

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
RELEASE**

***NATIONAL OCEANIC AND
ATMOSPHERIC ADMINISTRATION***

*Personal Property Balance Requires
Significant Attention to be Properly Stated
in Financial Statements*

Audit Report No. FSC-10875-8-0001 / September 1998

Office of Audits, Financial Statements Audit Division





UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

September 30, 1998

MEMORANDUM FOR: Paul F. Roberts
Chief Financial Officer and
Chief Administrative Officer
National Oceanic and Atmospheric Administration

FROM: Johnnie E. Frazier
Acting Inspector General

SUBJECT: *Personal Property Balance Requires Significant
Attention to be Properly Stated in the Financial Statements*
Final Audit Report No. FSC-10875-8-0001

We performed a limited scope audit of NOAA's capitalized personal property files. The review entailed an examination of existing property files at NOAA's headquarters in Silver Spring, Maryland to determine whether each asset is adequately supported for financial statement reporting purposes; provide a list to NOAA officials of incomplete files and the documentation missing in each file reviewed; and provide guidance on compiling property files, as a result of the exceptions noted during our review of the files.

NOAA has undertaken tremendous efforts to improve its accounting for and reporting of personal property. However, given the financial reporting requirements of federal entities, we believe that for NOAA to continue to improve, it is crucial that NOAA recruit a manager with accounting or financial background to work, on site, as part of the Administrative Services Division, Logistics Services Branch, Personal Property Team. Currently, NOAA does not have personnel with accounting or financial knowledge and experience assigned to adequately account for and report personal property. Based on our audit of NOAA's personal property files, we recommend that (1) a full-time accounting or financial manager for the Administrative Services Division, Logistics Services Branch, Personal Property Team be hired and (2) NOAA issue written policies and procedures for the adjusted capitalization and bulk purchase thresholds.

The Deputy Chief Financial Officer (CFO)/Chief Administrative Officer for NOAA expressed general agreement with our recommendations stating that corrective actions will be taken. Complete comments to our draft report dated August 31, 1998 are attached, and we have incorporated them accordingly.

We would appreciate receiving your audit action plan addressing our recommendations within 60 calendar days, in accordance with the Department Administrative Order 213-5. The plan should be in the format specified in Exhibit 7 of the DAO. Should you have any questions regarding the preparation of the audit action plan, please contact Lisa Casias, Deputy Assistant Inspector General for Financial Statement Audits, on (703) 603-0301.

INTRODUCTION

The National Oceanic and Atmospheric Administration (NOAA) of the U.S. Department of Commerce is a large decentralized organization with several interrelated missions, most of which involve stewardship of the oceans and monitoring of the atmosphere. The Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, requires NOAA to prepare annual audited financial statements.

NOAA received a qualified opinion on its Consolidated Statement of Financial Position as of September 30, 1997, in part, because NOAA had not maintained a system or a process to accurately and completely account for all of its capitalizable property and equipment, as required by accounting standards. As of September 30, 1997, NOAA had a net property, plant, and equipment (PP&E) balance of \$3,234,179,000, which was comprised of 37% personal property, 6% real property, and 57% Construction Work in Progress (CWIP). The auditor's *Report on Internal Control Structure, Audit Report No. FSC-9865-8-0001, March 1998*, cited numerous material weaknesses relating to personal property.

The Administrative Services Division, Logistics Services Branch, encompasses two teams: Personal Property and Transportation/Facilities. The Personal Property Team is comprised of eight FTE and two term appointments. NOAA uses the National Finance Center's Property Management Information System (PMIS) as its database for all accountable and capitalized personal property. The Personal Property Team must ensure that all accountable and capitalized personal property is accurately recorded in PMIS. Additionally, the team is responsible for creating a folder for each item of capitalized personal property to ensure that adequate supporting documentation is maintained. NOAA's Office of Finance compiles annual financial statements using spreadsheets which are manually prepared by the Personal Property Team. Both the Office of Finance and the Administrative Services Division, Logistics Branch, Personal Property Team are units of NOAA's Office of Finance and Administration (OFA).

As a result of the weaknesses identified in the auditor's report mentioned above, NOAA requested that the OIG perform a review of its capitalized personal property files, which had been created to support the PP&E balance of \$3.2 billion.

PURPOSE AND SCOPE OF AUDIT

The purpose of this review was to perform a limited scope audit of NOAA's capitalized personal property files. Our fieldwork was conducted in accordance with generally accepted government auditing standards. As a limited scope audit, we did not evaluate internal controls, test compliance with significant laws and regulations, or evaluate controls over computer generated data. The audit was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980. The scope of our work entailed the following:

1. Gained an understanding of the operations performed by NOAA's Office of Finance and Administration/Acquisition, Grants and Facilities Services Office (OFA/AGF).
2. Reviewed existing property files at NOAA's headquarters in Silver Spring, Maryland to determine whether each asset is adequately supported for financial statement reporting purposes.
3. Provided a list to NOAA officials of incomplete files and the documentation missing in each file reviewed.
4. Provided guidance on compiling property files, as a result of the exceptions noted during our review of the files.
5. Followed up on corrections, by NOAA personnel, of the deficiencies noted by the OIG and assessed whether the corrections were sufficient.
6. Ensured that NOAA personnel properly updated the property files, as well as PMIS, for the deficiencies we noted.
7. Provided additional training, as necessary, to NOAA's personal property staff in maintaining the property files.

The scope of our audit was limited to only those personal property folders maintained at the NOAA headquarters location; however, at the request of the Logistics Services Branch Chief, one folder from the Central Administrative Services Center was also reviewed. Our review also did not encompass real property or CWIP. In addition, we only reviewed assets that had already been recorded in PMIS; therefore, we did not make conclusions regarding the completeness of the PMIS database. The existence of all capitalized assets will be verified by NOAA during its annual physical inventory of PP&E. We did not perform any existence testwork and cannot make conclusions regarding the existence of any assets.

Furthermore, for all constructed assets, our audit was limited to ensuring that the acquisition amounts and dates, as documented by the appropriate NOAA program line office, were accurately recorded in PMIS. We did not review the methodology or accuracy of the procedures performed by the program line offices to determine the value of constructed personal property.

FINDINGS AND RECOMMENDATIONS

We recognize the significant effort that NOAA has undertaken to improve its accounting for and reporting of personal property. We also believe that NOAA has begun to take the necessary steps to effectively track and account for capitalized personal property. However, during our audit, we noted two areas of concern.

1. Financial Manager is Needed at NOAA Personal Property Office

PP&E, the largest account on NOAA's balance sheet, represented 65 percent of total assets as of September 30, 1997. The next most significant account was Fund Balance with Treasury, which comprised 29 percent of total assets as of September 30, 1997. With the PP&E balance being so significant, it is imperative that adequate resources be devoted to the accounting and reporting of PP&E. However, NOAA does not have personnel with accounting or financial knowledge and experience assigned on a full-time basis to account for personal property in accordance with the applicable accounting standards. Current Administrative Services Division, Logistics Services Branch, Personal Property Team staff are trained in the acquisition of property, maintenance of documentation for property accountability purposes, and physical accountability of property.

Currently, the Office of Finance provides the Personal Property Team with general requirements for data needed from the team in order to compile NOAA's annual financial statements. The Personal Property Team generates the financial data using information from PMIS. However, without a full-time accounting or finance manager assigned to this function, NOAA is exposed to the risk that PP&E will not be accounted for and reported in compliance with all applicable accounting policies and procedures. NOAA has received disclaimers in each of its past audits in part due to unsupported property balances. Additionally, NOAA has received material weaknesses for lack of adequate controls over property.

Having a financial manager with the appropriate expertise to supervise the review of all capitalized property folders and ensure that assets are properly valued is crucial in obtaining an unqualified opinion. In addition, by working closely with the NOAA Office of Finance, a financial manager would ensure that adjustments to PP&E are properly recorded to the general ledger and PMIS.

The need for a financial manager becomes increasingly more evident given the complex accounting issues that NOAA faces on a daily basis. For example, NOAA encounters impairments to its PP&E such as damage from natural disasters that may affect the value and usefulness of the asset. In addition, NOAA has continual upgrades of existing equipment, develops software with existing staff for internal use, and uses contract and internal staff to construct assets, such as satellites, over long term periods.

Furthermore, the PMIS property system used by NOAA is not able to properly compile financial data; therefore, a significant amount of *ad hoc* reports or manual financial analyses are necessary to account for and report the data in an accurate manner. The Personal Property Team is in the process of creating many *ad hoc* reports using data from PMIS. Until a new property system is implemented, these reports must provide the necessary data to assist in compiling annual financial statements. Ensuring that the appropriate reports are available, properly coded, and reviewed is critical to obtaining the proper balances in compliance with applicable accounting standards, as well as preparing accurate financial statements. DOC Handbook, Chapter 22, Section 9.0 states “To ensure accuracy and completeness of reports, closeout procedures shall provide a review of accounts before final closing of books for the accounting periods.”

Recommendation

We recommend that NOAA’s Chief Financial Officer and Chief Administrative Officer hire a full-time accounting or financial manager for the Administrative Services Division, Logistics Services Branch, Personal Property Team. Alternatively, if NOAA cannot hire an accounting or financial manager, using a contractor or Office of Finance personnel to assist with the compilation of property data for the financial statements should be considered.

2. NOAA Should Raise the Capitalization Threshold, Determine a Bulk Purchase Threshold, and Issue Written Policies and Procedures

During our limited scope audit, we noted that NOAA was adhering to the \$25,000 capitalization threshold established in the *Department of Commerce Accounting Principles and Standards Handbook*. We performed an analysis of NOAA’s capitalization threshold and estimated that the NOAA Administrative Services Division, Logistics Services Branch, Personal Property Team was spending approximately 77 percent of its effort to account for less than 6.5 percent of the PP&E acquisition value. We concluded that a threshold of \$200,000, rather than \$25,000, would be more cost-beneficial, yet still conservative, and would result in immaterial reporting differences to the financial statements. In particular, raising the threshold to \$200,000 would have less than a two percent impact on NOAA’s net PP&E balance. Based on our analysis, NOAA submitted and the Department approved on June 3, 1998, a waiver request to implement a \$200,000 capitalization threshold in lieu of the \$25,000 level.

We also noted that NOAA did not have a specific bulk purchase policy to capitalize significant acquisitions of property and equipment items individually costing less than the capitalization threshold. We performed an analysis of personal property records in the PMIS database to assist NOAA in determining a reasonable threshold. Using the results of our analysis, NOAA established a bulk purchase threshold of \$1,000,000. We believe that this threshold provides a conservative approach and will ensure that any significant bulk purchases are capitalized.

The increase in the capitalization threshold, as well as the establishment of a bulk purchase threshold, are in accordance with the Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant and Equipment*. Specifically, paragraph 149 states,

“Each entity would establish its own threshold as well as guidance on applying the threshold to bulk purchases... permitting management discretion in establishing capitalization policies that will lead to a more cost-effective application of accounting standards.”

It is essential that adequate written policies and procedures be developed detailing the adjusted thresholds and their application. Inconsistent application of these new thresholds could result in inaccurate capitalized property balances leading to a qualified or disclaimed opinion and future material weaknesses. Procedures should include steps to periodically monitor the adequacy of thresholds and allow for adjustments based on the nature and amount of property and equipment purchases. This will help ensure the reasonableness of the thresholds for financial statement reporting purposes. Distribution of these new policies and procedures to employees and training on their application will allow for consistent implementation.

Recommendation

We recommend that NOAA’s Chief Financial Officer and Chief Administrative Officer ensure that NOAA issue written policies and procedures for the adjusted capitalization and bulk purchase thresholds. Appropriate training on their application should be provided.

DEPUTY CHIEF FINANCIAL OFFICER/CHIEF ADMINISTRATIVE OFFICER RESPONSE AND OIG COMMENTS

In a September 29, 1998 memorandum (see attached), the Deputy Chief Financial Officer/Chief Administrative Officer for the National Oceanic and Atmospheric Administration (NOAA) formally responded to our draft report dated August 31, 1998. The response stated that there was a general agreement with the observations and recommendations in our draft report and that there is a plan to implement them.

The Deputy CFO/Chief Administrative Officer's response requested that we make minor modifications to the report. We have summarized the informal request for modifications to our report as follows:

The response stated the Administrative Services Division, Logistics Services Branch, encompasses two teams: Personal Property and Transportation/Facilities. The Personal Property Team is comprised of eight FTE and two term appointments. We have incorporated the above statements in our report. The response requested that our references to "Personal Property Division" be changed to "Administrative Services Division, Logistics Services Branch, Personal Property Team." We have modified our report accordingly.

The response also requested that the statement "we did not review any personal property folders maintained by the Administrative Service Centers" be changed to "per request by the Logistics Services Branch Chief, one folder from the Central Administrative Service Center was reviewed." We have changed this statement accordingly.


Attachment



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
CHIEF FINANCIAL OFFICER/CHIEF ADMINISTRATIVE OFFICER

SEP 29 1998

MEMORANDUM FOR: Lisa Casias
Deputy Assistant Inspector General
For Financial Statements Audits

FROM: Andrew Moxam 
Deputy

SUBJECT: Office of Inspector General (OIG) Draft report
on NOAA's Personal Property

Attached are our comments on your draft report "Personal Property Balance Requires Significant Attention to be Properly Stated in Financial Statements Draft Audit Report No. FSC-10875-8-0001."

Thank you for your assistance in this area. If you need additional information, please do not hesitate to call me.

Attachment



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The following are comments to the "Personal Property Balance Requires Significant Attention to be Properly Stated in Financial Statements Draft Audit Report No. FSG-10875-8-0001."

Page 2 - Paragraph 3, 1st. Sentence:

Change Personal Property Division to the following:

The Administrative Services Division, Logistics Services Branch, encompasses two teams; Personal property and Transportation/Facilities. The Personal Property team is comprised of 8 FTE and 2 term appointments.

Page 2- Paragraph 3, last sentence:

The Administrative Services Division, Logistics Services Branch, Personal Property Team are units of NOAA's Office of Finance and Administration (OFA).

Page 3 - Paragraph 2, 2nd sentence:

Change the statement: "we did not review any personal property folders maintained at the Administrative Service Centers" to the following:

Per request by the Logistics Services Branch Chief, one folder from the Central Administrative Service Center was reviewed.