

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

MANAGE FIXED ASSETS

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of managing mergers and acquisitions. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Capital expenditure request records are complete and accurate.
- B. Capital expenditure requests are approved properly.
- C. Calculation of disposals and retirements is accurate.
- D. Duties are segregated adequately.
- E. Unauthorized input to the fixed asset sub-ledgers is deterred and detected.

Reliability of financial reporting

- A. Fixed asset acquisitions are input accurately and in the proper period.
- B. Capitalized interests on financed capital projects are recorded completely and accurately.
- C. Capitalized payroll costs for services rendered for construction purposes are recorded completely and accurately.
- D. Construction-in-progress data is input accurately and in the proper period.
- E. Fixed assets are valued properly.
- F. Fixed assets are depreciated appropriately.
- G. All disposals are input for processing completely and accurately.
- H. Approved general ledger adjustments are input for processing completely and accurately.
- I. Approved changes to standing data are input for processing completely and accurately.

Compliance with applicable laws and regulations

- A. Duties and taxes on fixed asset transactions are recorded in accordance with applicable laws and regulations.

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Effectiveness and efficiency of operations

A. Capital expenditure request records are complete and accurate.

Business risks

- Some capital expenditure requests will not be addressed.
- Capital expenditure requests will not be updated properly when capital items are received, leading to redundant ordering and increased operating costs.

Control practices

1. Pre-number sequentially and account for all capital expenditure forms.
2. Perform a manual or system check to ensure that no documents are missing or duplicated and that none fall outside a specified range of numbers.
3. Research, correct, and reenter all rejected, suspense, or missing items in a timely manner.
4. Input approved capital expenditure forms into a capital expenditure request tracking system.
5. Compare entered information with source document as part of a one-to-one check for accuracy of key data fields. Research any discrepancies and subject reentered data to the same control procedures.
6. Configure the system to notify the appropriate staff automatically when capital items are received and matched to the purchase order, so that the capital expenditure request tracking system can be updated.
7. Require the accounting department to review monthly the open capital expenditure forms in relation to the capital expenditure request tracking system. Research and resolve items as necessary.

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B. Capital expenditure requests are approved properly.

Business risks

- The company will pay for and receive capital it does not need.
- Insufficient capital expenditure approval procedures will increase costs and reduce efficiency.
- Capital expenditure costs will exceed budget.

Control practices

1. Ensure that management at an appropriate level approves pre-numbered capital expenditure forms and forwards forms for internally constructed assets to an internal engineering group and those for external purchases to the purchasing department.
2. Require formal management approval of all changes to capital expenditure forms.
3. Establish policies and procedures that define spending limits and approval procedures for capital expenditures.
4. Configure the system to allow authorized users to enter and approve acquisitions within authorized limits. Apply the approval limits systematically and prevent attempts to override them.

C. Calculation of disposals and retirements is accurate.

Business risks

- The company will fail to retire or dispose of items appropriately, reducing efficiency and weakening performance.

Control practices

1. Ensure that the fixed asset sub-ledger records all relevant information for fixed asset disposals on a standard form.
2. Ensure that disposals are not approved without information necessary to compute the impact of the disposal.
3. Use computer edit check programs to ensure that information input to calculate the disposal is complete.
4. Either reject invalid data for reentry or store it in a suspense file to be researched, corrected, and reentered in a timely manner.
5. Program into the system checks for mathematical accuracy and reasonableness, and review them regularly. Research and correct discrepancies.

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D. Duties are segregated adequately.

Business risks

- Fixed assets will be lost or stolen.
- The company will fail to track assets properly.

Control practices

1. Maintain segregation of duties between the following functions: 1. approval of asset acquisitions; 2. approval of asset disposal; 3. fixed asset custody; 4. supervision of fixed asset physical counts and related adjustments; 5. accounting and maintenance of fixed asset records; and 6. general ledger functions.
2. Maintain segregation of duties between those who update standing data and those who maintain financial records, for example, keeping reconciliations separate from posting or approval of adjustments.
3. Investigate and resolve segregation-of-duties exceptions.
4. Require management to review functions regularly for incompatibility and to investigate discrepancies and exceptions promptly.

E. Unauthorized input to the fixed asset sub ledgers is deterred and detected.

Business risks

- Fixed assets will be lost or stolen.
- The company will fail to track assets properly.

Control practices

1. Prevent unauthorized access to the system.
2. Use access controls such as user IDs and passwords specific to each application.
3. Ensure that multiple failures to log on to an application invalidate the user ID and result in an exception report for investigation by management.
4. Ensure that multiple failures to log on to an application invalidate the user ID and result in an exception report for investigation by management.
5. Require management to review access rights periodically to ensure that only authorized individuals have access and to investigate discrepancies and exceptions promptly.

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Reliability of financial reporting

A. Fixed asset acquisitions are input accurately and in the proper period.

Business risks

- Fixed asset records will be complete or inaccurate.
- Incomplete or inaccurate fixed asset records will lead to inaccurate financial reports.

Control practices

1. Update fixed asset records after receipt of assets.
2. Compare internal and external supporting documents such as invoices with the fixed asset sub-ledger in a one-to-one check of new assets. Research discrepancies, reenter corrected data, and recheck against supporting documents.
3. Require the fixed asset manager to review all fixed asset additions and approve details such as classification, useful life, and depreciation methods.
4. Require management to review acquisition reports periodically, comparing them with budgets or other data for reasonableness by category of asset, location, or segment of business. Ensure that discrepancies are researched and corrected.
5. In systems that input additions into a temporary file before sub-ledger updates, use batch totals before processing is complete. Separate input documents into groups and calculate numerical totals in categories such as the quantity of documents, dollar amount, and hash items. Compare these totals with reports following inputs and updates, research all out-of-balance conditions, and reenter corrected data in a timely manner.

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B. Capitalized interests on financed capital projects are recorded completely and accurately.

Business risks

- Management will receive inaccurate information about the total cost of capital projects.
- Capitalized interest costs will exceed budget.
- Inaccurate calculation or recording of capitalized interests will lead to inaccurate financial reports.

Control practices

1. Store all debt and interest expense information, including the purpose of the debt, in a central repository.
2. Require management to review information used for calculating the capitalized interests and to match it against information in the repository. Ensure that discrepancies are researched and reentered.
3. Require the financing department to generate a report on debt used to finance acquisitions. Require management to reconcile this report to the interest capitalized and then to research any discrepancies, correct inaccurate information, and reenter corrected data.
4. Compare capitalized interest with corresponding information in a separate approved budget file. Research, correct, and reenter items that do not match in a timely manner.
5. Ensure that significant differences between actual and budgeted capitalized interest are approved by management.

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C. Capitalized payroll costs for services rendered for construction purposes are recorded completely and accurately.

Business risks

- Management will be given inaccurate information about the total cost of capital projects.
- Capital project costs will exceed budget.
- Inaccurate calculation or recording of capitalized payroll costs will lead to inaccurate financial reports.

Control practices

1. Require employees to charge hours worked on projects to specific time codes.
2. Ensure that computer edit check programs lead to either the rejection of invalid charge codes or to their storage in a suspense file to be researched, corrected, and reentered.
3. Require the engineering department to provide a report on employee involvement in capital projects, and require management to reconcile the report to the personnel costs capitalized, and then research, correct, and reenter any discrepancies.
4. Ensure that capitalized payroll costs are compared with information on a separate approved budget file and that un-matching items are researched, corrected, and reentered in a timely manner.
5. Ensure that significant differences between actual and budgeted capitalized payroll are approved.

D. Construction-in-progress data is input accurately and in the proper period.

Business risks

- Management will be given inaccurate information about the status of capital projects.
- Capital project costs will exceed budget.
- Inaccurate calculation or recording of construction-in-progress costs will lead to inaccurate financial reports.

Control practices

1. Compare the project status report and the construction-in-process sub-ledger in a one-for-one check for accuracy. Research, correct, and reenter any discrepancies. Perform the same check for reentered data.
2. Require management to assess the status of projects in a periodic review of the construction-in-process sub-ledger along with project status reports and budgets.
3. Ensure that final costs for completed projects are provided for posting to the fixed asset sub-ledger.

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E. Fixed assets are valued properly.

Business risks

- Company decisions will be based upon inaccurate fixed assets valuations.
- Inaccurate fixed assets valuations will lead to inaccurate financial reports.

Control practices

1. Require management to review quarterly significant fixed asset accounts for impairment, assessing current and future activity in the process.
2. Compare periodic physical inspections of fixed assets and construction-in-progress with manually entered or system-recorded data. Research discrepancies, correcting inaccuracies, and reentering data in a timely manner.
3. Prepare appropriate reports for all construction-in-progress projects.
4. Hold regular on-site management meetings to identify and assess valuation issues.
5. Document formally the information needed for fixed asset valuation in accordance with policies.
6. Compare all source documents with information recorded in the fixed asset sub-ledger in a one-to-one check. Research discrepancies, correct inaccuracies, reenter corrected data, and recheck new entries.
7. Require management approval before processing significant impairments.
8. Require management to review all impairments monthly.

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F. Fixed assets are depreciated appropriately.

Business risks

- Depreciation computations and reports will be inaccurate.
- Depreciation practices will not comply with company policies.
- Depreciation practices will not comply with regulatory requirements.
- Inaccurate depreciation of fixed assets will lead to inaccurate financial reports.

Control practices

1. Ensure that the fixed asset sub-ledger uses a standard form to record all relevant information for fixed asset additions.
2. Ensure that information necessary to compute depreciation is required to accept additions to the fixed asset sub-ledger.
3. Ensure that computer edit check programs confirm the reasonableness of information input to calculate fixed asset depreciation.
4. Ensure that invalid data is either rejected for reentry or stored in a suspense file to be researched, corrected, and reentered in a timely manner.
5. Standardize entries covering the useful life of assets and related information.
6. Ensure that the system's program limits and reasonableness checks identify deviations from useful life standards, to be researched and reentered in a timely manner.
7. Require management to review system reports on changes to depreciation rates and methods, and then research and correct changes not in compliance with policies.
8. Require management to perform reasonableness tests of depreciation expense and to research and correct results falling outside the expected range.
9. Require management to compare depreciation charges with budgets or other data as part of periodic reasonableness reviews categorized by asset, location, or segment of business. Ensure that discrepancies are researched and corrected.
10. Formally document, approve, and consistently apply methods of fixed asset depreciation through manual processes or computer systems.

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G. All disposals are input for processing completely and accurately.

Business risks

- The general ledger will not be updated properly when fixed assets are disposed of or retired.
- The company will fail to track assets properly.
- Inaccurate fixed asset general ledger data will lead to inaccurate financial reports.

Control practices

1. Pre-number sequentially and account for all fixed asset disposal documents.
2. Require that employees with custody over fixed assets use the pre-numbered forms to regularly report asset disposals or retirements to the accounting department.
3. Compare periodic physical counts of fixed assets with the fixed asset register. Research differences with the information in the sub-ledger or fixed assets ledger and correct the ledger.
4. In systems that input disposals are into a temporary file before sub-ledger updates, use batch totals before processing is complete. Separate input documents into groups and calculate numerical totals such as the quantity of documents, dollar amount, and hash items. Compare these totals with reports following inputs and updates and research and reenter all out-of-balance conditions in a timely manner.
5. Compare disposal source documents such as cash proceeds and removal costs with the disposal form in the fixed asset system in a one-to-one check for accuracy. Research, correct, and reenter any discrepancies and recheck the reentered data.
6. Compare in a one-for-one check the fixed asset approved for disposal on the disposal request to the fixed asset removed from the fixed asset ledger. Confirm that the correct related accumulated depreciation is removed, that the net amount is booked to gain or loss on disposal, and that the correct date is recorded for removal from service.
7. Require that employees with custody over fixed assets obtain management approval before processing a fixed asset for disposal or retirement.
8. Require management to review and approve monthly accounting department reports on disposals and retirements.

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H. Approved general ledger adjustments are input for processing completely and accurately.

Business risks

- General ledger adjustments will be made inaccurately.
- General ledger adjustments will not be approved properly.
- Incomplete or inaccurate adjustments to the general ledger will lead to inaccurate financial reports.

Control practices

1. Compare reports following inputs or updates to the adjustment source data in a one-to-one accuracy check of adjustments input into the system, confirming the date and other key data.
2. In using batch totals, separate input documents into groups. Calculate numerical totals such as the quantity of documents, dollar amount, and hash items. Compare these totals with reports following inputs and updates, and research and reenter all out-of-balance conditions in a timely manner.
3. Reconcile sub-ledgers to the general ledger monthly. Research and resolve reconciling items in a timely manner.
4. Require an appropriate level of management to approve all adjustments.
5. Ensure that management's review of adjustments includes an examination of source documentation.
6. Ensure resolution of discrepancies identified in management's review of adjustments.

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I. Approved changes to standing data are input for processing completely and accurately.

Business risks

- Standing data will be incomplete or inaccurate.
- Changes to standing data will not be approved properly.
- Incomplete or inaccurate changes to standing data will lead to inaccurate financial reports.

Control practices

1. Require approval from an appropriate official before input of changes to standing data.
2. Require sufficient documentation to support each change to standing data.
3. Compare reports following inputs and updates to the change source documents for completeness and accuracy as part of a one-to-one check of changes input into the system. Resolve discrepancies and recheck re-entered data.
4. Configure the accounting system to produce a report of changes in certain types of standing data or changes falling outside specified parameters.
5. Require management review of supporting documentation and approval of adjustments before the system will accept specified types of changes.
6. Require staff responsible for standing data to regularly review the data and use the standard standing data change process to make needed adjustments.
7. In using batch totals, separate input documents into groups. Calculate numerical totals such as quantity of documents, dollar amount, and hash items. Compare these totals with reports following inputs and updates. Research all out-of-balance conditions and reenter corrected data in a timely manner.

Compliance with applicable laws and regulations

A. Duties and taxes on fixed asset transactions are recorded in accordance with applicable laws and regulations.

Business risks

- Inappropriate accounting treatment of fixed assets will lead to tax reporting errors and potential audit liabilities.

Control practices

1. Require the tax department to periodically review the tax consequences of fixed asset additions to determine appropriate treatment.
2. Require the tax department to review all activities involving foreign taxes to ensure adequate attention to complex regulations.