

**Internal Control Assessment
FSA's Capital Assets Depreciation and Amortization**

Purpose

To ensure a consistent and proper depreciation of FSA's capitalized assets.

Background

In accordance with the ED OCFO Financial Statement guidance FY 2001, capital assets are subject to depreciation/amortization charges, calculated annually, using the straight-line depreciation method. The depreciation/amortization period is:

- 3 years for Software and Information Technology (IT) Equipment
- 5 years for Furniture and Fixtures, and non-IT Equipment

A full year of depreciation shall be taken in the year of acquisition and net salvage value is assumed to be zero.

To calculate depreciation on a capital asset, the following five factors must be known:

- The date the asset was placed in service
- The asset's cost or acquisition value
- The asset's salvage value
- The asset's estimated useful life and the depreciation method

Capital assets should be recorded at historical cost and should include the cost of delivery, installation, etc. If something other than cash is used to pay for the asset, then the fair-market value of the non-cash payment or consideration determines the asset's cost or acquisition value. When the value of the consideration paid can't be determined, the asset's fair-market value determines its cost.

The depreciable amount must generally be the acquisition cost of the tangible capital asset less any estimated future salvage value.

When improvements have been made to a tangible capital asset the depreciable amount is adjusted by the amount of the betterment.

As depreciation accrues, it must be recorded as an expense and accumulated in a contra asset account classified as accumulated depreciation. Depreciation begins when a tangible capital asset is placed into service. Once depreciation begins, it accrues until the useful life period of the tangible capital asset expires or it is sold, exchanged, impaired, lost, or stolen.

Internal Control Standard

FSA must have current policies and procedures for its capital assets.

Assessment of FSA's Compliance*

From our observation we determined that FSA is following current ED OCFO policy for depreciating its capital assets over their estimated useful life.

* The actual testing phase including interviews and examination of sampled records has not yet occurred. This write-up is only a sample of what may be discovered during the testing phase of the FMFIA process.