
Office of Inspector General

Management Advisory on Project Funded with Operating Expenses

United States Coast Guard

Report Number RE-1998-002

Date Issued: October 14, 1997





**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Memorandum

Subject: **ACTION:** Management Advisory Report on
Coast Guard Projects Funded With Operating Expenses
Report Number: FE-1998-002

Date: October 14, 1997

From: 
Lawrence H. Weinrob
Assistant Inspector General for Auditing

Reply to JA-1
Attn of:

To: Chief of Staff
United States Coast Guard

BACKGROUND AND OBJECTIVE

This Management Advisory Report presents the results of our limited-scope review of selected Coast Guard projects. Our objective was to determine whether projects, in excess of \$100,000, funded from the Operating Expenses (OE) appropriation were solely for repair and maintenance, as represented to us by the Coast Guard. We made this review to resolve our ongoing dialogue regarding the appropriate level of "capitalization" for accounting and financial statement purposes. Our work was performed between August 25 and September 5, 1997, at Coast Guard facilities located near Boston, Massachusetts; New York, New York; Cape May, New Jersey; Baltimore, Maryland; Portsmouth, Virginia; Elizabeth City, North Carolina; San Francisco, California; and Seattle, Washington.

Statement of Federal Financial Accounting Standards Number 6, Accounting for Property, Plant, and Equipment, requires property, plant, and equipment be reported on agency financial statements. Acquisition cost, and cost which either extend the useful life of the existing property, plant, and equipment, or enlarge or improve its capacity, shall be capitalized. As such, it is recognized as an asset and the cost is spread over a reasonable time in the form of depreciation. Failure to capitalize such cost results in the entire cost being treated as expense in the year incurred, which could significantly distort annual cost of operations.

The Department of Transportation and Related Agencies Appropriation Act provides that the Acquisition, Construction, and Improvements (AC&I)

appropriation is for necessary expenses of acquisition, construction, renovation, and improvement of aids-to-navigation, shore facilities, vessels, and aircraft. The OE appropriation is for the operation and maintenance of the Coast Guard.

RESULTS-IN-BRIEF

Coast Guard funded projects from its OE appropriation to significantly extend the useful life, change the utility or capacity, or acquire property, plant, and equipment. We selected 45 projects over \$100,000, totaling about \$25 million, that were funded from the Fiscal Year 1996 OE appropriation. We made site visits to 41 projects to see exactly what was involved with those projects. We concluded 32 of the 45 projects (totaling about \$22 million) represented extensions of useful life, changes in the utility or capacity, or acquisition of property, plant, and equipment that should be capitalized.

We selected our sample intuitively based on our judgmental review of data provided by Coast Guard. Our sample included projects that most likely should have been capitalized. We are not inferring that our sample results are representative of all projects.

Examples of projects that should have been capitalized included acquisition of office space, addition to a buoy depot, expansion of building capacity, construction of a parking lot, conversion of a building to a rescue swimmer school, and acquisition of a fire truck. Photographs are included as an attachment to this memorandum. We also are concerned that the use of OE funds for these projects, or any similar projects, may violate appropriation law.

We discussed our results with the Coast Guard's Chief Financial Officer on September 17, 1997. We are working with him to resolve the capitalization issue.

RECOMMENDATIONS

We recommend that you (i) take necessary action to stop the use of OE funds for projects that should be charged to the AC&I appropriation, (ii) identify expenditures that were inappropriately charged to the OE appropriation and charge them against the AC&I appropriation, and (iii) notify the Secretary of Transportation and the Congress that OE funds were used inappropriately and report statutory violations, if appropriate.

**EXAMPLES OF CAPITAL IMPROVEMENT PROJECTS
FUNDED FROM OPERATING EXPENSES APPROPRIATION**



Modular Office Complex, Alameda, California: \$811,000



Addition to Buoy Depot, Support Center Boston: \$215,000



Three Modular Buildings, Elizabeth City, North Carolina: \$222,000



Parking Lot, Support Center Portsmouth: \$303,000



Conversion of Exchange to Rescue Swimmer School, Astoria, Oregon: \$213,000



Fire Truck, Elizabeth City, North Carolina: \$333,000