STATE OF WISCONSIN
DEPARTMENT OF HEALTH SERVICES
DIVISION OF ENTERPRISE SERVICES
BUREAU OF FISCAL SERVICES

ACCOUNTING POLICY AND PROCEDURES (APP) MANUAL

TOPIC: Section 1 – Business Standards 6.0	EFFECTIVE DATE: 06/30/1994
TITLE: Safeguarding Assets and Custodianship	REVISION DATE: 03/01/2017
AUTHORIZED BY: Director, Bureau of Fiscal Services	

BACKGROUND

One of the major benefits of a good system of internal control is the safeguarding of assets. Similarly, good business practice requires that assets be appropriately secured and maintained, used for the purposes intended, periodically accounted for, and properly disposed of. Section 16, Sub-Section 2 of the Wisconsin Accounting Manual requires agencies to keep inventory control records for all significant assets (i.e. with a value over $1,000), even those that are not capitalized. Those records are useful for internal financial management purposes, insurance purposes, and the recovery of lost, stolen, or damaged items. Federal grant agreements may have specific requirements relating to assets purchased with grant funds, as well.

Wisconsin Statutes [s. 46.09 (1)] require that the Business Manager ("Steward") of each institution "have immediate charge of all books, accounts, papers, and records relating to the institution's financial management." The Business Manager should also "be responsible for the safekeeping and economical use of all stores and supplies." In addition, Section 46.03 requires that the department "supervise, manage, preserve and care for the buildings, grounds and other property pertaining to said institutions, and promote the objects for which they are established."

Additional and detailed requirements for the reporting of assets can be found in Section 8 – Capital Assets of the Bureau of Fiscal Service’s Accounting Policies and Procedures Manual.

POLICY

Each Division or Institution shall establish adequate internal control procedures to ensure that assets, equipment, and supplies are appropriately safeguarded. These procedures shall include, but are not limited to:

1. Assigning custodianship responsibilities for each asset, type of asset, or location;
2. Complying with Department of Administration risk management requirements including maintaining insurance type and location for every asset;
3. Maintaining accurate and reliable accounting records for assets and reconciling capital expenditures to asset additions on the state’s financial and procurement system - STAR;
4. Conducting an annual physical inventory of all assets;
5. Immediately investigating missing equipment and reporting the disappearance in a timely manner to federal, state or local officials, as needed;
6. Disposing of surplus equipment in accordance with state and departmental requirements and/or federal grant requirements and agreements.

PROCEDURES

Custodianship Responsibilities

Designation of Custodian(s). Custodianship involves the responsibility for safeguarding an asset or group of assets. Each division or institution should designate a custodian for each individual, type, or location of asset. The custodian may be the employee who uses the asset, the immediate supervisor, the Bureau director, or an employee who is formally assigned division-wide functions. The custodian's responsibilities are to assure that the asset is properly maintained, it is used for the purposes intended, and that information regarding the asset is properly reported (acquisitions, transfers, disposals, movements, etc.).

Divisions and Institutions should have a method (preferably in writing) to communicate the responsibilities of custodianship for assets owned by or used by the organization.

Monitoring and Verification. As part of its internal control responsibility, each division and institution needs to monitor custodianship within the organization on a periodic basis. Generally, monitoring and verification is the responsibility of the Division Fiscal Liaison or the Institution Management Services Director.

Shared Responsibilities. In an organization as large as the Department of Health Services (DHS), shared responsibility will be common. For example, pharmacy inventories may be the responsibility of the Medical Director rather than the Business Manager. In this case, the Legislative Audit Bureau has considered the Business Office responsible for oversight, including explaining inventory variances. Another example is that computer equipment may be owned by one division, used by a sub-grantee, and maintained by the Bureau of Information Systems. In the latter case, the Department or Division that applied for and received the federal grant is ultimately responsible for the assets purchased with that grant.

Divisions and Institutions should review the lines of responsibility involving assets and affix custodianship duties to ensure proper control regardless of organizational structure.

Risk Management Responsibilities

Due Care and Internal Control. Risk management activities include the proper care for buildings and equipment and adequate protection against fire or theft. In particular, computers must be in rooms with locked doors or secured by cable. Items that are highly portable require additional protection. Such items include laptop computers, video recorders or players, and audio-visual equipment. Thefts are to be reported to the proper authorities. Under federal regulation, adequate maintenance procedures must be developed to keep the property in good condition.

Divisions and Institutions should develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of property. Any loss, damage, or theft shall be investigated and properly reported.

Periodic risk assessments should be made to determine if proper precautions have been taken within a Division or Institution for the protection of assets. Preventive measures should be taken to limit risk to no more than a relatively low level.

For risk management and property control purposes, all capital assets greater than $5,000) must be accounted for in the Asset Management Module in STAR. Non-Capital assets (assets from $1,000 to $4,999) must be accounted for either in STAR, Cherwell (an IT inventory maintained by the Bureau of Information Technology), or another database or spreadsheet system. Those records form the basis for the Annual Property Coverage Report.

Risk Management Reports. The risk management reports are different from asset records used in financial reporting. The definitions of assets are different, the valuation is different, and the two are used for different purposes. For example, risk management reports are used to determine reimbursement for losses and include all insured property. Risk management valuation is based on an estimate of replacement cost whereas financial accounting records are based on historical (acquisition) cost.

Segregation of Duties

Segregation of duties applies to the safeguarding of assets. Generally, one person should not control a process from beginning to end. Division of responsibilities decreases risk.

Segregation of duties for assets includes three functions:

> **Authorization:** This includes authorizing the purchase, disposal, and transfer of assets. Purchasing documents such as purchase orders document the purchase authorizations. STAR Asset Management Roles authorize and separate the key duties of adding and disposing of assets on the system.
>
> **Record Keeping:** This includes the entry of purchase orders, payments, and asset transactions on STAR.
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> **Custody:** This entails maintaining physical control of the assets. That includes tagging the assets and performing the physical inventory at year-end.

Control over assets can be strengthened further by having the physical inventory performed by someone other than the person who has custody of the assets. That is not always practical due to resource constraints.

The state uses STAR to record capital asset acquisitions, transfers, and disposals. Non-capital assets may be recorded either in STAR, Cherwell, or another database or spreadsheet system. The information required to be recorded can be found in Section 8-Capital Assets 1.01 **(**Accounting Procedures for Capital Assets) and Section 8-Capital Assets 1.02 **(**Accounting Procedures for Non-Capital Assets).

Special procedures apply to transfers of capital Assets. All transfers between one DHS organization and another DHS organization should be entered as asset adjustments on STAR. Transfers between state agencies should be handled as sales or donations. Specific procedures can be found in the Asset Transfer and the Asset Retirement Job Aids.

A physical inventory must be conducted annually. That requirement is specifically set forth for institutions by Section 46.014(1) of the Wisconsin Statutes. However, the Bureau of Fiscal Services (BFS) extends that requirement to all Divisions and Facilities and coordinates that process near the end of each fiscal year. Results of the physical inventory must be reconciled to the property records and all discrepancies explained.

The physical inventory must be complete and accurate. The Legislative Audit Bureau may interpret any unexplained discrepancies as weak physical control.

Investigation of Missing or Stolen Assets

Losses sustained from mysterious disappearances and employee thefts are not covered by the state's self-funded property (insurance) program. Therefore, missing assets should be investigated immediately to either find them or determine the cause of their disappearance. Management should follow up on any matters where a lack of control is identified in the physical inventory process and take corrective action as necessary.

Disposal of Assets

There are a number of requirements for the disposal of assets. Disposal of assets is to be done in accordance with state and federal requirements and as well as in compliance with good internal control and accounting procedures, consistent with a state employee's ethical obligations.

Requirements. Section 8 - Capital Assets 5.0 (Disposition of State-Owned Assets) details most requirements for the disposal of assets. In addition, there are federal regulations that apply to assets originally purchased with federal funds, and specific federal grants may have additional requirements.

Each asset disposal should be explained as to method of disposal – sent to surplus, sold, transferred, etc. For capital assets, that explanation can be made in STAR. In all cases, adequate back up information is required to provide an adequate audit trail.

Approval in advance by the DOA Bureau of Procurement must be obtained for the disposal of any piece of equipment with a purchase price or current market value of greater than $25,000. One exception to that is if it is a transfer between state agencies. Additionally, the Department of Administration requires a post-sale report to be filed with the State Surplus Property Program (SSPP). An annual summary report of assets disposed of by category must be filed with the SSPP by July 31st, also. More information on those requirements can be found in the State Procurement Manual numbers PRO-F-1 and PRO-F-3.

Ethical Considerations. Sales or other disposal of surplus assets must be in accordance with provisions of the *Wisconsin Human Resources Handbook*, including, but not limited to, Work Rule #9 found in Sec. 410.030 concerning unauthorized use of property. The acceptance of gifts, favors, or other remunerations, when disposing of state controlled property, is prohibited. The appearance of a conflict of interest is to be avoided as well as an actual conflict of interest. See also Section 1 - Business Standards 2.0 (Standards of Business Conduct).

REFERENCES

DHS APP Section 1 – Business Standards 2.0 (Standards of Business Conduct)

DHS APP Section 3 – Revenues and Refunds 1.0 (Accounting for Refunds of Expenditure)

DHS APP Section 8 – Capital Assets 1.0 (Capital Asset and Inventory Systems)

DHS APP Section 8 – Capital Assets 5.0 (Disposition of State-Owned Assets)

Wis. Stat. §§ 46.09 (1) and 46.03

Wisconsin Human Resources Handbook – Chapter 410.030

CONTACTS

Director, Bureau of Fiscal Services

Managerial Accounting Section Chief

Capital Asset Accountant, Cost Allocation and Financial Reporting Section

IT Asset Accountant, Cost Allocation and Financial Reporting Section