



Volume No. 1—Policies and Procedures	TOPIC NO 30805—Cardinal
Section No. 30800—Asset Disposal	TOPIC Disposal Management
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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 Masterfile 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 Entries

FAACS interfaces with Cardinal daily. Each month, FAACS generates entries to record asset depreciation activity in Cardinal.

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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 disposal 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 Disposal 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 may have been traded-in during the purchase of a new asset.

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.

Entering 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 Masterfile.

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Policy, Continued

General,
continued

At the time the disposal transaction is processed, the book value of the asset is removed from the FAACS financial reporting file. Since FAACS interfaces with Cardinal, there will also be a corresponding reduction to both the asset and the accumulated depreciation accounts in Cardinal to reflect the disposal.

To ensure that financial statement templates 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

Disposal Management,
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 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 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 Office Surplus Property Management section (OSPM) within the Department of General Services. 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 OSPM, 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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Procedures, Continued


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 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 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.

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Procedures, Continued


Inter-Agency Transfer, continued 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.

Disposal Reports Several FAACS reports may be downloaded into Excel to assist users in identifying assets that have been disposed. The FAC30040, *Asset Masterfile Disposal History* and the FAC32060, *Asset Masterfile Detail for Purged Records by Agency Organization Code and Category* are two key reports. In addition, the FAC520, *Asset Masterfile Depreciation for Undisposed Assets and Assets Disposed during Fiscal Year* and the FAACS Masterfile may also be downloaded since these contain columns showing the disposal date and disposal codes for assets that have been disposed in FAACS.

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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

Records should be maintained for a period of at least three years or longer, if necessary, to be in compliance with policies established by the Records Management Section, The Library of Virginia. The retention period generally starts at the close of the fiscal period.

For pending, ongoing or unresolved litigation, audits or claims, retain documentation until completion, resolution or negotiation of settlements and retain according to standard schedules. Provide for the periodic destruction of records not subject to permanent deposit in accordance with policies and procedures established by the Records Management Section, Virginia State Library and Archives.

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Subject Cross References

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