
MANAGEMENT DIRECTIVE

310.14
(Only For Agencies
Converted to SAP)
Number

COMMONWEALTH OF PENNSYLVANIA GOVERNOR'S OFFICE

Subject:

General Capital Asset and Other Fixed Asset Accounting and Reporting in SAP

By Direction Of:

Michael J. Masch

Michael J. Masch, Secretary of the Budget

Date:

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This version of directive 310.14 is being issued only for agencies that have converted to the SAP Procurement and Financial software packages. Agencies that have NOT converted to SAP should continue to comply with directive 310.14 dated August 28, 1986. However, some procedures may be altered due to the staggered implementation of the SAP Financial system. The SAP system makes major changes to the way all capital assets and other fixed assets are purchased and accounted for.

Policy and responsibilities pertaining to the use of SAP for accounting and reporting of Capital Assets and other fixed assets in conformance with generally accepted accounting principles are contained herein. Adherence to this directive is crucial to the proper reporting of fixed asset information in the Commonwealth's Basic Financial Statements.

1. PURPOSE. To establish one enterprise-wide system for all fixed assets, to include financial reporting of the Commonwealth's *General Capital Assets and Proprietary Fund Capital Assets*, in conformity with generally accepted accounting principles (GAAP). Policy statements are based on GAAP relating to governmental entities and the related standards established by recognized authoritative bodies.

2. SCOPE.

a. The accounting and financial reporting policies promulgated in this directive apply to all primary government funds within the Commonwealth financial reporting entity. A new policy for Proprietary funds is also included.

b. This directive applies to all agencies under the Governor's jurisdiction that have been converted to the SAP Financial and Procurement systems. Legislative and judicial activities and other executive and independent agencies included in the Commonwealth reporting entity are urged to adopt policies and institute the procedures required to prepare financial reports in conformity with GAAP. Data from non-SAP agencies will be added to the SAP Fixed Assets system for all-inclusive reporting.

3. OBJECTIVES.

a. To develop General Capital Asset, Proprietary Fund Capital Asset and other fixed asset financial reporting standards and procedures that, when properly applied, will result in the:

(1) Production of complete, accurate, and timely financial asset information for management reporting, control, and planning for all Capital Assets of the Commonwealth and for other low value fixed assets.

(2) Control of and accounting for general capital assets for which the Commonwealth is responsible. Control includes procedures to ensure that assets are used for authorized purposes, do not leave the custody of the Commonwealth except with proper authorization, are properly maintained, and are not transferred, written off, written down, or disposed of without proper authorization.

(3) Use of one enterprise-wide system for all capital assets that results in adequate documentation and proper authorization of financial transactions and the preservation of proper audit trails.

(4) Consistent and uniform application of financial policies and accounting principles, standards, and controls.

b. To ensure that historical costs for capital assets are supported by purchase, construction, or other related documents and are readily traceable from the original document to SAP Asset Master records and financial reports. Transactions must be recorded in a manner that do not result in materially inaccurate, false, or misleading information. Interfund transactions must be separately identified and recorded for proper presentation in financial reports.

4. POLICY.

a. This directive is issued pursuant to *Section 701(d) of The Administrative Code of 1929 (71 P. S. § 241(d))*.

b. *Executive Order 1984-3, Accounting and Financial Reporting (4 Pa. Code § 1.431)* delegates to the Secretary of the Budget the responsibility for developing and installing accounting and financial reporting systems in compliance with GAAP.

c. General Capital Assets and Proprietary Fund Capital Assets must be identified as fixed assets upon initial purchase order entry into the SAP Procurement system. The SAP system requires that an Asset Master Record be established prior to issuing a purchase order and the asset number must be identified in the procurement transaction. Agencies will establish a Fixed Assets Coordinator to be the single point of contact with the Office of the Budget on matters pertaining to Capital Assets for the Commonwealth.

d. Other fixed assets (Low Value Assets) may be recorded in the SAP Fixed Asset system of the SAP Financial (FI) Module at the discretion of each agency. If an agency desires to maintain these Low Value Assets on SAP as Fixed Assets, the fixed asset must be established in SAP prior to the initial purchase order entry into the SAP Procurement system. Administration of this optional agency policy will be the responsibility of the agency's Fixed Assets Coordinator.

5. DEFINITIONS.

a. **Generally Accepted Accounting Principles (GAAP).** For the purpose of defining generally accepted accounting principles, the pronouncements and publications of nationally recognized accounting and reporting standard setting bodies are viewed as primary authoritative sources. The standard setting bodies include

the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), and predecessor and successor organizations. Though these sources serve as authoritative references to be consulted, specific policies enunciated in this directive should be consistently applied.

b. Systems Application Products (SAP). The Commonwealth's enterprise-wide software package that contains the administrative systems of accounting, purchasing, budgeting, human resources, and payroll. The SAP Financial Module (FI) also includes a Fixed Assets system that replaces the former Fixed Asset Accounting System (FAAS).

c. General Capital Assets, Non-Proprietary Funds. For GAAP reporting purposes for the Commonwealth of Pennsylvania, General Capital Assets must meet the following criteria and are required to be set up in SAP with Asset Master Records for all SAP agencies for all Non-Proprietary funds.

(1) Be tangible in nature;

(2) Have an estimated useful life of more than one year; and

(3) Be of significant value. The value test varies based on Asset Class as follows. Assets under these values may be recorded as Low Value Assets for tracking purposes only.

General Capital Asset Class	Title	Value
1901000	Land	All Values
1902000	Land Improvements	\$ 25,000 and up
1903000	Buildings & Improvements	\$ 25,000 and up
1905000	Highways & Roadways	\$100,000 and up
1905010	Bridges	\$100,000 and up
1905020	Dams, Dikes, Docks & Piers	\$100,000 and up
1905030	Infrastructure-Other-Rail Lines	\$100,000 and up
	Infrastructure-Other-Tunnels	\$100,000 and up
	Infrastructure-Other-Utilities	\$ 25,000 and up
	Infrastructure-All Others	\$ 25,000 and up
1906000	Machinery & Equipment	\$ 25,000 and up
1908000	Leasehold Improvements	\$ 25,000 and up
1909000	Furniture & Fixtures	\$ 25,000 and up
1911010	Assets Under Construction	\$ 25,000 and up

General Capital Assets are obtained through purchase, construction, capital lease, donation, or confiscation. They are recorded at cost, estimated historical cost, or estimated fair market value for donations and confiscations. The cost of General Capital Assets includes, in addition to acquisition or construction costs, ancillary charges to place the asset in its intended location and condition for use. These charges include: freight and transportation, site preparation expenditures, and professional and legal fees directly attributable to asset acquisition. Trade-in allowances do not reduce the cost basis, i.e., the value of the trade-in must be added to other acquisition costs to arrive at the actual cost of the new asset. A template depicting the data required from an agency purchaser for establishing a fixed asset can be found on the Imagine Pa Website at www.imaginepa.pa.us/accounting/forms and selecting "Asset Master Creation Request Form."

d. Capital Assets, Proprietary Funds. For GAAP reporting purposes, for the Commonwealth of Pennsylvania, Capital Assets must be established in SAP with Asset Master Records for all SAP agencies for all proprietary funds using the following criteria:

- (1) Be tangible in nature;
- (2) Have an estimated useful life of more than one year; and
- (3) Be of significant value. The value test varies based on Asset Class as follows. Assets under these values may be recorded as Low Value Assets for tracking purposes only.

Capital Asset Class	Title	Proprietary Fund Value
1901000	Land	All Values
1902000	Land Improvements	\$5,000 and up
1903000	Buildings & Improvements	\$5,000 and up
1905000	Infrastructure	\$5,000 and up
1906000	Machinery & Equipment	\$5,000 and up
1908000	Leasehold Improvements	\$5,000 and up
1909000	Furniture & Fixtures	\$5,000 and up
1910000 or 1910100	Low Value Assets	Less Than Minimum Threshold (optional)
1911000	Assets Under Construction	\$5,000 and up

e. Low Value Assets (LVA). In SAP, Low Value Assets are defined as those agency assets not meeting the above criteria of General Capital Assets and Proprietary Fund Capital Assets but which the agency wants to track as assets in SAP (such as personal computers). Low Value Assets can be tracked in two categories:

Low Value Asset Class	Title	Value	GL/Commitment Item
1910000	Low Value Asset	\$5,000-\$24,999.99	64XXXXXX (Former obj 400)
1910100	Low Value Asset	<\$5,000	63XXXXXX (Former obj 300)

The cost of Low Value Assets shall be determined in accordance with the guidelines for determining the cost of General Capital Assets.

f. Agency Fixed Assets Coordinator. An individual appointed by an agency head who possesses substantial knowledge of the SAP Fixed Asset, Procurement and Finance modules, and who has considerable experience and expertise regarding proper acquisition, use, and control of agency fixed assets. Coordinators regularly communicate with the Office of the Budget, Bureau of Financial Management, and manage all aspects of fixed asset reporting. Coordinators will be the sole agency point of contact for the Bureau of Financial Management and other agencies.

g. Capital lease. A lease that transfers substantially all of the benefits and risks of ownership. If a particular lease meets any one of the following classification criteria, it is a capital lease consistent with FASB *Statement of Financial Accounting Standards No. 13*:

- (1) The lease transfers ownership of the property to the lessee by the end of the lease term.
- (2) The lease contains an option to purchase the leased property at a bargain price.
- (3) The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- (4) The present value of rental and other minimum lease payments equals or exceeds 90 percent of the fair value of the leased property less any investment tax credit retained by the lessor.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

h. Assets Under Construction (AUC). Authorized construction projects that have incurred costs but have not been completed and that may qualify for capitalization.

i. Depreciation. In SAP, each General Capital Asset and Proprietary Fund Capital Asset must be assigned an Asset Life over which its cost is expensed, for both Full Accrual accounting and for Grant Depreciation. Under the Modified Accrual basis of accounting, the entire cost of an asset is reported as an expenditure at the time of acquisition. Under the Full Accrual basis of accounting, the asset's cost is expensed over its Asset Life. The following Asset Lives are to be used based on the SAP Asset Class:

SAP Asset Class	Title	Asset Life
1901000	Land	Not Depreciable
1902000	Land Improvements	30 Years
1903000	Buildings & Improvements	40 Years
1905000	Highways & Roadways	25 Years
1905010	Bridges	50 Years
1905020	Dams, Dikes, Docks, and Piers	50 Years
1905030	Infrastructure-Other-Rail Lines	40 Years
	Infrastructure-Other-Tunnels	50 Years
	Infrastructure-Other-Utilities	20 Years
	All Other Infrastructure	20 Years
1906XXX	Machinery & Equipment-Owned	3, 5, 10, 15 or 20 Years*
1908000	Leasehold Improvements	5 Years
1909000	Furniture & Fixtures	5 Years

*Asset Class 1906XXX offers five asset life options to allow periodic depreciation expense to be charged over a suitable period of time. Some assets, such as vehicles or computers, are typically not owned as long as off-road equipment assets. And, depending on actual or expected usage, some vehicles have much shorter useful lives than others. One of the five options must be chosen based on how long the owning agency has historically owned and used similar assets and/or how long the owning agency expects to own and use the asset being acquired. The chosen useful life represents an accounting estimate that may have to change during ownership.

6. RESPONSIBILITIES.

a. **The Secretary of the Budget**, through the Deputy Secretary for Comptroller Operations, will formulate and publish policies, guidelines, and standards and provide oversight for the recording and reporting of Commonwealth fixed assets within the SAP Fixed Asset Module.

b. **The Deputy Secretary for Comptroller Operations**, through the Director of Financial Management, will interpret and apply fixed asset accounting and reporting policies.

c. **Agencies involved in construction activity** are responsible for establishing newly-authorized construction projects in the SAP Project System Module for accumulation of life-to-date costs. In SAP, Project Systems are fully integrated with the Fixed Assets Module, therefore, as soon as a project has been established, an Asset Under Construction (AUC) with an Asset Class Code 1911010 will be automatically established in the SAP Fixed Assets Module. Agencies are responsible for the periodic review of AUC assets to determine when one or more permanent capital assets created by the project are placed in service by the agency.

d. **The Director of Operations, State Tax Equalization Board**, will provide appraisal staff for administering and maintaining, on an as needed basis, a continuing program of valuation services for Commonwealth General Capital Assets that are real property.

e. **The Director of Financial Management, OB**, will provide staff support on matters relating to the SAP Fixed Asset accounting system. The director will:

(1) Develop, implement, and administer uniform central fixed asset policies, procedures, reporting, and systems. Provide consulting assistance and training, when requested, to comptrollers and agencies for the SAP Fixed Asset system for fixed assets.

(2) Develop and maintain operational and procedural directives and instructional memoranda relating to uniform fixed asset policies, procedures, reporting, and systems.

(3) Include General Capital Asset and Proprietary Fund Capital Asset data in Commonwealth financial statements and reports.

f. **Agency Comptrollers will:**

(1) Administer and apply Commonwealth fixed asset accounting and reporting policies and standards for all capital asset transactions recorded in SAP. Provide assistance to agencies on decisions regarding the use of SAP to maintain Low Value Assets.

(2) Review and audit agency General Capital Asset and Low Value Asset inventories and records for adequate accounting, documentation, and controls.

(3) Provide assistance to and corroborate with agencies in the identification and recording of capital leases and installment purchases.

(4) Monitor agency compliance with Commonwealth General Capital Assets and Agency Low Value Assets accounting and reporting policies, guidelines, and standards.

(5) Review agency purchase orders for qualifying assets to verify the inclusion and assignment of an Asset Master Record number.

g. Agency heads will:

(1) Appoint an Agency Fixed Assets Coordinator to administer Commonwealth fixed asset accounting and reporting policies, guidelines, and standards. See the definition of Fixed Assets Coordinator in the "Definition" section of this directive. This person will be the single point of contact for the Office of the Budget on all matters relating to General Capital Assets, Proprietary Fund Capital Assets, or Low Value Assets.

(2) Establish agency procedures and controls necessary to implement and monitor prescribed fixed asset accounting and reporting policies, guidelines, and standards.

(3) Ensure the timely, accurate, and complete processing and recording of all necessary transactions in conformance with prescribed Commonwealth General Capital Asset, Commonwealth Proprietary Fund Capital Asset, and Agency Low Value Asset accounting and reporting policies, guidelines, and standards.

(4) Identify and record capital leases and installment purchases in accordance with Commonwealth policy and corroboration with agency comptroller.

(5) Ensure proper maintenance of source documents and records pertaining to General Capital Assets or Proprietary Fund Capital Assets not available on the SAP system.

(6) Establish adequate procedures and controls to safeguard and physically account for fixed assets.

(7) Verify, on a quarterly basis, that agency General Capital Assets or Proprietary Capital Asset transactions are properly reported on the Commonwealth's SAP Fixed Asset system.

h. Agency Procurement Personnel will identify agency requests for fixed asset acquisitions based on criteria presented in this directive and in agency policy, and contact the agency's Fixed Assets Coordinator to obtain an Asset Master Record number to insert in the SAP Purchase Order, thus ensuring that the procurement will be captured as a fixed asset in SAP.

i. Fixed Asset Coordinators will:

(1) Be responsible for the overall maintenance of agency's fixed asset data located in the SAP system. This includes any report generation, tag control, inventory reconciliation, and updating of fixed asset records.

(2) Ensure that an "Asset Master Record" is properly established in the SAP system for each qualifying capital asset at the time of acquisition or final completion of construction project and that all "Asset Master Records" are properly completed after receiving the capital asset and placing it in service.

(3) Act as a central contact point for all agency personnel including purchasing and procurement staff who work with capital assets including those responsible for additions, retirements, and other changes to capital asset master records. This includes contacting the Bureau of Financial Management with unresolved issues and concerns and disseminating all information from the Bureau of Financial Management to agency capital asset purchasers and users, as required.

(4) Review all budgetary transactions, accounts, and reports used to purchase agency capital or other fixed assets to make sure that all capital assets have been properly reported in SAP with an "Asset Master Record."

(5) For agencies with construction activity, ensure that the agency complies with the requirements for reporting qualified construction project assets completed either internally by agency-authorized bureaus or externally by the Department of General Services, Deputy Secretary for Public Works.

(6) Ensure that all agency employees who work with fixed assets record keeping are properly trained in their respective responsibilities.