CALIFORNIA SOCIETY of MUNICIPAL FINANCE OFFICERS
Dedicated to Excellence in Municipal Financial Management
1215 K Street, Suite 940
Sacramento, CA 95814

CSMFO Awards Program (2016)
126 Innovation Award

Asset Management System

aBgnjLgp

Indicate the type of program nominated.

Accounting

Describe the innovation being nominated and all materials submitted with this application.

Innovation being nominated:

Our innovation tells a story of how a small water district formed in 1947 with a handful of employees grows into an industrial leading water agency with 43 full-time employees and how by the use of advanced technology (accounting and capital asset management systems), hiring professionals (engineers and CPAs) and encouraging the collaboration between the Operation and Accounting departments helped to improve the operational management of plant assets and accounting for capital assets.

West Basin Municipal Water District (West Basin) is a special district that provides drinking and recycled water to nearly 1 million people in 17 cities and parts of unincorporated coastal Los Angeles County within a 185-square mile service area. As a result of the extreme drought of the late 1980s and early 1990s, West Basin leaders decided to diversify the agency's water portfolio to include water recycling and conservation to provide a more reliable supply of water for future generations. In 1995, a unique water recycling facility was built in El Segundo, California to convert the treated wastewater into different types of high-quality recycled water suitable for groundwater recharge, irrigation, municipal, industrial and commercial uses. Today, West Basin produces more than 35,000 acre feet of recycled water to more than 400 customers with a capital infrastructure investment of nearly $680 million.

In order to deliver reliable and high quality water to its recycled water customers and lessen its dependence on potable water, West Basin built and expanded its recycling facilities over a 20 year period. Today, West Basin operates its main recycled water treatment facility in El Segundo along with three satellite facilities, and delivers the recycled water through approximately 100 miles of distribution pipeline. The original facility which was built in 1995 went through four expansions; the latest expansion was completed in fiscal year 2014 for $81 million dollars.

In 1995, West Basin only had a handful of employees. Most staff within the accounting department was either new hires or part-time employees. When the first phase of the original water recycling facility was completed and placed into operation, all of the capital assets in this facility were recorded as one single item in the amount of $56 million dollars with a 40 year useful life per the suggestion from the auditor. From 1995 to 2005, other capital assets from the three satellite facilities were also recorded as an one lump-sum items with a 40 year life.

Following the best practices from the Government Finance Officers Association (GFOA) West Basin developed its own capitalization policy in 2008. The newly developed capitalization policy provided clear instructions on how to record the capital assets into the accounting system; it requires capital assets to be recorded as component units with various lengths of lifes once they are completed and in-service. The method of recording one lump-sum amount for

a 40 year life is no longer permitted. In fiscal year 2014, when West Basin completed its phase 4 expansion projects in the amount of $81 million dollars, over 100 component units were recorded with various useful lifes into the accounting system. The new way of recording the capital assets enables West Basin to accurately identify and dispose the assets that are no longer in service at the treatment facilities.

The recording of new capital assets into the accounting system was improved after 2008. When any equipment meets the capitalization threshold and was placed in service at any of our treatment plant facilities, the accounting department will add it to the accounting system as a new asset.

Through the process of adding new assets to the existing recycled water facilities, staff at the accounting department discovered the majority of the assets that were added in after 2008 were the replacements from the original facilities that were built between 1995 and 2005. Per GFOA capital asset best practice and GASB guidance, the disposal of the original asset should be processed at the same time each replacement was added to the accounting system. However, due to the lack of supporting disposal documents from the Operation department, the Accounting department could not identify how these replacements were related to the one lump-sum units that were recorded in the accounting records between 1995 and 2005; therefore West Basin never disposed any capital assets from its accounting system from 1995 to 2013. As a result, the balance of the total capital assets was overstated on West Basin's financial statement for many years.

In fiscal year 2014 West Basin staff welcomed a management comment from the auditor to identify and write off these capital assets that either were no longer in use or had been replaced in West Basin's financial records.

From 1996 to 2012, West Basin's Operation department only had 2 full-time employees to oversee the operations of the treatment facilities and the distribution pipelines. In addition to the 2 full-time staff, West Basin has chosen to have the day-to-day operations of its treatment facilities managed by a third party which employs about 60 people.

In 2013, West Basin's management decided to focus on the increase of the recycled water production and the improvement of the recycled water quality. This resulted in a decision of increasing staff in the Operation department from 2 people in 2013 to 8 people in 2016, approving $250,000 budget to upgrade the current operation asset management system and hiring an engineering consultant firm to help develop the prioritization of repair and replacement projects at the recycled water facilities.

To develop the major repair and replacement projects plan, the Operation department first had to conduct the equipment assessments at all recycled water facilities. At the planning stage of the asset assessment project, the Accounting department made recommendations on what type of information should be gathered and a detailed equipment assessment worksheet was developed. Staff from the Accounting department was involved in the field audits of these plant assets at all recycled water facilities.

Through the equipment assessments process, the name of the equipment, the location of the equipment, the condition of the equipment and the estimated installation year of the equipment had all been documented. Also, staff identified the equipment was replaced or no-longer in services.

The equipment assessment project completed by the Operation department provided the accurate information to the Accounting department to plan the disposal of the capital assets that were replaced or no-longer in service in Lawson accounting system. However, to dispose component units of the capital assets from a one lump-sum record was still a challenge. Staff from the Accounting department contacted the accounting software (Lawson) system consultant; these 4 steps were recommended by the Lawson consultant:

1) Identify and separate the component units within one lump-sum accounting record.

2) Calculate the original value of the component units and record them as separate assets into the Lawson accounting system.

3) Reduce the historical value of the one lump-sum accounting record after recording the component units into the Lawson accounting system.

4) Dispose these component units in Lawson accounting system.

Staff from the Accounting department followed the recommendations from GFOA to develop the method of how to calculate the original equipment value. For the equipment within the one lump-sum value, the original value of each component asset was calculated based on the replacement value, replacement year and the ENR Construction Cost Index for the replacement year and the original installation year. The formula used:

Original Equipment value = Replacement Value X Original Year ENR Index Value / Replacement Year ENR Index Value

Once every replacement value was calculated and the association to the one lump-sum asset was confirmed, staff in the Accounting department then added them in the Lawson financial system and reduced the value of associated one lump-sum item for the same amount. Staff then processed the disposal in the system. The system then automatically calculated the loss on disposal and posted the necessary journal entries.

The disposal items and the method of disposal were both reviewed and approved by the auditors before the action was taken.

As a result, West Basin disposed 236 capital assets from its capital assets; a total disposal value of $27.1 million was shown on its 2015 financial statement. In 2016, an additional $7.6 million or 17 capital assets were disposed.

After fiscal year 2015 ended, accounting department staff developed a capital asset disposal procedure to follow.

1. The Accounting department meets with the Operation and Engineer departments before the interim and the annual audit fieldwork to review the condition of the capital assets at the treatment plant facilities, to gather the information for potential disposal items and to review all on-going construction projects.
2. The Accounting department arranges a meeting between West Basin's auditors and the senior management team so the auditors can get updates about the status of West Basin's major construction projects and major disposals. The auditors provide senior management team with updates on any new accounting pronouncements or best practices regarding capital assets.

The accounting staff leveraged the work of the Operations department and benefited from the enhancements to the system software (both Accounting and Operations) to improve the way capital assets are now managed at the District. In addition, West Basin has benefited from this process by developing appropriate procedures and the capitalization policy that now guides the District when planning replacements and recording capital assets into the financial system.

Materials submitted with this application:

We attached the links of West Basin 2015 CAFR and 2016 CAFR on our website. We have also included the current capitalization policy.

Please read the Management's Discuss and Analysis and Notes under Capital Assets for the details described above.

What is the purpose and/or goal of the innovation?

1) To review and determine the useful lives of the assets at the West Basin recycling facilities based on real operating experience instead of relying on the standardized industrial depreciation schedules and recognize the fact that the location of the facility and the type of water treatment can alter the useful life of the equipment. West Basin's recycled water facilities were placed in service starting in 1995, at the time, the capital assets were recorded with a 40 year's life based on the industry standard; however, due to the location of the plant, the water process at the plant and the past 20 years operating experience, most of the capital assets experienced a much shorter useful life.

2) To use the equipment assessment report from the Operation department to reconcile the accounting capital asset records and fully or partially dispose the capital assets that were identified as either being replaced or no-longer in service. This ensures that asset records in the accounting database are up-to-date and the value of the capital assets shown on West Basin's financial statement is accurate.

3) To provide better capital replacement budget to the Board of Directors: The accurate capital asset replacement information will help the Operation department to provide a realistic budget amount of annual replacement of capital assets to the Board of Directors.

4) To provide a better analysis of recycled water cost to the Operation department and senior management at West Basin: Capital asset replacement cost is part of the calculation of our Recycling Water per Unit Analysis. A shorter life of the capital assets increases the cost per unit of our recycling water. With the accurate cost information, West Basin is better able to project the water rates for future years and plan the long-term financial health.

5) To review West Basin's current Capitalization Policy and validate the current capitalization limits.

6) To improve the accounting practice to ensure a consistent taxonomy when adding or disposing the assets.

7) To collaborate with West Basin's Operation and Engineering staff to ensure all necessary information will be submitted to the Accounting department on time.

8) To open a communication channel and share information with the Operation and Engineering departments to support each other.

Describe what the innovation has done to improve operations and efficiencies in your organization.

The innovation improved the accounting for capital assets at West Basin and resolved the financial issues of how to dispose or partially dispose assets from one lump-sum asset. The reasons for the overstated balance on West Basin's financial statement were due to the lack of information of the location, the detailed description and the list of equipment that was installed between 1995 and 2008. The accounting staff leveraged the work of the Operations department efforts in equipment assessment evaluation to develop a consistent methodology for identifying and disposing or partially disposing assets from a lump-sum accounting record.

The innovation improved the accuracy of the capital budget for West Basin. After the asset assessment, West Basin had a better understanding of the true useful life of the capital assets at West Basin's recycling facilities. As a result, in fiscal year 2015 and 2016, the capital budget for replacement and repairs was increased and a more meaningful and detailed R&R budget was developed.

The innovation sets the path on how we record capital assets today. Several hundred component units of the capital assets (instead of one) are recorded to West Basin's asset system with various useful lifes. The accounting records reflect the true useful lifes of these assets and also will be easier for staff to match them with the asset replacement work orders in the future. This action compliments West Basin's Capitalization Policy and it also allows for the Operations staff to better track the timing and cost of replacing these assets.

What was the commitment of money and staffing required to implement the innovation? How difficult would it be for other agencies to replicate this innovation?

One professional engineer from the operation department dedicated 100% of her time for the asset assessment and asset management system upgrade projects from 2014 to 2015.

One senior accountant was involved in the asset assessment and asset management system upgrade projects. Time was spent going on field audits with the staff from the Operation department and attending meetings. The approximate time the senior accountant spent during fiscal year 2014 to 2015 was 16 hours per month.

West Basin spent $250,000 for a system upgrade for the operation asset management system (Infor Hansen).

The senior account worked with West Basin IT and Lawson Financial System consultant for approximately 10 hours to test the system to ensure the partial disposal function was working properly.

Prior to the disposal of the capital assets in the financial system, the disposal worksheet was developed by the Accounting department and reviewed by West Basin auditors to ensure that the accuracy of the data and methodology used for the disposal as recommended by the GFOA best practice were appropriate.

> Other agencies can certainly benefit from our innovation as many public agencies have the same legacy issues relating to their capital assets. We recommend that as a public agency grows, it should consider hiring professionals, investing in technology, creating better policies, developing meaningful procedures and encouraging the collaboration between Accounting and other departments.

Originality: Is there evidence of creativity and imaginative thinking in the development of the innovation?

Quality of Application: Is the application and supporting documentation submitted clear, concise and comprehensive?

Effectiveness: Does it appear that the innovation produced the intended effect?

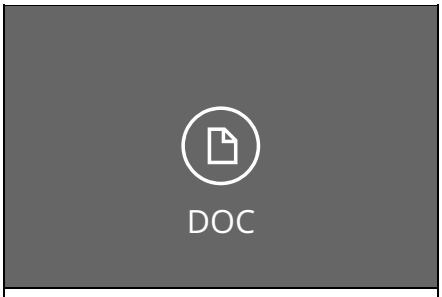
Practicality: Does this seem like a reasonable expenditure of time and effort given the stated goals and objectives?

Benefit: Is the innovation of benefit to other agencies and identifiable as a potential best practice?

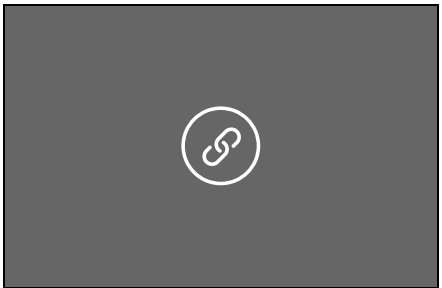
Reviewer's Discretion: Overall impression of the innovation.

2016 Review Comments

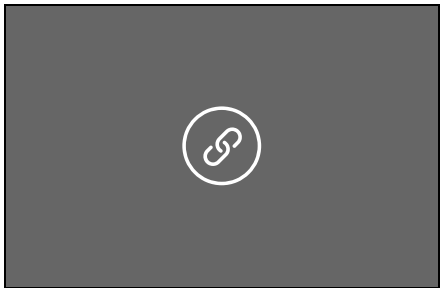
Log in to csmfo.awardsplatform.com to see complete entry attachments.



Capitalization Po...	83KiB



Attachment name
http://www.westbasin.org/finance/comprehensive-annual-financial-report.html



Attachment name
http://www.westbasin.org/files/CAFR/WestBasin_CAFR_FY2016.pdf