did not require supporting documentation for the disposition.

**Effect:** Assets could be removed that were not actually impaired or disposed and assets could remain on the listing that were impaired.

**Recommendation:** The City should develop a policy for the disposal of fixed assets. This policy should require departments disposing of assets to complete and sign a fixed asset disposal form and submit the signed form to the Bureau of Accounting within a reasonable period after the disposal of the asset. The recommendation would allow the Bureau of Accounting to update disposals more timely. See Sample Disposal Form in Appendices.

**City Response:** "The City will document procedures for the disposal of fixed assets by December 31, 2011."

### **Finding # 9**

**Background:** Construction in Progress (CIP) is the accounting term that refers to the temporary classification of assets that are being built/assembled before being placed in service. A CIP item is not depreciated until the asset is placed in service. A CIP item is reclassified and capitalized as a fixed asset and subsequently depreciated when completed.

Per discussion with the Bureau of Accounting, the City determined that CIP was completed when the Certificate of Substantial Completion<sup>25</sup> was signed by the proper authority.

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<sup>24</sup> Obtained from the following website: <http://www.accounting4manager.com/fixed-asset-controls/>

<sup>25</sup> The Certificate of Substantial Completion was a document signed and verified by an architect, engineer, or owner of a construction project when the project was substantially complete and was approved for payment by the general contractor on the date of final payment.

**Condition:** The City failed to transfer completed CIP to the fixed asset register upon completion of the Certificate of Substantial Completion. In a sample of nine completed CIP items out of a population of 34 items, we noted six projects, or 67% of the sample, were completed but not transferred to fixed assets in the correct period.

**Criteria:** The matching principle under United States Generally Accepted Accounting Principles required that revenue and expenses be reported in the proper period. It is important to record any changes such as additions, transfers or retirements in a timely manner.

**Cause:** The City did not have proper controls over the transferring of CIP to the fixed assets account(s).

**Effect:** The City's failure to transfer and record completed CIP as fixed assets in the proper period resulted in an understatement of fixed assets and depreciation expense and in an overstatement of CIP.

**Recommendation:** The Bureau of Accounting should record and transfer CIP to fixed assets as soon as the City receives a Certificate of Substantial Completion.

**City Response:** "The Bureau of Accounting will work with the Departments of Capital Projects and Public Works for the timely recording of CIP items to fixed assets."

### III. FIXED ASSET INTERNAL CONTROL OBSERVATIONS

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#### **Observation # 1**

The City did not have separate ordering and receiving functions, which created a lack of segregation of duties. Best practices recommend segregation of duties, an internal control which entailed dividing or segregating key duties and responsibilities among different people or departments. To best accomplish segregation of duties, the department receiving the fixed asset should be a different department than the one purchasing the fixed asset.<sup>26</sup>

**Recommendation:** The City should implement a process to segregate the ordering and receiving processes.

**City Response:** “As an internal control to address this area of concern, the City requires that more than one person within a department participates in the ordering process. One person within a department can initiate an order; however a second person within that department is required to affix their approval before the order is placed.

The City will assess if additional communication with departments would be beneficial to emphasize that physical receipt of goods should be verified by the final department approver. The new ERP system should include improved levels of security and verification to improve the ordering and receipt process.”

#### **Observation #2**

**Condition:** The City did not have controls in place to classify repairs and maintenance expenses properly. In a sample of ten repairs and maintenance expenses out of a population of 248 items, we noted two expenditures, or 20% of the sample, were not properly classified.

**Recommendation:** The Bureau of Accounting should review repairs and maintenance expenses periodically to verify that the expense is properly classified as a repairs and maintenance expense.

**City Response:** “The City's procurement system uses NIPG codes to assist in properly classifying expenses. The City will add reviews to aid in ensuring expenses are properly classified.”

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<sup>26</sup> See Purchasing and Accounts Payable Internal Control Performance Audit, Finding #2, at nolaoig.org.

## IV. CONCLUSION

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In 2009, the City's fixed asset internal controls were inefficient and ineffective resulting in various misstatements. Many of the errors, such as recording assets in the incorrect period, improperly classifying fixed assets and/or recording assets not owned by the City, could have been corrected if the Bureau of Accounting had performed a thorough and timely review of fixed asset transactions.

The lack of certain controls did not have a material impact on the City's financial statements, but improvement in the controls mentioned would reduce the opportunity for asset misappropriation and financial statement inaccuracies. The lack of other controls did affect the City's financial statements. For example, auditors noted the City recorded duplicate assets resulting in an overstatement of \$224,215. Auditors also noted assets recorded in the incorrect period resulting in an overstatement of \$66,073.

Fixed assets comprised approximately 80% of the City's 2009 total assets; therefore, it is important that controls be in place and operating effectively. A detailed fixed asset policy would improve the controls over recording, reporting, monitoring and disposing of assets. Such a policy would help standardize and improve the fixed asset internal controls process throughout the City. The policy should require that the City:

- Perform monthly reconciliations;
- Tag assets;
- Record assets with meaningful descriptions;
- Conduct physical inventories;
- Reconcile the physical inventories to the accounting records;
- Perform impairment tests;
- Provide supporting documentation before removing disposed assets; and
- Transfer CIP timely.

The Office of Inspector General will conduct a follow-up review to determine the status of findings stated in this report.

## V. OFFICIAL COMMENTS FROM THE CITY OF NEW ORLEANS

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City Code Sec. 2-1120(8)(b) states that “Prior to concluding an audit or evaluation report, which contains findings as to the person or entity which is the subject of the audit or evaluation, the Office of Inspector General shall provide the affected person or entity with an Internal Review Copy of the report. Such person or entity shall have 30 days from the transmittal date of the report to submit a written explanation or rebuttal of the findings before the report is finalized, and such timely submitted written explanation or rebuttal shall be attached to the finalized report.”

An Internal Discussion Copy was distributed on May 9, 2011, to the City to provide an opportunity to comment on the report prior to the public release of the Final Report. The City’s comments were due on June 7, 2011, and were received by the OIG on June 10, 2011; these comments were included in the body of this report and attached behind Section V.

CHIEF ADMINISTRATIVE OFFICE  
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU  
MAYOR

ANDREW D. KOPPLIN  
FIRST DEPUTY MAYOR & CAO

June 9, 2011

Edouard Quatrevaux  
Inspector General  
City of New Orleans  
525 St. Charles Avenue  
New Orleans, LA 70130

RE: RESPONSE TO OFFICE OF THE INSPECTOR GENERAL'S REPORT OF THE CITY OF NEW ORLEANS  
FIXED ASSET INTERNAL CONTROL PERFORMANCE AUDIT

Dear Mr. Quatrevaux:

Thank you for giving us the opportunity to review and comment on your performance audit of the City of New Orleans' fixed asset internal control practices and policies, which covered the calendar year 2009 and preceded Mayor Landrieu's tenure in office.

We share your office's commitment to identifying weaknesses in City policies and practices and improving our tracking processes and controls around fixed assets. While some of the findings you report have been previously noted in the City's audits in past years and are a result of our woefully outdated AFIN system, your report offers further evidence in support Mayor Landrieu's request that the City Council fund the creation of an ERP system to replace AFIN and other antiquated financial systems that we operate. We are grateful that the Council included the initial funding in the 2011 budget to begin this work. In other areas of your report, you identify policies and practices where specific management actions can be taken this year to reduce risks and improve our tracking of fixed assets. In these areas below we identify proposed actions that the Landrieu administration will take along with the dates by which they will be accomplished.

#### Finding #1

The OIG noted the same finding in their recent report on the City's Purchasing and Accounts Payable Internal Control Performance Audit. The finding addresses the limitations inherent in the AFIN accounting system which is currently used for grants and capital funding. This finding is a key example of the limitations of this old and nearly obsolete system. AFIN has security and user access features typical of a system developed in the 80's and only allows for some limited system segregation of duties, and has insufficient audit trails for all processes. The City's auditors have noted similar issues in the past, based on the same outdated system architecture.

1300 PERDIDO STREET | SUITE 9E06 | NEW ORLEANS, LOUISIANA | 70112  
PHONE 504.658.8600 | FAX 504.658.8648



In the 1980s, it was acceptable to supplement system security with paper audit trails to document internal controls. To this day, the City verifies that before any check is printed a paper request with the appropriate signatures is submitted to the Accounts Payable Unit. While not ideal, this paper-based additional verification does serve to improve control over the system-based features alone.

The City concurs with the report's recommendations that the City consider replacing the AFIN system. In the 2011 budget, the City Council did provide funding for the Mayor's request to begin the process of replacing the city's entire financial system infrastructure with a new ERP system. The City will also assess if additional audit verification can be added to the current system's process.

#### Finding #2

The City concurs with the report's recommendation that a fixed asset policy should be distributed to departments annually, which will be done by September 30, 2011.

#### Finding #3

The City will make a determination before December 31, 2011 as to whether the tagging system in the Department of Homeland Security can be used citywide or whether a tagging system must be purchased, and will implement the appropriate solution for FY 2012.

#### Finding #4

The City agrees meaningful and concise descriptions are needed in the fixed asset description fields.

#### Finding #5

The City has removed the fixed assets belonging to NOAB from its fixed asset listing.

#### Finding #6

The City will develop procedures to require each department to annually perform fixed assets counts, reviews and corrections. These procedures will be distributed by September 30, 2011

Finding #7  
In compliance with GASB 42, after the 2005 major event (Hurricane Katrina), the City hired an expert insurance adjuster to determine the level of impairment to City's assets. The insurance adjusters worked with department heads, members of Property Management Department and an independent CPA firm to properly record the impairment to City's assets.

Finding #8

The City will document procedures for the disposal of fixed assets by December 31, 2011.

Finding #9

The Bureau of Accounting will work with the Departments of Capital Projects and Public Works for the timely recording of CIP items to fixed assets.

Observation #1

As an internal control to address this area of concern, the City requires that more than one person within a department participates in the ordering process. One person within a department can initiate an order; however a second person within that department is required to affix their approval before the order is placed.

The City will assess if additional communication with departments would be beneficial to emphasize that physical receipt of goods should be verified by the final department approver. The new ERP system should include improved levels of security and verification to improve the ordering and receipt process.

Observation #2

The City's procurement system uses NIPG codes to assist in properly classifying expenses. The City will add reviews to aid in ensuring expenses are properly classified.

Sincerely,



Andy Kopplin  
First Deputy Mayor / CAO

Cc: Norman Foster

**VI. APPENDIX**

UNIVERSITY OF MINNESOTA

**Route this form to:**  
 Inventory Services  
 Suite 4 WBOB  
 West Bank Campus Mail  
 Fax 612/626-8220

**U Wide Form:**  
 UM 1393  
 GS 82343  
**Rev:** 03/24/10

## Capital Equipment Asset Disposal Form

Use the form when disposing of currently recorded capital equipment assets.

INVENTORY SERVICES (612) 626-8222

**PROPERTY DISPOSAL (Check appropriate boxes)**

- Check if Equipment (e.g., computer, copier, printer, multi-function device) has a hard drive**  
(Before disposal see secure data deletion in the University Administrative Procedure: Enhanced Security for Computers and Other Electronic Devices at [http://www.policy.umn.edu/Policies/it/Use/SECUREDATA\\_PROC02.html#deletion](http://www.policy.umn.edu/Policies/it/Use/SECUREDATA_PROC02.html#deletion))
- External Transfer**
- External Sale**
- Donation**
- Scrap**
- Other** \_\_\_\_\_

**DEPARTMENTAL REASON FOR REQUEST**

PROPERTY DETAIL <small>(use additional page if necessary)</small>				CHECK IF BOUGHT ON SPONSORED
Asset Tag No.	Serial No.	Model No.	Description	
				<input type="checkbox"/>

**Property Disposal Recommendation – Inventory Services**

**CUSTODIAL RESPONSIBILITY:**

Department Name \_\_\_\_\_ Dept. ID#: \_\_\_\_\_

Requested By: \_\_\_\_\_ Phone: \_\_\_\_\_ Date: \_\_\_\_\_  
(Please Print)

Building: \_\_\_\_\_ Room#: \_\_\_\_\_

**APPROVALS (Requester should obtain signature below) :**

Form Approver *(print name)*: \_\_\_\_\_  
(Administrator, RRC Manager, Department Head, or Dean)

Form Approver *(signature)*: \_\_\_\_\_ Date: \_\_\_\_\_

Office of the Controller *(signature)*: \_\_\_\_\_ Date: \_\_\_\_\_

**Mail to: Inventory Services, Suite 4 WBOB, West Bank Campus Mail or Fax to: 612/626-8220**



Preparing people to lead extraordinary lives

# Asset Management Equipment Disposal Form

Complete the form below if university-owned capital equipment is sold, transferred or disposed of. Capital equipment has a minimum cost of \$5,000 and a useful life of one year or more. Please note, anytime you dispose of tagged equipment, complete the form. This form does not grant approval to dispose of equipment, it only serves to update the inventory database. You should obtain, and keep on file, written approval from your dean, chairperson or department administrator to remove capital equipment, however you don't need the approval of the university's Asset Management Accountant.

\*Name \_\_\_\_\_ Title \_\_\_\_\_ \*Today's Date \_\_\_\_\_

\*Department \_\_\_\_\_ \*E-mail \_\_\_\_\_ Phone \_\_\_\_\_

### \*Type of Disposition:

Sold     Scrapped     Transfer w/in LUC     Transfer outside LUC     Traded-in     Donated     Missing

If transferred, New Location: \_\_\_\_\_ \*Equipment Disposal Date: \_\_\_\_\_

If Sold, Traded-in, or Donated, Recipient & Price Paid: \_\_\_\_\_

Reason if Missing: \_\_\_\_\_

Tag #	*Description (Manufacturer, Model & Serial #)
<input type="text"/>	<input type="text"/>

\*Required Field

Send to Accounting

Clear Form