

Volume No. 1—Policies and Procedures	TOPIC NO	30805 – Cardinal
Section No. 30800—Asset Disposal	TOPIC	Disposal Management
	DATE	July 2015

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Overview

Introduction

The purpose of this topic is to provide guidance in the overall management of asset disposals. To properly manage asset disposals, the Fixed Asset Accounting and Control System (FAACS) allows the agency to maintain the disposal method and date of disposition to properly control and document disposal activity.

When a capitalized asset is disposed of, its value is removed from the financial balances reported and from inventory reports; however, the asset record, including disposal information, remains on the master file for three years, after which time it is purged from the system. This preserves an audit trail for disposed items, and facilitates agency comparisons between actual or historical useful life information with useful life guidelines. Such comparisons permit a more precise definition of an asset's useful life than those provided by the Internal Revenue Service (IRS) or other guidelines initially used by the system.

A disposal action is appropriate only when certain conditions occur resulting in an asset no longer being in the possession of the agency. Assets that are no longer in use and remain in the possession of the agency are considered surplus property and not a disposal. See CAPP – Cardinal Topic No. 30705, *Surplus Property Management*. It is important to accurately post asset disposals to FAACS in a timely manner.

Cardinal Transition Entries

Currently, FAACS interfaces with CARS and there is an interface with Cardinal under development. Each month, FAACS generates an entry (Batch Type F) to record asset and depreciation activity in CARS. In order to replicate these fixed asset entries in Cardinal, Wave 1 agencies will need to manually create a General Ledger Journal. The GL Journal should be recorded in Cardinal prior to the close of the same accounting period as was used in CARS. This will be an ongoing activity for Wave 1 agencies until the interface from FAACS to Cardinal is implemented in February 2016.

Refer to the “SW GL332 Crosswalk from FAACS Transaction Codes to Cardinal Accounts” Job Aid for further information regarding the recording of FAACS activity in Cardinal. The Job Aid can be found on the Cardinal Project website.

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Overview, Continued

Disposal of Controlled Assets

Do not enter a disposal date or disposal code in the FAACS Masterfile record when a “Controlled” asset is disposed. Unlike “Capitalizable” assets that are purged from FAACS after three years from the disposal date, “Controlled” assets do not depreciate. Therefore, “Controlled Assets” are not included in the asset purge program that runs with the FAACS monthly depreciation program. **If a disposal date or code is entered for a “Controlled” asset, the asset will remain in FAACS indefinitely since the asset purge program does not recognize “Controlled” assets.**

Agencies should screen-print the FAACS asset record for all “Controlled” assets that require disposal. These “Controlled” assets should then be deleted from the FAACS Masterfile. Hardcopies of the asset record screen prints should be maintained to provide an audit trail of the “Controlled” assets disposal.

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Policy

General

Capital assets can be disposed of in one of six ways:

Disposition Method	FAACS Code
Sale or Trade-In	S
Abandonment	A
Lost or Stolen	L
Transfer	T
Casualty Loss	C
Cannibalization	K

Only when the asset is no longer in the possession of the agency because of one of the six conditions listed above is the disposal action appropriate. For an asset to be no longer under the control of the agency generally means that it is no longer at the agency. It usually will have been either sold or auctioned for surplus or transferred to DGS to be sold or auctioned at a later date. It could have been lost or stolen. It could have been traded-in.

All assets no longer in the possession of the agency due to one of these six qualifying conditions will be removed from FAACS and considered disposed. Agency management is responsible for reviewing disposal reports, evaluating causes and trends leading to disposals, and implementing procedures to manage and control disposals when the dispositions represent problems, inefficiencies, and/or the occurrence of unnecessary cost.

Posting a disposal transaction to an asset record puts disposal information into the asset record. Three years after the disposal date, the system will automatically purge the disposed record. It will appear on a “Purged Asset Report.” Using this technique for assets that are no longer under the control of the agency provides an audit trail that documents and supports its ultimate removal from the agency’s FAACS master file.

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Policy, Continued

At the time the disposal transaction is processed, the book value of the asset is removed from the FAACS financial reporting file and this is interfaced into CARS. As stated above, the asset and depreciation transactions will need to be manually entered into Cardinal by Wave 1 agencies. To ensure that financial statements containing capital asset information that are prepared from FAACS are accurate, it is important for assets that are no longer under the control of the agency to be disposed in FAACS.

Agencies should periodically review the capital asset information contained in FAACS to ensure that assets that are no longer under the control of the agency have been properly disposed in FAACS. Disposal date must be accurate, as should the other disposal-related fields. Disposals should be recorded in FAACS during the fiscal year in which the change in asset status occurred.

Procedures

Disposal Management

Disposal information is entered into FAACS by keying a change transaction to an existing masterfile record. A disposal record is maintained which identifies the ultimate disposition of the assets showing the disposal date, the net sales price (if any), and the reason for the disposal. The disposal report provides a list of all disposed items by asset class.

All disposals of assets must be carefully controlled and approved by agency management. Adequate segregation of duties must exist between persons physically responsible for assets and those requesting and approving asset disposals. All disposals of a suspicious nature (i.e., assets missing for unknown reasons) should be investigated as appropriate, based on the nature of the asset and the value. Agency property management personnel should monitor the FAACS report summaries of disposals by organization and position to detect any indication of poor asset control.

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Procedures, Continued

Although each specific method of disposal contains some slight variation, the basic disposal procedures are the same. The individual controlling the capital asset at the point of disposal is responsible for notifying the individual with the overall responsibility for the property management function. This person must ensure the FAACS records are updated to reflect the disposal by the entry of all disposal information on the appropriate on-line screen. See CAPP – Cardinal Topic 70325, *Data Entry*. The cost and accumulated depreciation must be eliminated from the system as soon as possible after the qualifying condition has occurred with a transaction date representing the actual date of the occurrence.

Agency property management personnel are responsible for providing proper disposal information to FAACS. Disposed assets remain on the master file for three years and then are automatically purged from the system. Therefore, the delete action code should **not** be used to remove assets from the master file that have been disposed. If the disposed item was partially or totally purchased with federal funds, the system generates information for the applicable grant or contract in addition to the generation of disposal report data. See CAPP – Cardinal Topic No. 31105, *Federal Requirements*.

To effect a disposal, a change transaction is generated. Required fields are disposal code and disposal date. Optional fields are disposal description and disposal proceeds.

A brief discussion of each of the disposal methods follows.

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Procedures, Continued

Sale or Trade-In

The ultimate disposition of State agency property will be the responsibility of the State's Surplus Property Management section within the Department of General Services' Division of Purchases and Supply (DPS). Surplus property physically retained by an agency in accordance with its approved policies is not considered a disposal. Once the property is physically transferred to DPS, it is considered a disposal by the agency. Final disposition of such property will be conducted in accordance with the procedure defined by State property management.

While Property Management primarily disposes of surplus items, agencies may be able to upgrade existing items by participating in trade-ins.

For governmental fund assets, no gain or loss on the trade-in of property is recognized. Instead, the trade-in of the old asset is processed as a disposal and the new asset is entered into FAACS at the invoice price, which should reflect not only the cash paid but the value of the asset traded-in as well.

For fiduciary and proprietary type (enterprise and internal service) funds, gains and losses on the trade-in of capital assets are recognized upon completion of the transaction.

Agency property management personnel must reflect the disposal in FAACS by completing the disposal fields on the appropriate property management on-line screens. Once this data has been entered, FAACS will generate the transaction codes to properly account for the trade-in of the disposed items. The new asset should be reported using the standard FAACS input screens for acquisitions.

Abandonment

Capital assets retaining no salvage or disposal value will occasionally be discarded or abandoned as scrap. Utilization of this disposition method must be in accordance with the procedures established by State property management. It is anticipated that few, if any, capital asset items will be scrapped directly by user departments.

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Lost or Stolen Agency capital asset items, which are unaccounted for following verification of the FAACS inventory report by physical inventory, must be removed from the report. Lost items receive a code in the appropriate disposal field of the input screen. See CAPP – Cardinal Topic No. 70325, *Data Entry*. Items that have been stolen receive the same disposal code. However, stolen items must be reported to agency security personnel, and the appropriate theft report information must be forwarded to State property management. Agencies reporting lost or stolen inventoried items must key adjustments to FAACS for each irretrievably stolen or lost item as soon as practicable after the event.

Intra-Agency Transfer Operating personnel must identify permanent transfers of assets within an agency as the transfers are made. They will be reported to the agency property accounting and control person who will update FAACS to record the change in location. The changes will usually be restricted to data elements such as location, organization, and responsible position. No disposal transaction should be generated.

Inter-Agency Transfer Transfers from State agencies are recorded in Cardinal by processing a voucher/receipt to record the revenue and expenditure transactions related to the asset transfer. A payment is processed in the Accounts Payable Module (AP) by the paying agency and receipt is recorded in the Accounts Receivable Module (AR) by the recipient agency. When these types of transactions occur, processing steps are similar to standard AP vouchers or AR deposits (see CAPP – Cardinal Topic No. 20310, *Expenditures* and Topic No. 20205, *Deposits*). The agency purchasing the item records the charge to the appropriate Cardinal account for the capital asset.

Note: If there is no cash payment between agencies, the entry is only made in FAACS. Wave 1 agencies will have to manually record asset and depreciation activity in Cardinal with a General Ledger Journal until the interface from FAACS to Cardinal is implemented in February 2016.

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Transfers between agencies will be accounted for in FAACS by the selling agency entering the transfer as a disposal using a code of T (transfer) and showing the receiving agency to whom the asset was transferred in the disposal description field. The buying agency should put the asset on FAACS using an "add" action code and showing the selling agency from which it was transferred in the description fields.

The transfer code is also appropriate for use when an asset is transferred to DGS for sale. The disposal description field should so indicate.

Casualty Loss Capital asset items that are destroyed by fire or other catastrophic circumstances must be removed from FAACS records. Casualty loss items are to be appropriately identified on the FAACS input screen by using the proper disposal code. FAACS provides a disposal report on casualty loss items to provide an audit trail and any information necessary on the asset item for Risk Management.

Cannibalization In some cases, capital asset items that are no longer functional are cannibalized to obtain parts, which can be utilized to repair other like assets. The original item is considered surplus and disposed of by filling in the appropriate cannibalized disposal code. This allows an agency to review like assets on the disposal report with the cannibalized disposal code to determine if parts are available. All remaining cost and accumulated depreciation will be removed from appropriate asset accounts.

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Internal Control

General

Each agency and institution should implement cost beneficial internal control procedures to ensure that:

- Disposal reports are reviewed to detect the existence of poor asset control.
 - Adequate separation of duties exists between asset physical control and disposal approval.
 - Procedures exist for the identification and evaluation of disposals of a suspicious nature.
 - Disposal reports are reviewed to provide more precise definition of an asset's useful life.
 - The proper condition exists for the disposal action to occur.
 - The disposed asset is removed from FAACS in a timely manner.
 - The effective date of the transaction posted in FAACS is the actual date the condition occurred.
 - Stolen property removed from FAACS or reported to security in a timely manner.
-

Records Retention

General

Fiscal records related to managing capital assets should be retained for a period of 2 years plus current fiscal year, or until audited, whichever is greater. However, for pending, ongoing, or unresolved litigation, audits or claims, retain documentation until completion, resolution, or negotiation of settlements.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, The Library of Virginia.

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Subject Cross References

References CAPP – Cardinal Topic No. 20405, *Inter-Agency Transactions*
 CAPP – Cardinal Topic No. 30705, *Surplus Property Management*
 CAPP – Cardinal Topic No. 31105, *Federal Requirements*
 CAPP Topic No. 70325, *Data Entry*

Suggested Job Aid The following can be found on the Cardinal Website, under Statewide Toolbox – Job Aids:

SW GL332 Crosswalk from FAACS Transaction Codes to Cardinal Accounts

Additional job aids and training materials may be available on the Cardinal website.

Please note: The Cardinal job aids, training materials and forms on the Cardinal website are not policy of the Department of Accounts and are not part of the Commonwealth Accounting Policies and Procedures Manual (CAPP).
