Best Practices for Internal Controls over Small and Attractive Assets

What are small and attractive assets?
Small and attractive assets are below the government’s established capitalization threshold for financial statement reporting purposes, and might be susceptible to loss, theft or misuse. These assets last longer than a year, are mobile and might be easily replaced through a procurement system without raising suspicion. Although they can vary by government, some examples include:

- Computers, laptops, notebooks
- Shop tools, public works power equipment
- Handheld radios, other electronics
- Monitors, tablets, phones, cameras
- Firearms, Tasers and related accessories
- Televisions, video recorders

Are there requirements for state and local governments to follow?
State agencies in Washington must follow the State Administrative and Accounting Manual (SAAM), which establishes guidance over small and attractive assets in section 30.40.20. State governments should perform a risk assessment and develop written policies for managing small and attractive assets or at a minimum track specific assets as required by the manual.

The Budgeting, Accounting and Reporting System (BARS) Manual and the Accounting Manual for Public School Districts in the State of Washington provide guidance for local governments in Washington. Local Governments are expected to have internal controls in place over these assets to safeguard them from misuse or loss; however the extent of controls may vary by asset type.

In addition, grantors might impose requirements when assets are purchased with grant funding. For example, if a government purchased assets with federal funds, certain tracking, inventory and disposal requirements apply. The Code of Federal Regulations (CFR) 200.310-316 outlines specific requirements related to real property, equipment, supplies and intangible property purchased with federal funds.

Why are internal controls over small and attractive assets important?
Conducting an inventory of and tracking assets reduce the possibility of misappropriation, and detect misappropriation should it occur. Internal controls over small and attractive assets also might:

- Protect public safety or limit public liability (such as with firearms)
- Provide records for insurance purposes or for completion of police reports, helping to prove ownership
- Demonstrate compliance with grants or other requirements
- Safeguard sensitive or confidential information (such as with tablets, USB drives or cell phones)
- Track for assignment, cost control or re-order purposes (such as with uniforms, badges or computer equipment)
Should governments track all small and attractive assets regardless of monetary value?

Governments have flexibility in this area, depending upon their risk assessment and how they structure their policy. A government may achieve this flexibility and limit tracking small-dollar items by employing one or more of the following approaches:

- **Threshold.** Governments may elect to establish a threshold to limit tracking smaller dollar items. State agencies in Washington must use a $300 threshold for laptop and notebook computers and a $1,000 threshold for other assets such as desktop computers, television sets and cameras (for a complete list, refer to the SAAM). All weapons, firearms, signal guns and their related accessories must be accounted for regardless of the dollar amount. Local governments are not required to follow these requirements, but should consider them.

- **Specific exclusions.** A government may choose to include or exclude certain types of assets based on the results of a risk assessment. Excluding asset types that typically have low monetary value can achieve the same purpose as establishing a threshold. For example, a government might choose to track computers but not peripheral devices, such as monitors, keyboards and scanners.

Governments might find excluding certain asset types is more effective than establishing a threshold and results in clearer guidance. Regardless of the method employed, care should be taken to ensure the government is not spending resources tracking and monitoring items that might not be worthwhile.

What is a risk assessment?

A risk assessment helps to identify those assets that are most vulnerable to loss. It should be conducted before developing a policy and periodically as changes occur to update the policy. According to the Office of Financial Management’s “Small and Attractive Capital Asset Risk Assessment Guidelines,” an assessment should consider:

- Public perception about what the government should be tracking
- Operational risks with data security, such as on mobile devices
- Tracking or monitoring that may already be done for operational purposes
- Pre-existing controls (such as an asset being stored in a secured location)
- Recent problems with missing or unusable equipment
- New asset types being purchased
- Degree of decentralization and how this affects risk
- Ease to sell or convert to personal use
- Perceived risk associated with the asset
- Replacement cost compared with the cost to track it

The risk assessment’s purpose is to consider which assets are most susceptible to theft, loss or misuse and then decide the extent of internal controls that should be put in place to safeguard the assets. These decisions can be affected by the risk tolerance of the government’s officials and available resources. For example, a government might decide laptops should be inventoried quarterly because of their mobility and data security concerns, but that stationary computers that are observed by management daily could be inventoried semi-annually.

Local governments should document the risk assessment and periodically revisit it when circumstances change. The assessment results should be helpful in developing a government’s policy.
What elements should be considered in a small and attractive asset policy?

A policy should identify the asset types to be covered as well as those to be excluded. If the government desires a minimum threshold to avoid tracking smaller dollar assets, policy should address the amount and whether it applies to all asset types. It is a best practice to establish expectations entity-wide in a policy rather than leave it to each individual department to establish them. The policy could include general information such as how the asset should be treated (e.g., handled with care) and maintained, and if personal use is permitted (if not covered by a different policy). The policy should also include:

- **Expectations about asset tracking.** The policy should address who is responsible for tracking the various asset types. For example, its important to address situations where there could be confusion, such as whether the IT department or the individual department (where the equipment is located) is responsible for tracking computer-related assets. The policy should also address how often the small and attractive asset list should be updated. A best practice is to update it promptly upon receipt of the asset. However, some governments wait until the asset is placed into service.

The policy should also address how the assets will be safeguarded, tracked and monitored. These efforts can vary by asset type and may include various levels of controls:

- **Basic controls.** Examples include tagging assets as identifiable to the government, assigning custody to specific individuals, or restricting access except for specific authorized personnel.
- **Limited controls.** These include check-out systems or reserve inventories (where only items not in use are tracked).
- **Comprehensive controls.** This is a tracking system ranging from a handwritten record to a spreadsheet, database or software module, as well as periodic physical inventories.

- **Segregating duties or oversight.** The policy should address how duties will be segregated, or alternatively how oversight and monitoring will be conducted to compensate if duties cannot be segregated. There are several instances when segregation of duties can be an issue:
  - The person conducting the inventory also has responsibility for the assets (this would be akin to checking yourself).
  - The person tracking assets (e.g., maintaining the list) also has access to the assets during the ordering/receiving process, daily use or surplus process. The risk is that the person who has access to the master list might make unauthorized changes to it to conceal theft or loss.
  - The asset custodian has the authority to purchase replacement assets.

- **Inventory-process requirements.** The policy should include expectations about the frequency of inventories, who will conduct them and how they will be documented. In addition, variances or missing items are likely to occur at some point, and the process should address how these discrepancies will be resolved. Governments should be aware that longer time between inventories can make it more difficult to follow up on discrepancies. The policy should include a process for reporting stolen or damaged items, as well as who will be responsible for reporting losses to the State Auditor’s Office in accordance with state law (RCW 43.09.185). Additional information about what and how to report is located on our website at [www.sao.wa.gov](http://www.sao.wa.gov).

- **Disposal procedures.** The policy should consider various risks relating to the disposal process. Assets could be misappropriated (or the sales proceeds diverted or used for unallowable purposes) at the point assets are no longer needed for operational purposes and ready to be surplus. In addition, there can be conflicts of interest where the employees responsible for managing asset sales are also interested in acquiring them. Further, some assets might require special handling or consideration during disposal, such as equipment with sensitive information or firearms that have certain requirements if they are sold to third parties. Governments should also be aware of any specific requirements for surplus procedures for their municipality type. Disposal procedures may also be drafted and referred to as a separate policy.
What are best practices for identifying and tracking assets?
Assets should be visually identifiable as belonging to the government, as well as tagged or marked with an asset number that traces back to an inventory list. Inventory lists should have enough information to uniquely identify the assets, such as detailed descriptions with serial numbers. An asset’s location and custodian are important to include on the inventory list to provide accountability and so that the items can be easily located at any time by the government or during an audit. Inventory lists should also comply with federal requirements, if applicable. Federal requirements call for property records to include specific information (CFR 200.313).

What are the best practices for maintaining the inventory list?
The Government Finance Officers Association’s (GFOA) best practice guidance indicates tracking should occur at the departmental level with oversight from the central accounting function or other designated finance function. It’s best to avoid duplicating tracking efforts if possible. However, if multiple lists are in use for the same asset type, such as one for finance and another for operational purposes, then they should be reconciled to each other periodically.

The inventory list should be maintained by staff who are independent of the assets they are tracking, meaning they do not have custody of the assets at any point in the asset’s life cycle. Governments should avoid the risk that an employee could take an asset and delete the corresponding asset record from the inventory list without detection. If this separation of duties is not feasible, then compensating controls need to be established. These controls likely would involve periodic supervisory reviews to spot check that the inventory list is being maintained and is complete.

The list should be kept current and periodically monitored to ensure it completely accounts for all assets expected by policy. Ideally, a list should be updated as purchases, assignments or disposals occur. Governments are discouraged from allowing lists to become out of date.

What are the best practices for conducting the asset inventory?
The frequency of an inventory may vary by asset type. State agencies must perform inventories at least every other fiscal year but otherwise have flexibility in establishing a schedule. Local governments should use their risk assessment results to determine the nature and frequency of the inventory process, keeping in mind the resources available and other mitigating factors. For example, an asset that is used daily by a specific employee to perform job duties that are subject to daily supervision might not need the same level of oversight as assets that are available and used by many employees on a semi-infrequent basis. In the first instance, it’s possible the inventory could be done when the assets are assigned or reassigned.

Local governments should be mindful of the applicability of federal requirements for inventories. Current requirements (CFR 200.313) for equipment call for a physical inventory at least once every two years. Inventories are most effective when conducted by someone other than the person responsible for the asset; otherwise, oversight controls should be put in place. An example of an oversight control might be periodic spot checks to confirm the asset’s existence.

In addition to identifying missing assets, inventory procedures may include objectives such as determining:
- Whether all existing assets are included on the inventory list
- Property is marked with the government’s name, tagged, or properly secured
- Location shown on the list corresponds to the actual location
- Description shown on the list corresponds to the asset’s actual appearance and features
- Damage or misuse

Governments should ensure the inventory results are documented, any variances or issues are resolved promptly, and the inventory list is updated based on the inventory results.
Additional references/resources

- Government Finance Officers Association’s best practices guidance – “Control over Items that Are Not Capitalized” (2005): [www.gfoa.org/control-over-items-are-not-capitalized](http://www.gfoa.org/control-over-items-are-not-capitalized)

For assistance

This resource has been developed by the Performance Center of the Office of the Washington State Auditor. Please send any questions, comments or suggestions to performance@sao.wa.gov.