Managing Fixed Assets
In
The Public Sector

Managing For Service Excellence

By

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Introduction

The purpose of this text is to define and encourage conversation among public fixed assets management functions. No two-fixed assets management functions are alike. However, all share the same approaches in managing assets in their charge. I will attempt to define some key settings in managing fixed assets from defining fixed assets to accountability for those assets. This text was written to help better operate the day-to-day affairs of the public sector fixed assets management function. The information presented here is not new; however, the information is not contained in one concise location.

Additionally, it is my intention to stimulate conversation and communication on the subject of personal property management. In so doing, the expectation is that these conversations and communications will increase the effectiveness and efficiency of personal property management. The public sector is an area that relies on sound management practices and the management on those assets entrusted to us is no exception.

William D. Brady, Jr., MA, CPPO

Dedication

To my wife, Yolanda, who has inspired and supported me in all of my endeavors. Without her support I could not have accomplished this book or any of my other many endeavors.

Appreciation

I extend my sincere thanks to Mr. Richard Hamilton, Property Manger, The Citadel, Charleston, SC for his assistance. His assistance and counsel were invaluable in the preparation of this book.

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Table of Contents

List of Figures

List of Tables

Chapter 1 Introduction

Purpose

The primary purpose of this chapter is to introduce the field of fixed assets management. It describes the nature and scope of fixed assets management and how it relates to the other segments of the public agency.

Objectives

Upon completing this chapter, you should be able to:

- Describe the public sector.
- Define fixed assets.
- Identify the types of fixed assets.
- Describe the reasons that the public sector manages fixed assets.
- Provide a general description of the fixed assets management principles.
- Briefly describe the fixed assets cost determinants.
- Identify the Federal grants management programs available.

Introduction

Fixed assets management activities are a meaningful part of the public sector functions. Good fixed assets management establishes and maintains a current inventory of personal property used within the organization. In so doing, responsibility and accountability for personal property is established to ensure effective and efficient usage of the property. Additionally, a good fixed assets management program will facilitate the physical inventory of fixed assets, advance the establishment of insurance conditions, and comply with federal, state, or local policy.

Fixed assets management is not the only name for this segment of the materials management area. It has had a number of titles through the years. Property management is a common title used in the public sector. Other names used are equipment management, and, to a lesser degree, inventory control, although that name is normally reserved for the management of expendable supplies for use within the organization. The National Institute of Governmental Purchasing, Inc. uses the title fixed assets management in its Inventory and Warehouse Management Seminar.[1] Fixed assets management appears to be in common usage with software manufacturers who develop inventory and tracking software for personal property. In this book the title fixed assets management is used throughout to describe the process of managing personal property. This title appears to more adequately describe this function in the public sector. However, property, equipment, and fixed assets are used interchangeably to describe fixed assets.

The fixed assets manager, individual responsible for fixed assets management, is continuously encountering a diversity of challenges involving technology, administration, personnel, and management functions. In order to direct the fixed asset management effort of their organization, the manager must understand the organization's operating policies and procedures. The complexity and value of personal property has dramatically increased in recent years, as a result, the new fixed assets manager is finding it more and more difficult to learn the skills of managing the fixed assets program. This effort necessitates more planning and expertise on the part of the manager. The fixed assets program must be dynamic rather than static, proactive rather than reactive, and accommodating to changes in organizational needs rather than unaccommodating.

Fixed assets managers play a key role in today's materials management structure, whether they are at the federal, state, or local level. In today's materials management environment, the fixed assets manager is confronted with recognizing the need for education and information in a rapidly changing environment and organization. The fixed assets manager must be a dynamic supervisor, an organizer, a self-starter, and a generalist who is willing to get out and take charge.

What Is The Public Sector

The Code of Federal Regulations, Title 41, Volume 2, Chapter 101, Section 101-43.001-26 defines public agency as: "any State; political subdivision thereof, including any unit of local government or economic development district; any department, agency, or instrumentality thereof, including instrumentalities created by compact or other agreement between States or political subdivisions; multijurisdictional substate districts established by or pursuant to State law; or any Indian tribe, band, group, pueblo, or community located on a State reservation."

In broad terms, the public sector encompasses all of the governmental agencies that provide the common goods and services that the taxpaying public needs. This segment includes federal, state, county, city, and municipalities that carry out the missions of government. The public sector can be viewed as all governmental agencies including higher education, hospitals, and the other non-profit organizations in federal, state, county, and city government. The distinction between private organizations and the public sector is that of the profit motive. Private organizations are in business to compete and return a profit for their stockholders. Whereas, the public sector is often classified as non-profit organizations and are chartered to provide services to their constituents. The public sector is itself governed by the laws passed by the legislature or governing boards and commissions. Elected officials often are the top managers of public sector agencies and lend a challenging element to the equation. Public agencies often have the special attention of the elected officials, the public, and the press, which have a stake in assuring the accountability of government to the people.

Accountability is a key feature of the public sector and one of the principal arguments taken into account in this book. The public sector is answerable to the taxpayers such that it must aspire to policies that are compatible with public desires. The people are the pivotal element in a democracy and those in the public sector are accountable to all of the people in a democracy. There is, however, an underlying distrust of the public sector by the people. Therefore, most programs and policies in government contain numerous control programs and a high degree of accountability. Fixed assets management is no exception. The primary purpose for fixed assets management is to ensure accountability of the significant investment in assets entrusted to the public sector administrators.

What Are Fixed Assets

Fixed assets are many things to the many public sector entities and are, in all probability, as variously defined. It can be any item costing over a certain dollar amount, large or small, to an item that has a certain useful life. A public sector organization's assets represent a substantial financial investment. The costs of acquiring, maintaining, insuring, and replacing these assets have a considerable impact on the operations of the entity. Fixed assets are not always found in one place and, in fact, are more commonly thought of as movable assets, property, or equipment. As movable assets, they get transferred from place to place creating a management challenge. Assets also tends to be used up or expended over time and their value declines to the point where they are no longer thought of as assets and can be thought of as an albatross or burden on the organization. At the end of their useful life, most assets are apt to have some scrap or salvage value depending on the asset and, therefore, become an interesting challenge for the fixed assets manager.

To define fixed assets one must look at a number of definitions and combine the definitions to form one meaningful definition that will apply to the particular circumstances of the public sector. The Merriam-Webster Dictionary defines property as "something owned or possessed, a piece of real estate; the exclusive right to possess, enjoy, and dispose of a thing; something to which a person or business has a legal title." Personal property is defined as "property other than real property consisting of things temporary or movable." The dictionary further defines equipment as " the implements used in the operation or activity; all the fixed assets other than land and buildings of a business enterprise." [2]

The Concise Columbia Electronic Encyclopedia defines property as "in law, the right of ownership, i.e., the exclusive right to possess, enjoy, and dispose of an object of value; also, the object of value possessed, enjoyed, and disposed of by right of ownership. Modern Anglo-American property law provides for ownership of nearly all things of economic value; there are exceptions, such as the high seas or outer space, which are not subject to ownership. The law divides property into realty (real property) and personalty (personal property). Realty is chiefly land improvements built thereon; personalty is chiefly movable objects whose distribution the owner can determine by sale, will, or gift. Realty, in medieval times, was the basis of wealth and the keystone of the social structure; its ownership was controlled to protect society. The ownership of personalty, being of minor importance, was almost unfettered. With the rise of commerce and a large landless middle class, personalty became the dominant form of property, and the law of realty gradually became assimilated in most respects into that of personality."[3]

Figure 1-1: Examples of Public Sector Assets

Fixed assets, from the definitions above, can be thought of as something owned or possessed, something to which the public organization has legal title, is other than real property consisting of things temporary or movable, and all the property other than land and buildings of a public organization. Normally, the property managed is defined as personal property as opposed to real property. Therefore, real property and those items attached to the real property are usually not included in the definition of fixed assets. It is those assets that are movable or used temporarily that lend themselves to being managed. Examples of fixed assets include computers, furniture, printers, vehicles, boats, motors, analyzers, microscopes, medical equipment, education equipment, athletic equipment, and roadway equipment. Expendable supplies that are expended upon use, such as, pens, pencils, nuts, bolts, pipe, oil, gas, and valves are not fixed assets.

The definitions gleaned from the dictionary and encyclopedia are good, rough definitions that describe fixed assets in general terms. We must delve further into the subject to obtain a suitable definition that will serve the needs of public sector fixed asset management to its fullest.

The Federal Government's Office of Management and Budget (OMB) publishes the OMB Circular A-21 to establish principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. The principles deal with the subject of cost determination and make no attempt to identify the circumstances or dictate the extent of agency and institutional participation in the financing of a particular project. The principles are designed to ensure that the Federal Government bear its fair share of total costs, determined in accordance with generally accepted accounting principles, except where restricted or prohibited by law. Agencies are not expected to place additional restrictions on individual items of cost. OMB Circular A-21 defines equipment as: "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the organization for financial statement purposes, or $5,000.[4]

Additionally, the Office of Management and Budget publishes OMB Circular A-110 that sets forth standards for obtaining consistency and uniformity among Federal agencies in the administration of grants and agreements with institutions of higher education, hospitals, and other non-profit organizations. OMB Circular A-110 defines equipment as: Equipment means tangible nonexpendable personal property including exempt property charged directly to the award having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. However, consistent with recipient policy, lower limits may be established.[5]

Both of the above definitions introduced two additional terms to the dictionary and encyclopedia definitions. This is the first that "useful life" and "acquisition cost" have been mentioned. These two terms furnish more depth to our rudimental dictionary definition. Fixed assets, according to the OMB, must now have some minimum useful life and cost before they may b classified as truly being fixed assets. The Office of Management and Budget, to consider an item as fixed assets, calls for a useful life of one year. The OMB's conditions apply to institutions of higher education, hospitals, and other non-profit organizations. That would seem to include all organizations in the public sector. Therefore, if a public sector organization intends to obtain a grant or agreement with the Federal Government, its definition of fixed assets must include a useful life of at least one-year. Using the same reasoning, the fixed asset must have a minimum acquisition cost of $5,000 to be classified as fixed assets. The public organization may set lower capitalization limits; however, if applying for a grant, the minimum limit will be $5,000 or additional approval will be needed.

Armed with this further information, we can now define fixed assets for the public sector. Fixed asset means "personal property that is not permanently attached to real property, buildings or grounds; that is movable; has a useful life of at least one year and a minimum acquisition cost established by the organization." The minimum acquisition cost, as we know from above, must be $5,000 to be qualified by the Federal Government as a fixed asset; however, we will leave the establishment of a minimum acquisition cost open for the organization to determine. The organization may wish to establish a lower minimum acquisition cost for tracking and accountability purposes. The above definition provides the organization the flexibility to adequately identify and manage its fixed assets.

Types Of Fixed Assets

Fixed assets encompass a wide variety of assets, Figure 1-1. They may be standard off-the-shelf items, such as, forklifts, automobiles, computers, printing presses, and laboratory equipment. Other assets may be significantly modified or custom made for a particular purpose. Robots, specialized medical equipment are examples of such specialized assets. The list could grow much larger depending on the dollar limit established by the agency to be considered an asset. If the dollar limit is set low, below $500, for example, the list of assets will grow astronomically and the task of accounting for the assets will also increase. As the dollar limit is increased, the list of the types of fixed assets will decrease proportionally.

There are three major characteristics of fixed assets. These characteristics are:

They are acquired for use in operations and not for resale. Only assets used in normal business operations should be classified as fixed assets.

They are long-term in nature. Fixed assets yield services over a number of years.

They possess physical substance. Fixed assets are characterized by physical existence or substance and thus are differentiated from intangible assets, such as patents and goodwill.[6]

Why Manage Fixed Assets

As stated earlier, fixed assets represents a significant dollar investment for any public sector organization. In public utility companies, for example, net plant assets (plant assets less accumulated depreciation) often represent more than 75% of total assets. Recently, net plant assets were 79% of Consolidated Edison's total assets and 92% of Pennsylvania Power & Light Company's.[7] It is important that the fixed assets be accounted for as they are being used within the organization. According to the Code of Federal Regulations, Title 41, Volume 2, Chapter 101, Section 101-

43.001-18 management means the safeguarding of the government's interest in property in an efficient and economical manner consistent with the best business practices. Fixed asset management fits very well within this definition. A fixed asset management program is important for a number of reasons. Most evident is its importance in the control of losses due to pilferage, theft, and neglect. Losses are controllable and can be prevented or minimized. Reliable fixed asset management programs have an additional fundamental value in the maximization of the use of assets by facilitating sharing between and within departments and subdivisions. Scarce resources in the public sector are a reality and it's highly likely that only one of a particular asset may be affordable to the organization for use in a number of departments or subdivisions.

Another point of view that commands serious attention is the importance of an accurate fixed asset management program to meet the growing demands from federal and state-funding sources for improved control and accountability over fixed assets. It is important that the worth of the accountability over assets does not become the basis for the rejection of government grants, contracts, and appropriations. In addition, OMB Circular A-110 and other government regulations covering administration of agreements with federal government agencies require that public agencies avoid purchasing "unnecessary or duplicative items."[8] Federal agencies have the authority to disallow reimbursement for new assets when suitable assets are already available. A reliable and accurate fixed asset management program will ensure that such requests will not be rejected.

Public sector managers, administrators and employees have a duty and responsibility to provide protection for the assets under their control. This protection is for losses from natural disasters, theft, fire, and an abundance of other ills that can befall a public sector organization. Protection is provided in the way of insurance on the fixed assets to provide for replacement if damaged or destroyed. Accurate fixed asset records are necessary to prove the severity of the losses once they have occurred. The fixed asset management program ensures accurate documentation for such an eventuality.

A major purpose of a fixed asset management program is to establish and assign responsibility for the assets. This purpose aligns with the accountability philosophy previously discussed. From a functional perspective, accountability has been presented in the form of a ladder comprising five distinct levels. The levels move from more objectively measured aspects (legal compliance) to aspects requiring more subjective measures (policies pursued and rejected). The ladder is generally consistent with the analysis of the American Accounting Association's (AAA) Committee of Concepts of Accounting Applicable to the Public Sector.

Level 1: Policy accountability-selection of policies pursued and rejected (value)

Level 2: Program accountability-establishment and achievement of goals (outcomes and effectiveness)

Level 3: Performance accountability-efficient operation (efficiency and economy)

Level 4: Process accountability-using adequate processes, procedures, or measures in performing the actions called for (planning, allocating, and managing)

Level 5: Probity and legality accountability-spending funds in accordance with the approved budget or being in compliance with laws and regulations (compliance)[9]

The public sector has not been saddled with the task of computing depreciation on its assets. Generally accepted accounting practices have not compelled that non-profit governmental organizations compute and track depreciation. However, this rule has recently changed and all not-for-profit organizations will be required to recognize the cost of using up long-lived tangible assets-depreciation-in general-purpose external financial statements. With the obligation for the public sector to account for depreciation, the burden of providing positive inventory and tracking of fixed assets will fall on the fixed asset management function.

Fixed Asset Management Organization

Is there a standard organizational placement for the fixed asset management function in the public sector? This question could be researched for years without adequately answering the question because of the wide diversity in public sector organizations. To understand the enormity of the task one must gain insight to the organizing function. Increasing specialization of activities, projects, and skills demand that managers look to elements within their control for gaining coordination by designing, mapping out, and deliberately planning the duties and relationships of people in the organization. In summary, the organizing function seeks:

> To establish efficient and logical patterns of interrelationships among members of the organization.
>
> To secure advantages of specialization whereby the optimum utilization of talents can be realized.
>
> To coordinate activities of the component parts in order to facilitate the realization of the goals of the organization. [10]

In some organizations, the fixed assets manager is in the controller's office and is responsible for the inventory and tracking of assets, as well as, the fixed assets accounting functions. There are other organizations where the function reports directly to a chief executive officer such as a vice president. Still other public agencies have the fixed asset management function reporting to the chief procurement officer; Figure 1-2 shows a typical organization structure of that nature. This type of organizational placement ranks fixed asset management on the same level and status as the other functions within the procurement department. The director of procurement reports to a vice president who has equal status as the other vice presidents providing the power to operate within the organization with a high level of status and power. This type of organization seems to fulfill the organizing functional requirements listed above.

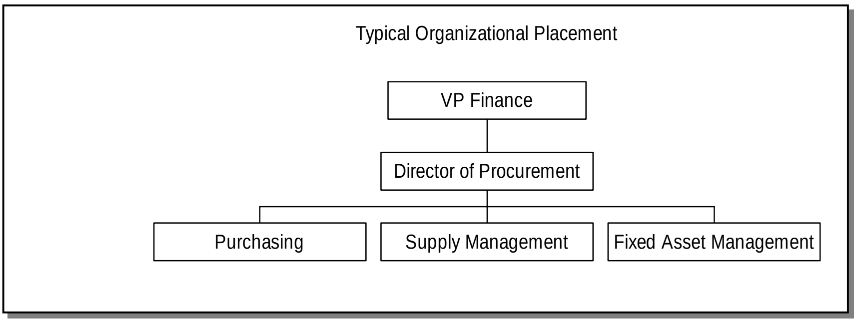

Figure 1-2: Fixed Asset Management Organizational Placement

Regardless of the organizational placement of the fixed asset management function, there should be an organization chart that accurately shows the lines of authority, responsibility, and accountability for the function. The primary purposes to chart the organization structure are to show the hierarchical way functions and individuals have been grouped together, including the authority and responsibility lines that connect them. Organizational charts, to be useful, must show "what is" as opposed to "what should be." There are six principles proposed by classical writers of organization design. Although these principles are no longer interpreted to be universally applicable for all organizations, they continue to offer a foundation upon which managers can build a workable structure.[11]

One of the traditional principles generally referred to as ***unity of command***, states that no member of an organization should report to more than one supervisor on any single function. The application of this principle is easy in a pure line organization, in which each superior has general authority; however, it becomes a complex problem in actual cases in which some form of staff and/or functional organization is used. In practice, instructions may be received from several sources without the loss of productivity. The central problem is to avoid conflict in orders from different people relating to the same subject. You should recognize immediately that many people who are not recognized in the formal hierarchy of authority might influence the actions of a subordinate. The unity-of-command principle simply means that subordinates need to know from whom they receive the authority to make decisions and take action.

The ***exception principle*** states that lower-level managers should handle recurring decisions in a routine manner, whereas problems involving unusual matters should be referred to higher levels. This principle emphasizes that executives at the top levels of an organization have limited time and capacity and should refrain from becoming bogged down in routine details that can be handled as well by subordinates.

A third principle involves the ***span of control*** of a manger: there is a limit to the number of subordinates that one superior should supervise. The determination of the optimum number depends on many factors in a given organization and should always be tied directly to the question of the number of levels in the hierarchy. If it appears that a small span of control for each manager is desirable, then the number of necessary levels will be larger than would be the case with a larger span of control. The organization with more levels is considered "tall," whereas the organization with a larger span of control is "flat." A tall structure with small spans of control assumes that coordination can be attained only by direct supervision. A flat structure with large spans of control assumes that mutual adjustment among subordinates can handle much of the coordination of members.

A fourth principle, the ***scalar principle,*** states that authority and responsibility should flow in a clear, unbroken line, or chain of command, from the highest to the lowest manager. The principle simply states that an organization is a hierarchy. The importance and usefulness of the principle is evident whenever the line is severed. The splintering of one organization into two or more results from a permanent breach of this principle. Temporary breaches, however, are not uncommon, although they are frequently subtle and unrecognized. The tendency of an aggressive executive to fight the control of superiors can create an environment for forming an "empire" that is uncoordinated with the larger organization.

The manner in which activities should be divided and formed into specialized groups is referred to as ***departmentation.*** The purpose of departmentation is to specialize activities, simplify the tasks of managers, and retain control. Several types of departmentation are possible: geographical, by customer, by process or equipment, by product, or by professional skills. Often, different types are used at different levels of the organization structure.

In the organizational sense, ***decentralization*** is the process of diversifying and delegating authority to lower-level managers. Centralization and decentralization are matters of degree; they should be treated as two ends of a continuum. Two important considerations determine the degree of decentralization desirable in a given situation. First, the amount of skills and competence possessed by subordinate managers influences the success of any