



Lexington-Fayette Urban County Government  
DEPARTMENT OF FINANCE

Jim Gray  
Mayor

William O'Mara  
Commissioner

Chief Administrative Office <b>POLICY MEMORANDUM</b>	Date of Issue 5/6/97  Revised 6/5/17	Expiration Date  NA	No.  47
TO: ALL Divisions and Departments		SUBJECT:	
SIGNATURE: 		Financial Asset Policy	
COMMENTS:			

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## FIXED ASSETS POLICIES & PROCEDURES

### I. Purpose:

To establish policies and procedures for fixed assets, this includes the capitalization and depreciation of capital assets, owned by Lexington-Fayette Urban County Government (the Government). These guidelines include acquisition, recordkeeping, and disposition. These policies are to ensure internal controls and provide safeguards of the Government's property.

*\*All fixed assets, except those purchased with grant or police confiscated funds, are subject to the policies and procedures set forth in this document.*

The procedures contained in this manual replace any previously existing guidelines.

### II. Definitions:

- A. *Amortization*: The allocation of the cost of an **intangible** asset over the asset's useful life.
- B. *Building*: Permanent structures including office buildings, park shelters, storage structures, garages, training facilities, etc.
- C. *Building Improvements*: Improvements that increase the life of an existing building such as renovations, building expansion, and installation of new HVAC system.
- D. *Capital Asset*: Equipment, land, buildings, improvements, infrastructure, or software that meets the Government's capitalization thresholds and will be used in operations, with a useful life of more than one reporting period (fiscal year).
- E. *Capitalization*: Allows the Government to report the cost as an asset rather than an expense.
- F. *Construction in Progress (CIP)*: Costs incurred to construct a tangible capital asset before it is substantially ready to be placed into service, at which time the asset would be reclassified into the appropriate asset category.
- G. *Depreciation*: The allocation of the cost of a **tangible** asset over the asset's useful life.
- H. *Development in Progress (DIP)*: Fees accrued on urban development projects in the Expansion Area Master Plan (EAMP) that have not yet been completed. Settlement of the fees by the respective developer is expected to be made through contributing infrastructure type assets (Ex: roads, sewer systems, etc) to the Government.

- I. *Equipment*: Tangible property that is moveable and has a useful life of more than one year following the date of acquisition. (Ex: equipment, furniture, fixtures, machinery, tools, and instruments).
- J. *Infrastructure*: Long lived assets that are normally stationary in nature and preserved for a significantly greater number of years than most capital assets (See *GASB Statement No. 34*). (Ex: bridges, fiber optics, roads, storm water systems, sewer plants, sewer lines, and traffic signals).
- K. *Intangibles*: Assets not physical in nature including easements, Purchase of Development Rights (PDR) conservation easements, and software.
- L. *Land*: The cost of the acquisition of land as well as any costs associated with preparing land for its intended use, such as basic site improvements (Ex: excavation, fill, grading, removing, relocating or reconstructing property of others).
- M. *Land Improvements*: Permanent (non-moveable) improvements that add value to the land but do not have an indefinite useful life (Ex: fences, retaining walls, parking lots, playground equipment and landscaping). Moveable items such as picnic tables in parks are not included.
- N. *Maintenance/Repairs*: Any repairs and/or maintenance performed on a fixed asset are not capitalized if it does not prolong the life of the asset. The costs are considered necessary to repair it back to its normal condition. (Ex: Road resurfacing is considered on-going maintenance).
- O. *Vehicles*: Motorized vehicles that are road worthy (Ex: cars, trucks, vans, fire and refuse trucks, and police cruisers). Golf carts are not included, they are categorized as equipment.

### III. Policy:

- A. The Government's capitalization thresholds are as follows:
  - 1. Land/Land Improvements – at cost or fair market value (if donated) of amounts \$25,000 and above.
  - 2. Buildings/Building Improvements – at cost or fair market value (if donated) of amounts \$25,000 and above.
  - 3. Construction in Progress (CIP) – at total cost of construction, installation, assembly, etc. of structures or equipment not placed in service for use of \$25,000 and above. Costs to be capitalized include engineering design, demolition, and construction.
  - 4. Development in Progress (DIP) – At cost of fees accrued on urban development projects in the EAMP of \$25,000 and above.
  - 5. Equipment and Vehicles – at cost or fair market value (if donated) of \$5,000 or more.
    - a. Computer equipment items are assigned a tag by Information Technology and tracked within their Division, even if items cost under \$5,000.
    - b. Vehicles and rolling stock are assigned a vehicle number by Fleet Services and tracked in the Fleet system. As vehicles are purchased, the Division of Accounting (Accounting) verifies the manufacturer's vehicle identification number (VIN) and assigns the asset identification number for tracking within the PeopleSoft Asset Management module (PS Asset module).

- c. All other equipment items are assigned an asset identification tag by Accounting.
6. Infrastructure – at cost or fair market value (if donated) of \$25,000 and above (Ex: bridges, fiber optics, roads, storm water systems, sewer plants, sewer lines, and traffic signals).
7. Intangibles
- Computer Software – Internally created or purchased software that is customized at a cost of \$25,000 and above. Costs associated with the implementation and development phase are capitalized (includes coding, installation, testing, parallel processing, and data conversion).
  - Purchase of Development Rights (PDR) – Conservation easements at a cost or fair market value (if donated) of \$25,000 and above.
  - Easements (Permanent & Temporary) – Cost or fair market value (if donated) of \$25,000 and above.
8. Non capital equipment – equipment costing less than \$5,000 are not capitalized, however, Divisions are responsible for maintaining annual inventory records for items deemed “walk away” (heightened risk of theft).
9. Repairs/Maintenance – not capitalized. Normally these costs are expensed using operating accounts beginning with “76XXX.”
10. Sewer Lines – capitalized at cost of \$25,000 and above
11. Sewer Plants – capitalized at cost of \$25,000 and above.

**B. Depreciation/Amortization**

Capital assets are depreciated or amortized over the following estimated useful lives:

<b>Category</b>	<b>Depreciation Status</b>	<b>Method</b>	<b>Useful Life</b>
Aircraft	Depreciate	Straight Line	20 years
Building	Depreciate	Straight Line	25 - 40 years
Building Improvements	Depreciate	Straight Line	10 - 25 years
Bridges	Depreciate	Straight Line	30 - 50 years
Construction in Progress (CIP)	Non Depreciable		N/A
Development in Progress (DIP)	Non Depreciable		N/A
Equipment	Depreciate	Straight Line	5 - 20 years
Hardware	Depreciate	Straight Line	5 years
Fiber Optic	Depreciate	Straight Line	25 years
Land	Non Depreciable		Unlimited
Leasehold Improvement	Depreciate	Straight Line	10 years
Land Improvement	Depreciate	Straight Line	10 years
Purchase of Development Rights (PDR)	Non Depreciable		N/A
Permanent Easement	Non Depreciable		Unlimited
Roads	Depreciate	Straight Line	15 - 35 years
Sewer Lines	Depreciate	Straight Line	50 years
Sewer Plants & Improvements	Depreciate	Straight Line	10 - 50 years
Software	Amortize	Straight Line	3 - 5 years

Storm Water Systems	Depreciate	Straight Line	50 years
Temporary Easements (if more than 1 yr)	Amortize	Straight Line	varies
Traffic Signals	Depreciate	Straight Line	5 years
Vehicles	Depreciate	Straight Line	5 - 15 years
Water Craft	Depreciate	Straight Line	5 years

#### IV. Responsibilities:

##### A. Accounting

1. Record acquisitions, reclassifications, transfers, and disposals of capital assets in the PS Asset module.
2. Provide asset property tags, forms, etc for tracking and use in the PS Asset module.
3. Distribute the annual fixed asset inventory listing, by Division, for all equipment \$5,000 or more recorded as capitalized.
4. Maintain completed annual inventories and copies of FA9 Forms.

##### B. Divisions

1. Report transfers of the Government's property between Divisions.
2. Report surplus or obsolete property.
3. Report lost, stolen, and destroyed property.
4. Maintain reasonable precautions to protect all Government property.
5. Use the proper expense accounts when requisitioning capital assets.
6. Verify the accuracy of the inventory records for equipment during the annual inventory process and throughout the year.

## ASSET ACQUISITION

Assets are obtained through a variety of methods – purchase or direct acquisition; construction by either the Government or contractor; donation; or leased with a buyout option at the end of the lease.

Accounting analyzes all expenses recorded in the general ledger 9XXXX accounts for all transactions meeting the capitalization threshold each month. In addition, transactions are analyzed by project, regardless of the account used, when the nature of the project is capital construction. Those items or projects identified as a fixed asset are entered and categorized in the PS Asset module based on the fixed asset policy section III.

Accounting reviews purchase orders (POs), invoices, contracts, resolutions, and ordinances as necessary to identify assets for capitalization as required. Divisions are contacted for any additional information needed to assist in determining asset category, purpose, and useful life expectancy.

The cost of an asset includes all expenses required to place the asset in service. For land and buildings this includes taxes, recording fees, and appraisals. Equipment and furniture costs include installation and/or set up costs.

Fixed assets can be added to the PS Asset module in two ways:

1. Manually using the Basic Add Page in the PS Asset module.

Accounting enters basic master data for the asset as follows: description; asset tag number; asset category; transaction date; historical cost; line(s) of accounting to include fund, dept id, section, site, project, and activity if applicable; PeopleSoft voucher id and/or PO; model number; serial or VIN number.

2. Moving expenses from a table within PeopleSoft to the Basic Add page in the PS Asset module.

These expense line items are assigned an Asset Profile from the requisition. Pre-defined asset profiles have been attached to specific purchasing categories, which are assigned when the user chooses a category on the requisition. Asset profiles can be changed by Accounting personnel prior to the creation of the asset if required.

## ASSET DISPOSITION

The Government's assets can be retired or disposed of several ways. A retirement or disposal should be communicated to Accounting in a timely manner. Timeliness ensures the disposition is properly recorded in the appropriate accounting period for financial reporting purposes.

### I. Disposal (includes surplus)

- A. Upon the disposal of an asset the Division is responsible for completing the FA9 form "*Fixed Asset Inventory Transfer and Equipment Retirement Form*." The intranet link is <http://intranet.lexingtonky.gov/Modules/ShowDocument.aspx?documentid=2600>. All relevant information should be documented on the FA9 form such as description of the item, condition, manufacturer, model number, and inventory tag number, if applicable.
- B. If the item is going to be picked up for disposal or sent to surplus, complete the form "*Division of Facilities Management Work Request*" and attach the FA9 form. The work request form is located at <http://intranet.lexingtonky.gov/index.aspx?page=537> under "Transferring Items to Surplus" and should be forwarded to the Division of Central Purchasing (Purchasing) along with the FA9 form.
- C. The FA9 form is forwarded from Purchasing to Accounting. The item is taken out of service (retired) in the PS Asset module to properly record the disposal for financial reporting purposes.
- D. On the last day of the month the Public Service Supervisor from the Division of Facilities Management (Fleet Management) will send a list to Accounting containing items picked up and sent to surplus by tag number.

### II. Sold through public auctions, sealed bids, and online auctions or to another unit within Government (outside agencies or component units).

#### A. Fleet Management

Fleet Management coordinates the sale of vehicles and equipment through an internet auction. These fixed assets have been deemed cost prohibitive to keep in inventory.

1. The vehicle and/or equipment status is changed in the Fleet system from "Live" to "Out of Service."
2. Once a sale has been completed the revenue is recorded as surplus sales through the PS Receivables module.
3. A copy of the "Quick Receipt" from PeopleSoft is forwarded to Accounting. The Quick Receipt contains the unit number and the VIN number, enabling Accounting personnel to properly dispose of the fixed asset in the PS Asset module.
4. At the end of each month a spreadsheet is forwarded to Accounting from Fleet Management containing all internet sale items. This spreadsheet is reviewed to verify all fixed assets sold are properly recorded in PeopleSoft.

## B. Purchasing

Purchasing facilitates the sale of surplus items through public or online auctions.

1. Once a sale has been completed the revenue is recorded as surplus sales through the PS Receivables module.
2. A copy of the "Quick Receipt" from PeopleSoft is forwarded to Accounting. The Quick Receipt contains the asset tag number, used to properly dispose of the fixed asset in the PS Asset module.

## III. Fixed Asset Impairments

An asset unexpectedly or suddenly decreases in fair market value below its historical cost. The Division of Accounting annually reviews fixed assets for any assets that may be impaired based on one or more of the conditions below.

- A. An asset is impaired if projected cash flow losses are associated with the asset.
- B. An asset is impaired if there have been materially adverse changes in legal factors that have changed the asset's value, significant changes in the asset's market price or severe changes in the asset's manner of use due to its physical condition.
- C. An asset is impaired if it is more than 50% likely to be disposed of significantly before the original estimated disposal date.

## IV. Trade In

An asset is exchanged (traded) with a seller for a similar item in order to reduce the purchase price of a new asset. The asset exchanged will be disposed of in the PS Asset module.

## V. Transfer to another Department/Division within Government

Upon the transfer of an asset, the transferring Division is responsible for completing the FA9 form "*Fixed Asset Inventory Transfer and Equipment Retirement Form*", located on the intranet at <http://intranet.lexingtonky.gov/Modules/ShowDocument.aspx?documentid=2600>. All relevant information should be documented on the FA9 form such as description of item, the condition, manufacturer, model number, and inventory tag number (if applicable), and the new Division. Appropriate signatures are required by both the old and new Division Inventory Coordinators and supervisors, indicating the transfer of the asset has been accepted.

## VI. Transfer to an Outside Agency or Component Unit

A resolution, ordinance, or memorandum of agreement (MOA) approved by the Administration or Urban County Council documents assets transferred to an outside agency or component unit. Accounting will transfer the net book value of capital assets and record the disposal in the PS Asset module. Accounting coordinates the financial reporting requirements with the appropriate personnel from the outside agency or component unit.

## CAPITAL PROJECTS

Capital Projects, including CIP, are tracked by project until completion and capitalized based on the appropriate asset category and threshold policies.

- I. Requesting a Project ID
  - A. Project IDs are required for those projects financed by General Fund Capital Projects Fund 1105, bond proceeds (funds that begin with a 25XX or 26XX), Sanitary Sewer Construction fund 4003, and the Water Quality Construction Fund 4052. Cost tracking by project improves efficiency, financial reporting, and budgeting.
  - B. Divisions should complete the form “Capital Project ID Request” and submit it to Accounting either through interoffice mail or email attachment. The request form and the instructions are located on the intranet <http://intranet.lexingtonky.gov/index.aspx?page=193>. Once a Project ID is established this will be used for the duration of the project. Any changes should be reported to Accounting as quickly as possible.
  
- II. Establish a funding source and budget
  1. The creation of a project id **DOES NOT** represent approval of the project. Departments/Divisions must follow the budget amendment procedures.
  2. The project budget will roll forward at the end of each fiscal year, provided funds are available.
  
- III. Capitalize costs in the PS Asset module
  1. As invoices are submitted for payment Accounting will review expenses associated with capital projects to ensure all the costs are properly capitalized as CIP or within the appropriate asset category.
  2. Costs are analyzed by PO to ensure the asset is recorded accurately.
  
- IV. Annual Project Status Review
  1. Prior to the fiscal year end, Accounting will generate a list of all current CIP projects by Division. The list will be emailed to each Division in order to update the project status of each item. It is the Divisions’ responsibility to respond within the stated deadline.
  2. Assets are re-categorized from CIP to the final asset category as capital projects are completed. Projects not complete will remain in CIP. Projects suspended are retired from CIP with a reasonable explanation from the Division.
  3. Accounting will prepare a final listing of all CIP projects for the annual audit.

## **CAPITAL ASSETS FUNDED BY GRANTS**

The Division of Grants and Special Projects creates new grants in PeopleSoft. A copy of the grant award and budget amendment is sent to Accounting. The Fixed Asset Accountant reviews the grant award to determine if it will be capitalized. All costs associated with a grant project meeting the capitalization threshold are entered as fixed assets into the PS Asset module. A grant may provide funding for any asset category such as equipment, vehicle, land, building, or CIP.

Strict guidelines are enforced for the disposal of assets purchased with grant funds. For guidelines and procedures related to the disposition of assets purchased by grant funds please refer to the POLICY MEMORANUDUM at the end of this policy.

## **CONFISCATED/FORFIETED VEHICLES AND/OR PROPERTY**

Definition: Vehicles and/or property confiscated by the police. See the Guide to Equitable Sharing for State and Local Law Enforcement Agencies (the Guide) at the following web address <http://www.justice.gov/usao/ri/projects/esguidelines.pdf>. The policies and procedures for fixed assets outlined in the Guide supersede the Government's.

The Administrative Specialist in the Division of Police (Police) provides the Fixed Asset Accountant with complete documentation regarding any confiscated vehicles and/or property placed into service by the Government. The Fixed Asset Accountant enters the asset into the PS Asset module based on information provided.

In the event a confiscated/forfeited vehicle is sold, following the Guide's procedures, the Fixed Asset Accountant is notified by the Police. All documentation is forwarded to Accounting to dispose of the asset in the PS Asset module.

## FIXED ASSET INVENTORY POLICY

### I. Purpose:

To establish a policy, clarify responsibilities and create procedures for the inventory of capital equipment within the Government to enable the proper recording of assets in service, transferred, sold or retired.

### II. Responsibilities:

Each Division should designate an Inventory Coordinator for the purposes of attaching asset tags, conducting annual inventories, and preparing proper documentation for asset transfers, retirements, and selling of fixed assets within their Division.

### III. Procedures:

A. Inventory tags are assigned sequentially for equipment items meeting the capitalization criteria.

1. Tags are sent from Accounting to the appropriate Division at least quarterly.
2. The inventory coordinator places the tag(s) on the item(s) and returns the signed form(s) back to Accounting noting the tag(s) has been received and attached.

B. Accounting facilitates the Physical Inventory process and timing. A list is generated of equipment and furniture costing \$5,000 or more. This does not include computer equipment.

1. The inventory process is completed by the responsible Division prior to the fiscal year end on an annual basis.
2. Divisions are required to verify items that are still in their possession. Any discrepancies should be noted in writing with a brief explanation. Physical inventories must be returned, signed and dated, on or before the scheduled due date.
3. Divisions must communicate any changes required for accurate fixed asset reporting as needed throughout the fiscal year.

## INVENTORY POLICY AND PROCEDURES

### I. Purpose:

To provide guidance and establish procedures for inventory to ensure adequate safeguarding of the Government's assets.

### II. Definition:

Inventory is a current asset; it includes merchandise for resale, supplies and stocks in general storerooms and supplies for operations. These are goods and materials acquired and typically used or sold within twelve months. Any Division that maintains a supply of these goods or materials may need to classify these items as inventory when purchased. As these items are consumed, Accounting will create a journal entry to record the expense. Maintaining a level of inventory that is neither too high or too low is important for efficient operations.

### III. Inventory Coordinator:

It is necessary to appoint an employee in each applicable Division to serve as coordinator for the inventory process. The inventory coordinator serves as the primary contact between the user Division, Purchasing, Accounting and Budgeting to ensure procedures are properly followed. It is important that the inventory coordinator understands his/her responsibilities related to inventory.

### IV. Division Responsibilities:

- A. Requisitions – Divisions should submit inventory purchase requisitions to Purchasing for approval. Purchasing must approve the requisition and create the purchase order (PO) before inventory can be purchased. The appropriate inventory account should be used on the PO; inventory accounts are between 11010 and 11098. Any questions related to appropriate accounts, or creating new accounts, should be directed to Accounting.
- B. Receiving Inventory – Once inventory is purchased and received, stock should be well documented. Inventory records should contain the item code, description, measurement unit, quantity, location, unit price and total value. It is recommended for the Division to utilize an inventory tracking system that records inventory data by individual item.
- C. Reporting – Divisions are required to transmit all inventory data from their inventory to Accounting on a regular basis for purposes of financial reporting.
- D. Re-distribution – Any inventory which involves charges to other Divisions within the Government should be reported to Accounting. The information should include the chart string and amounts of the Division being charged in order to process the journal.
- E. Budget – Departments/Divisions must follow budget amendment procedures as required. Budget planning should be carefully considered for inventories impacted by seasonal fluctuation.

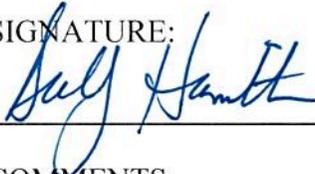
**V. Physical Inventories:**

- A. In order to ensure good governance over assets, the inventory coordinator shall periodically conduct a physical inventory count.
- B. A complete schedule for taking physical inventories shall be issued by Accounting several weeks in advance of the fiscal year-end. In order to comply with the Government's established year-end deadlines, inventory counts should be taken in a timely manner at the end of each fiscal year.
- C. Prior to the physical inventory count, inventories should be organized to expedite the physical count whenever possible to ensure accuracy and increase efficiency. Count sheets with a description of inventory items, stock number, unit cost, etc., should be prepared prior to the inventory count date.
- D. All inventory items must be counted or measured. It is recommended that items of high unit value be recounted or checked, preferably by a different individual, for verification.
- E. Physical inventory reports should be completed at the end of each fiscal year and forwarded to Accounting within the timeframe established, normally one month.

**VI. Audits:**

For the purpose of gaining an opinion on the financial statements that collectively comprise the Government's basic financial statements, it is necessary for independent auditors to annually review and verify the recorded balances and transactions. Accordingly, independent auditors may conduct on-site visits to verify adherence to procedures and to observe the physical inventory count.

Draft	Kim Bryan	13 November 2013
Draft QA	Phyllis Cooper	19 November 2013
Final Review	Bill O'Mara	12 February 2014
Final	Sally Hamilton, Chief Administrative Officer (CAO)	18 March 2014

Chief Administrative Office	Date of Issue	Expiration Date	No.
POLICY MEMORANDUM	June 2, 2017	NA	NA
TO: ALL Divisions and Departments	SUBJECT:		
SIGNATURE: 	<b>Disposition of Equipment/Assets Purchased with Grant Funds</b>		
COMMENTS:  Attachment to CAO Policy 47 Financial Asset Policy			

The purpose of this policy is to provide guidance and to establish procedures regarding the disposition of equipment purchased with grant funds in compliance with the Uniform Guidance.

Title to equipment acquired by the government with grant awards vests with the government. Equipment means tangible nonexpendable property charged directly to the grant fund having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. Loss, damage, or theft of equipment shall be investigated and shall be immediately reported to the Fixed Asset Accountant in the Division of Accounting.

When equipment with a current per unit fair market value of \$5,000 or more is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, it may be retained or sold with the granting agency having a right to a proportionate (percent of grantee participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

In order to sell equipment that is no longer needed, the Division shall request disposition instructions from the Division of Purchasing. In addition, the Fixed Asset Accountant and the Director of Accounting in the Division of Accounting should be notified via electronic email as well as hard-copy memo so that the equipment can be removed from the Fixed Asset database.

If the fair market value of the equipment exceeds \$5,000 at the time of sale, the granting agency will be remitted their proportionate share of the proceeds.

The Division seeking sale of equipment has final responsibility for compliance with this policy, ensuring that all requirements have been met.