



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

**Follow-Up Report: “City of New Orleans Fixed Asset Internal  
Control Performance Audit”**

**AR12FOL005**

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**Issued December 30, 2013**

## Follow-Up Report: “City of New Orleans Fixed Asset Internal Control Performance Audit” (AR12FOL005)

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Follow up # 1: This finding was not resolved. The ERP system was still in the planning stage and was not implemented due to lack of budgetary approval. No additional verification procedures were added to the AFIN system’s approval process after the 2011 Report.

Follow up # 2: This finding was not resolved. The City neither developed nor updated any fixed asset policies after the 2011 Report. Assets were not placed in service at the time of purchase or completion or the completion date could not be determined.

Follow up # 3: This finding was not resolved. The City failed to implement a uniform fixed asset tagging system to be used across all departments.

Follow up # 4: This finding was resolved. The City recorded meaningful and concise descriptions for its fixed asset additions.

Follow up # 5: This finding was partially resolved. The City removed the assets belonging to the NOAB. NOAB also reimbursed the City for assets purchased on its behalf prior to the release of the original report. However, the City was unable to locate documentation that identified which department the assets belonged to.

Follow up # 6: This finding was partially resolved. The City performed an annual inventory count; however, the City did not develop or update any fixed asset policies after the 2011 Report.

Follow up # 7: This finding was partially resolved. The City performed an impairment analysis by knowledgeable persons for the fiscal year ended December 31, 2012; however, the City did not update its policies relating to impairment analysis.

Follow up # 8: This finding was not resolved. The City did not document procedures for the disposal of fixed assets. The City adopted an informal practice that required each department to sign a year-end fixed asset listing that indicated the status of each asset.

Follow up # 9: This finding was not resolved. There was no evidence that the projects were completed at the time of transfer from CIP to the fixed asset register.

III. Follow-Up: "City of New Orleans Fixed Asset Internal Control Performance Audit"  
Observations .....10

Observation Follow up #1: This observation was not resolved. The City did not assess if additional communication with the departments would be beneficial to ensure a proper segregation of duties.

Observation Follow up #2: This observation was not resolved. The City did not conduct periodic reviews of repairs and maintenance expenses to verify the expenses were properly classified.

## EXECUTIVE SUMMARY

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In June 2011, the Office of Inspector General (OIG) issued a report titled “*City of New Orleans Fixed Asset Internal Control Performance Audit*” (2011 Report). The 2011 Report evaluated the City’s internal controls over fixed assets for the period January 1, 2009 through December 31, 2009. A follow-up review was conducted to determine if the City implemented the corrective actions it agreed to in its response to the 2011 Report.

The follow-up report revealed that the City resolved one finding and partially resolved three of the nine findings noted in the 2011 Report. The remaining five findings and the two observations were unresolved.

The City did not update its policies and procedures relating to fixed asset internal controls, despite committing to implement and distribute new policies and procedures in its responses to the 2011 Report. The lack of new and revised fixed asset policies resulted in assets not being placed in service at the time of purchase or completion. Although the City did perform an annual inventory count, fixed assets were still retired without the proper approval. Furthermore, the Bureau of Accounting was not notified in a timely manner when an asset was disposed. This resulted in assets being removed from the fixed asset register in the wrong accounting period.

Although the City recorded meaningful descriptions for asset additions, it neither tagged new asset additions nor did it implement a City-wide tagging system. Failure to implement a tagging system that corresponded with each asset’s identification prevented verification of the existence of asset. The City was also unable to identify which department owned assets selected for testing.

Lack of budgetary approval prevented the City from implementing a new Enterprise Resource Planning system. The City also failed to add audit verification to its existing program. Additionally, the City did not correct the lack of segregation of duties between its ordering and receiving functions.

The auditors were unable to determine if certain projects were completed prior to transfer from the Construction in Progress account to the Fixed Asset account because the City did not require a Certificate of Substantial Completion for assets under \$150,000. An asset was also transferred prior to its completion.

Although the City did not update its policies relating to impairment analysis, an impairment analysis was performed in 2012 after Hurricane Isaac. However, the Bureau of Accounting was not notified in writing until a year later.

## I.OBJECTIVE, SCOPE, AND METHODOLOGY

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The objective of this follow-up was to determine if the City adopted the corrective actions it identified in the 2011 Report. Adopted corrective actions were reviewed to determine if those controls were operating effectively.

The scope of this follow-up was limited to the City's corrective actions to the nine recommendations and two observations in the 2011 Report. The follow-up reviewed the City's internal controls over fixed assets for the period January 1, 2012 through December 31, 2012.

The audit methodology was developed in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book)<sup>1</sup>.

To accomplish the follow-up objective, the auditors:

- Conducted interviews with personnel to gain an understanding of the current processes and controls in place;
- Evaluated the City's responses to the 2011 Report to determine if the OIG recommendations were adopted;
- Reviewed all fixed asset listings as of December 31, 2012;
- Selected assets from the fixed asset listings for testing; and,
- Tested that the City's corrective actions were implemented and operating effectively.

Computer-processed data was provided and relied on, which provided information on the City for the period of the follow-up. A formal reliability assessment of the computer-processed data was not performed, and the auditors determined that hard copy documents reviewed were reasonable and agreed with the information contained in the computer-processed data. No errors were found that would preclude the auditors from using the computer-processed data to meet the follow-up objectives or that would change the conclusions in this report.

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<sup>1</sup> Association of Inspectors General (May 2004 Revision).

## II. FOLLOW-UP: "CITY OF NEW ORLEANS FIXED ASSET INTERNAL CONTROL PERFORMANCE AUDIT" FINDINGS

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**Finding #1:** "Fixed assets were purchased without evidence of proper approvals."

**Recommendation #1:** "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 #1:** "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<sup>2</sup> system. The City will also assess if additional audit verification can be added to the current system's process."

**Follow-up #1:** The ERP system was still in the planning stage and was not implemented due to lack of budgetary approval. No additional verification procedures were added to the AFIN system's approval process after the 2011 Report. This finding was not resolved.

**Finding #2:** "The City did not consistently record fixed assets when the asset was received."

**Recommendation #2:** "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's Response #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."

**Follow-up #2:** The City neither developed nor updated any fixed asset policies after the 2011 Report. Five assets (20%) of the twenty-five asset additions tested were not placed in service at the time of purchase or completion. Additionally, one (4%) of the twenty-five assets did not have a Certificate of Substantial Completion<sup>3</sup>. Therefore, the completion date could not be determined<sup>4</sup>. This finding was not resolved.

**Finding #3:** "In 2009 the City erroneously recorded the same asset multiple times...The City did not identify fixed assets with a unique identification tag."

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<sup>2</sup> Enterprise Resource Planning (ERP).

<sup>3</sup> During follow-up testing, the auditors noted the City did not require a Certificate of Substantial Completion for assets under \$150,000.

<sup>4</sup> Refer to Follow-up #9 for additional information.

**Recommendation #3:** “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>5</sup>

**City Response #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.”

**Follow-up #3:** The City failed to implement a uniform fixed asset tagging system to be used across all departments. Five<sup>6</sup> of the twenty-five asset additions tested required a tag. Based on inspections of the assets, all five (100%) assets tested were either not tagged or the tag did not agree to the asset identification provided by the City. This finding was not resolved.

**Finding #4:** “The City did not use meaningful asset descriptions, which prevented the auditor from identifying the existence of certain assets tested.”

**Recommendation #4:** “In addition to tagging each asset, the Bureau of Accounting should record assets with meaningful, concise descriptions.”

**City’s Response #4:** “The City agrees meaningful and concise descriptions are needed in the fixed asset description fields.”

**Follow-up #4:** The City recorded meaningful and concise descriptions for its fixed asset additions. This finding was resolved.

**Finding #5:** “...the City erroneously recorded...assets owned by the NOAB, a component entity<sup>7</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.”

**Recommendation #5:** “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’s Response #5:** “The City has removed the fixed assets belonging to NOAB from its fixed asset listing.”

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<sup>5</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>6</sup> The remaining twenty assets were unique items that were readily identifiable (i.e. infrastructure, such as buildings and roads) and did not require a tag as indicated in footnote 5.

<sup>7</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.*

**Follow-up #5:** The City removed the assets belonging to the NOAB; and the NOAB reimbursed the City for assets purchased on its behalf prior to the release of the original report in 2011. However, the City was unable to locate documentation that identified which department the assets belonged to for nineteen (76%) of the twenty-five assets selected for testing. Therefore, the auditors were unable to determine if those assets belonged to the City or a component entity. This finding was partially resolved.

**Finding #6:** “The City did not perform a fixed asset physical inventory count nor did it require each department to perform its own physical inventory counts.”

**Recommendation #6:** “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’s Response #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.”

**Follow-up #6:** The City neither developed nor updated any fixed asset policies after the 2011 Report. Despite a lack of policy, the City did perform an annual inventory count, but the inventory count was not reconciled to the financial statements. This finding was partially resolved.

**Finding #7:** “The City’s existing fixed asset policies<sup>8</sup> did not require impairment measurement prior to disposal as required by Governmental Accounting Standards Board (GASB) Standard No. 42.”

**Recommendation #7:** “The City should require that a knowledgeable person perform an impairment<sup>9</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’s Response #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.”

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<sup>8</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.

<sup>9</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.

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

**Follow-up #7:** The City did not update its policies relating to impairment analysis. The City did perform an impairment analysis<sup>10</sup> by knowledgeable persons for the fiscal year ended December 31, 2012. However, the Bureau of Accounting was not notified of the impairment analysis results, in writing, in a timely manner<sup>11</sup>. This finding was partially resolved.

**Finding #8:** “Fixed assets were not properly approved or supported prior to removal from the fixed asset register.”

**Recommendation #8:** “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.”

**City’s Response #8:** “The City will document procedures for the disposal of fixed assets by December 31, 2011.”

**Follow-up #8:** The City did not document procedures for the disposal of fixed assets. Instead, the City adopted an informal alternative practice in 2012 that required each department to sign a year-end fixed asset listing that indicated if each asset was active, retired, lost/stolen, or if any new assets were added that were not on the listing. Due to this practice, the Bureau of Accounting was only notified of disposals at year end and not as assets were actually disposed. Therefore, the Bureau of Accounting was not timely notified of the disposal of all eight<sup>12</sup> (100%) disposals tested. Two (25%) of the eight disposals tested did not have evidence of departmental approval before they were disposed. This finding was not resolved.

**Finding #9:** “The City failed to transfer completed CIP [Construction in Progress] to the fixed asset register upon completion of the Certificate of Substantial Completion.”

**Recommendation #9:** “The Bureau of Accounting should record and transfer CIP to fixed assets as soon as the City receives a Certificate of Substantial Completion.”

**City’s Response #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.”

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<sup>10</sup> The auditors noted the City’s impairment analysis was conducted to assess damage from Hurricane Isaac in August 2012. An impairment analysis should be conducted annually by the City even in years where there are no major events, such as hurricanes.

<sup>11</sup> The Bureau of Accounting received a final determination letter of the impairment analysis results on September 19, 2013, approximately a year after the impairment analysis was performed.

<sup>12</sup> One of the eight disposals tested was removed from the 2012 fixed asset register during 2013 when its actual disposal date was 2011.

**Follow-up #9:** Two (22%) of the nine assets tested did not have a Certificate of Substantial Completion<sup>13</sup>. Therefore, there was no evidence that the projects were completed at the time of transfer from CIP to the fixed asset register. One (11%) of the nine assets tested was transferred approximately six months prior to completion. This finding was not resolved.

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<sup>13</sup> The City did not require a Certificate of Substantial Completion for assets under \$150,000.

### III. FOLLOW-UP: "CITY OF NEW ORLEANS FIXED ASSET INTERNAL CONTROL PERFORMANCE AUDIT" 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."

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

**City Response:** "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."

**Follow-up Observation #1:** The City did not assess if additional communication with the departments would be beneficial to ensure a proper segregation of duties. This observation was not resolved.

**Observation #2:** "The City did not have controls in place to classify repairs and maintenance expenses properly."

**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 will add reviews to aid in ensuring expenses are properly classified."

**Follow-up Observation #2:** The City did not conduct periodic reviews of repairs and maintenance expenses to verify the expenses were properly classified. This observation was not resolved.