



CITY OF STONECREST, GEORGIA

Honorable Mayor Jason Lary, Sr.

Council Member Jimmy Clanton, Jr. – District 1

Council Member Rob Turner- District 2

Council Member Jazzmin Cobble – District 3

Council Member George Turner- District 4

Vacant – District 5

CITY COUNCIL WORK SESSION

September 23, 2019

6:00 p.m.

3120 Stonecrest Blvd. Suite 190

Stonecrest, Georgia

- I. CALL TO ORDER:** Mayor Jason Lary
- II. AGENDA ITEMS:**
 - 1. Executive Session
 - i. Land Acquisition
 - 2. Review Capital Asset Policy
- III. ADJOURNMENT**

Americans with Disabilities Act

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If you need auxiliary aids and services for effective communication (such as a sign language interpreter, an assistive listening device or print material in digital format) or reasonable modification to programs, services or activities contact the ADA Coordinator, Megan Reid, as soon as possible, preferably 2 days before the activity or event.



COUNCIL MEETING AGENDA ITEM

SUBJECT: Capital Asset Policy

☐ ORDINANCE	☐ POLICY	☐ STATUS REPORT
☐ DISCUSSION ONLY	☒ RESOLUTION	☐ OTHER

Work Session: 09/23/2019

SUBMITTED BY: Interim City Manager Julian Jackson

PURPOSE: Policy needs to be adopted according to 2018 Auditor's Recommendation

HISTORY:

FACTS AND ISSUES:

OPTIONS:

RECOMMENDED ACTION: Adopt the Capital Asset Policy at the next Council Meeting



**To the Honorable Mayor and Members
of the City Council and Management of
the City of Stonecrest, Georgia**

In planning and performing our audit of the financial statements of the City of Stonecrest, Georgia (the "City") as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the City as of and for the year ended December 31, 2018. A separate report dated June 24, 2019 contains our report on the City's internal control. This letter does not affect our report dated June 24, 2019, on the financial statements of the City.

The following items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the City's practices and procedures:

1) Purchase Cards

During our testing of credit card transactions we noted that, for the two employees that are issued a credit card, the cards are maintained by the two employees and are kept in their possession at all times. While they are the only two employees that are issued cards and authorized to make purchases, we recommend that, when not in use, the credit cards be securely locked and kept in the Accounting Manager's office for safekeeping and control purposes.

2) Checks Custody

During our testing of cash we noted that three checks totaling \$311,556 were held in custody by finance and reported as outstanding checks, but not submitted until January 2019. A reclassification in the General Fund balance sheet was posted to correct the reporting. We recommend that the City not hold drawn checks and should timely issue those checks. Additionally, held checks should not be shown as outstanding checks.

3) Hotel/Motel Taxes

During our testing of the City's Hotel/Motel Fund we noted the City has levied a 5% Hotel/Motel tax in accordance with OCGA 48-13-51(a)(3). Under the code section, the City is required to remit 40% of the annual collections to the DeKalb Convention and Visitors Bureau (DCVB) and 60% can be transferred to the General Fund. Based on testing of the activity in the Hotel/Motel Fund, we noted the City expended 39% of the revenues to DCVB.

4) Policy Adoption

During our walkthroughs, review of the City Council minutes, and examination of the City's Internal Control Questionnaires we noted the City has yet to formally adopt the following policies and/or procedures:

- Capital Asset policy – the City should adopt a formal capitalization policy that specifies the types of items that qualify for reporting as capital assets, the thresholds over which those items will be capitalized, and the applicable depreciable lives to be applied to those assets.
- Information Technology policy, which formalizes the procedures and policies related to set-up, user access, testing of back-up procedures, and emergency changes to the City's software applications.
- A record retention policy for the legal, fiscal, and administrative needs of the City.
- Purchasing – the City should implement and systemize the use of purchase orders within its operations; management and/or governing body approval should be required for purchase orders that exceed established limits per the City's purchasing policy and there should be an adequate segregation of duties for those employees that initiate, approve and record purchase orders within the purchasing cycle.
- Management should establish a well-defined process for financial reporting that includes the following: formal documentation for approval and review of new accounting policies, a system to monitor changes in authoritative guidance and implement necessary changes on a timely basis, and an independent review and supporting analysis for all significant judgements, estimates and non-routine transactions that documents compliance with relevant GAAP framework.

We strongly recommend the City's management begin to create and adopt these accounting policies.

5) Capital Asset Software

During our testing of the City's capital assets, we noted the assets are maintained in Microsoft Excel. While the City is still new and developing many of the accounting systems and processes, we strongly recommend the City consider purchasing a system for capital asset maintenance. The schedules and detail listings are much more susceptible to errors with having all of the calculations being based on manually created formulas, as opposed to system generated reports.

6) IT and Cybersecurity

The Information Technology environment is characterized by rapid change and there has been no shortage of headlines about cybersecurity attacks. While breaches of large organizations have been very high profile and have received a lot of press coverage, organizations of all sizes face the same types of threats and are experiencing similar breaches. Many organizations are still struggling to effectively address cybersecurity issues; however, they are no longer ignoring them. During the performance of our audit of the financial statements of the City, we noted that the organization is lacking some elements of a Cybersecurity Framework or Cybersecurity Risk Management Program (CRMP). A functioning CRMP will assist the City with comprehensively identifying cybersecurity weaknesses, potential threats and risks, and controls used to safeguard information and systems. We recommend that the City investigate and consider implementation of a Cybersecurity Risk Management Program covering: monitoring and testing of controls in place, selection of a particular framework and general cybersecurity training for employees.

Closing Thoughts

We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than those specified parties.

We appreciate serving the City of Stonecrest and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

Mauldin & Jenkins, LLC

Atlanta, Georgia
June 24, 2019

Capital Asset Policy

PURPOSE

The City of Stonecrest has established guidelines and procedures to appropriately account for and classify eligible capital asset property in accordance with Generally Accepted Accounting Principles (GAAP)

A capital asset must meet all the following requirements:

1. The asset is tangible or intangible and ready for its intended use.
2. The asset is used in the operation of the City's activities.
3. The asset has a useful life greater than one fiscal year.
4. The asset is of significant value.

Capital assets may be acquired through donation, purchase, capital lease or self-constructed. Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase. On the City-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Costs for self-constructed assets may include legal and title fees, closing costs, fees, land costs, demolition costs, relocation costs, architect and accounting fees, and insurance premiums and interest costs during construction. Donated capital assets are recorded at fair market value on the date donated.

The City's assets are classified into four major classes of assets as defined by GAAP. They are land, buildings and improvements, equipment, and intangible assets. The following capitalization thresholds and estimated useful life for depreciation will be used for the different classes of the City's capital assets reported in the City-wide statements:

	<u>General Policy</u>	<u>Useful Life</u>
Land	All	N/A
Buildings and Improvements	All	20 to 50 Years
Equipment	\$5,000	5 to 10 Years
Intangible Assets	\$1,000,000	10 Years

LAND

Land acquired by purchase is recorded at cost to include amount paid for the land and all incidental costs. Incidental costs may include, but not be limited to, land preparation cost, land excavation, and grading.

Land acquired by gift or bequest is recorded at the fair market value at the date of the acquisition if appraisal is available. If no appraisal is available, the fair value used will be the amount the person or entity paid before it was gifted to the City.

Land acquired with buildings erected thereon, total cost is allocated between the two in reasonable proportion at the date of acquisition. Land is not a depreciable asset but is capitalized regardless of cost.

BUILDINGS AND IMPROVEMENTS

Buildings will be recorded at either their acquisition cost or construction cost. If purchased, the capitalized cost should include the purchase price and other incidental expenses at the time of acquisition.

If a building is constructed, the capitalized cost should include all construction costs and capitalized upon completion of the project when it is deemed ready for its intended use or when certificate of occupancy is received. All major component units such as HVAC, kitchen equipment, plumbing system, sprinkler systems, etc. are included in the cost of the building when the building is originally constructed.

Costs to furnish the building such as furniture and equipment will not be included in the building's capitalized cost.

Building or site improvements are defined as the extension to a pre-existing building. This also includes any major renovations or alterations with an existing

building. Site improvements may include items such as site work, sewer systems, parking lots, outdoor lighting, covered walkways, tennis courts, running tracks, grandstands, athletic fields, etc. The costs of the addition will be recorded at their construction cost. Building or site improvements will be capitalized separately and depreciated over their useful life. Site improvements are designed as depreciable or non-depreciable. The non-depreciable improvements (such as drainage improvements and wetlands mitigation) are treated like land and capitalized but not depreciated.

Component units such as HVAC, kitchen equipment, plumbing system, sprinkler systems, et c. that were originally included in the construction cost of the building will not be removed from the property report since it is not a separately valued component. The new component unit will be depreciated over the estimated useful life of the applicable class of property.

CONSTRUCTION IN PROGRESS

This includes all construction project expenses and allocations for building and site improvement construction not completed or ready for intended use by the end of the fiscal year. Construction in Progress is not depreciable. Completed projects will be moved to the applicable fixed asset class when complete.

EQUIPMENT

Equipment costing \$5,000 or more per item and having an estimated life of more than one year will be capitalized. Expenditures for items such as furniture and computer equipment purchased in groups costing more than \$5,000 and having an estimated life of more than one year may be capitalized by type as a group. Equipment will be depreciated over its estimated useful life.

INTANGIBLE ASSETS

Per Governmental Accounting Standard Board (GASB) Statement 51, an intangible asset possesses all of the following: (1) Lack of physical substance, (2) nonfinancial nature, and (3) initial useful life extending beyond a single reporting period. Internally developed computer software is the most common type of intangible asset the City may have.

In order to be classified as internally developed software the software must be created or produced by the government or an entity contracted by the

government or commercially available software that is purchased or licensed and is modified using more than minimal effort.

Only the costs of the internally developed computer software associated with the application development stage are capitalized. These costs include design, coding, installation to hardware, data conversion, and testing. All other costs associated with internally developed software are expensed in the year they are incurred. The capitalization threshold for this type of software is \$1,000,000. Depreciation of this type of asset will begin when the software system is put into service. Until the system is put into service, the City will show the cost in construction in progress.

LEASED ASSETS

Operating leases will be capitalized if one or more of the following criteria are met and chance of cancellation is low:

- Ownership is transferred by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is greater than or equal to 75 percent of the asset's service life.
- The present value of the minimum lease payment is greater than or equal to ninety percent (90%) of the fair market value of the asset at the inception of the lease.

DONATED ASSETS

Assets that have been donated to the City are valued at their estimated fair value at the time of donation. If the donated asset is land or a building, the estimated fair value should be the amount listed on an appraisal. If no appraisal is available, the fair value used should be the amount the person or entity paid for the property before it was donated. The value of all other donated assets should be provided by the donor.

SALE OF CAPITAL ASSETS

The sale of a capital asset must be to the highest, responsible bidder and must be

conducted by sealed bid or by auction. The sale must be approved and publicized in accordance with State law.

DISPOSAL OF ASSETS

Disposal of assets are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. Depreciation is calculated based on the month the asset is placed into service or substantially completed. Depreciation expense is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives. The asset record, including disposal information, will remain on the master file for three (3) fiscal years, after which time it is purged from the system in accordance with GAAP.

A disposal action is appropriate when certain conditions occur resulting in an asset no longer being in the possession of the City. Assets no longer in use which remain in the possession of the department are considered surplus property and not a disposal.

Capital assets may be disposed of in any one of six (6) ways:

1. Sale or trade-in;
2. Abandonment/retirement;
3. Lost or stolen;
4. Transfer;
5. Cannibalization (taking parts for other uses); and,
6. Casualty loss

Only when the asset is no longer in possession of the City, due to one of the reasons above, is disposal action appropriate.

Assets are "abandoned" or "retired" when there is no longer any use for them in the Department, they are of no use to any other City department, or they cannot be repaired, transferred, cannibalized, sold or traded in.

Stolen items must be reported to the DeKalb County Police Department and a report filed. A copy of this report must accompany the disposal record.

Casualty losses must be documented within 24 hours of loss and reported to the City Manager immediately.

Departmental management is responsible for reviewing disposal reports, evaluating causes and trends leading to disposals, and effectively managing and controlling disposals in which they are responsible.

IMPAIRMENT OF ASSETS

GASB Statement 42 establishes accounting and financial reporting standards for a capital asset that has experienced a significant unexpected decline in its service utility. The City shall evaluate annually prominent events or changes in circumstances affecting assets to determine whether an impairment of a capital asset has occurred. In order to meet the impairment, test a decline in service utility must be both:

- ▶ Significant
- ▶ Unexpected

INVENTORY OF CAPITAL ASSETS

An inventory of capital assets will be conducted under the supervision of the city manager annually and reported in the CAFR.