

1.0. Purpose

This policy shall establish financial accounting and associated internal controls for HHS personal property, in compliance with Federal laws and regulations related to accounting for real and personal property. It is also intended to identify roles and responsibilities related to the financial accounting and safeguarding of assets in compliance with generally accepted accounting principles as promulgated by the Federal Accounting Standards Advisory Board (FASAB).

2.0. Scope

This policy addresses financial accounting concepts, internal controls, and responsibilities related to capitalized real and personal property. The policy applies to financial accounting for all HHS capitalized personal property, and all HHS employees responsible for implementing this policy. Physical custodianship responsibilities are discussed in the Logistics Manual, which may be found at <http://www.hhs.gov/hhsmanuals/logistic.pdf>

Accounting Centers are responsible to ensure that physical property interface records from the subsidiary system are properly recorded in the accounting records, and that physical property records are reconciled with the accounting system of record. OPDIV Accountable Officers and OPDIV CFOs are jointly responsible for the physical custodianship of its assets in accordance with Departmental policy, and for certifying to the Accounting Centers that physical property records accurately reflect assets in use. Both the Accounting Centers and OPDIVs will maintain effective systems of internal control consistent with standards prescribed by the General Accountability Office (GAO).

3.0. Authority

16 U.S.C. §18f establishes requirements for the management and maintenance of items of museum properties.

18 U.S.C. §641 outlines penalties for embezzlement, theft, etc. of any property or thing of value of the United States, or of any Department or agency thereof.

P.L. 107-217, U.S.C. 40 Public Building Property and Works, also known as “The Property Act.” Requirements of the act include: (1) Maintain adequate inventory controls and accountability systems for the property under its control; (2) Continuously survey property under its control to determine which is excess property and promptly report such property to the Administrator; (3) Perform the care and handling of such excess property;

(4) Transfer or dispose of such property as promptly as possible in accordance with regulations.

Public Law 84-863 (31 USC §66 c) – Amendments to the Budget and Accounting Act of 1950 (PL 81-784): requires that financial accounting as well as physical accounting be incorporated in Personal Property Management.

Budget and Accounting Procedures Act of 1950, as amended, (31 U.S.C. Subtitle III, Chapter 35, Subchapter II, §3511-3515, Subtitle III, Chapter 35, Subchapter III, §3521 (64 Stat. 832).

Section 202(b) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. §483(b)) requires that each executive agency maintain adequate inventory controls and accountability systems for property under its control.

31 U.S.C. §3512 requires that each executive agency establish and maintain systems of accountability and internal controls designed to provide effective control over and accountability for all property for which it is responsible, including adequate monetary property accountability records.

The Federal Managers Financial Integrity Act of 1982 (FMFIA): amends the Auditing and Accounting Act of 1950 and the Budget and Accounting Act of 1921 and requires that administrative controls be established to provide reasonable assurances that funds, property, and other assets are protected against waste, loss, unauthorized use of misappropriation.

The Chief Financial Officers Act (CFO) of 1990 (P.L. 101-576): Requires agencies to prepare auditable financial statements annually. Agency asset management systems, specifically systems for personal property and inventory management and control, are auditable.

Stevenson-Wydler Technology Innovation Act: The Director of a laboratory, or the head of any Federal Agency or department may give research equipment that is excess to the needs of the laboratory, Agency, or department to an educational institution or nonprofit organization for the conduct of technical and scientific education and research activities and the title of ownership transfers with the gift.

41 CFR 101 *Public Contracts and Property Management Chapters 101 and 102.*

41 CFR Part 102-36 *Disposition of Excess Personal Property Final Rule*, as amended 9/12/2006.

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FPMR 101-44 *Donation of Personal Property* and FMR-102-37 *Donation of Surplus Personal Property*, published as final rule 1/18/2002.

FPMR 101-46 *Replacement of Personal Property Pursuant to the Exchange/Sale Authority* and FMR 102-39 , published as final rule 9/21/2001.

FPMR 101-48 *Utilization, Donation or Disposal of Abandoned and Forfeited Personal Property* and FMR 102-41 *Disposition of Seized, Forfeited, Voluntarily Abandoned and Unclaimed Personal Property*, published as final rule 7/21/2006.

FPMR 101-49 *Utilization, Donation, and Disposal of Foreign Gifts and Decorations* and FMR 102-42, published as final rule 7/24/2000.

Federal Accounting Standards Advisory Board (FASAB), *Accounting for Property, Plant, and Equipment*, Statement of Federal Financial Accounting Standards No. 6, dated June 1996.

Federal Accounting Standards Advisory Board (FASAB), *Accounting for Property, Plant, and Equipment – Definitional Changes*, Amending Statement of Federal Financial Accounting Standards No. 6 and No. 8, dated October 1998.

Federal Accounting Standards Advisory Board (FASAB), *Amendments to Deferred Maintenance Reporting*, Amending Statement of Federal Financial Accounting Standards No. 6 and No. 8, dated April 1999.

Financial Audit Manual, Section 300, Internal Control.

HHS Unified Financial Management System, *UFMS Accounting Treatment Reference Manual*, Version 5.0, September 28, 2007.

Accounting Principles, Standards, and Requirements: *Title 2 Standards Not Superseded by FASAB Issuances*, GAO-02-248G, November 2001.

Joint Financial Management Improvement Program (JFMIP), *Property Management Systems Requirements*, JFMIP-SR-00-4, dated October 2000.

Office of Management and Budget (OMB) Circular No. A-11, Part 7 – *Planning, Budgeting, Acquisition, and Management of Capital Assets*, dated July 2007; Appendix J – *Principles of Budgeting for Capital Asset Acquisitions*, dated 2004; Appendix K – *Selected OMB Guidance and Other References Regarding Capital Assets*, dated 2004.

OMB Circular No. A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, dated October 29, 1992.

OMB Circular No. A-127, *Financial Management Systems*, dated July 23, 1993.

OMB Circular No. A-136, *Financial Reporting Requirements*, dated June 3, 2008.

Department of the Treasury, Financial Management Service, *United States Standard General Ledger Approved Scenarios for Disposition of Personal Property*, April 23, 1998, revised August 1998.

HHS Accounting Treatment Reference Manual, current version.

4.0. Background

This policy establishes Department wide procedures for establishing and maintaining a system of accounting for capitalized real and personal property in accordance with Federal laws, regulations, and generally accepted accounting principles as promulgated by the Federal Accounting Standards Advisory Board. Capitalized property is charged to an asset account on the Department's general ledger records and is accounted for during the life of the asset. It consists of nonexpendable personal property and real property. Nonexpendable property consists of categories and specific items that are reflected on the financial accounting records (and associated subsidiary records) as capital assets until disposed of by transfer, sale, or salvage. Real property consists of land, buildings, and other structures including significant improvements, such as permanently attached fixtures, equipment, and other add-ons (e.g.; water fountains). Equipment added to an existing facility is considered special-purpose equipment and funded from operating funds (and capitalized as equipment if the threshold is met). Otherwise it is expensed as appropriate.

The Financial Accounting Standard Advisory Board (FASAB), Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, Chapter 1, paragraph 13, provides discretion to Federal agencies to determine an appropriate capitalization threshold.

The HHS Deputy CFO, Deputy Assistant Secretary for Finance is responsible for issuing Department-wide financial policy and procedures. The Accounting Centers and OPDIV CFOs are responsible for implementing the Department's financial policy, and for ensuring compliance with this policy. Internal controls related to the physical custodianship of HHS assets, as discussed in the HHS Logistics Manual, is the responsibility of OPDIV Accountable Officers.

5.0. Policy Objective

Each OPDIV must establish and maintain a system of financial accounting and internal controls for capitalized property in accordance with Federal laws, regulations, accounting standards, and Departmental policy.

This policy includes the accounting treatment of non-expendable personal property based upon HHS capitalization thresholds. Accountable property acquisitions that fall below the HHS capitalization thresholds will be recorded as expendable property. Sufficient internal controls should be established to ensure periodic independent verifications of accuracy of the accounting records through review, such as GAO and Office of Inspector General audits, property management reviews, physical inventories, and periodic reconciliation of accountable property records with the accounting system asset balances. For an example of reconciliation, see Appendix 3.

6.0. General

Detailed personal property records reflected in the Property Management Information System (PMIS), or similar subsidiary property system, shall serve as detailed, accountable property records that support the balances in the general ledger accounts. The property subsidiary system, interfaces with the Department's accounting system and summary capitalized and non-capitalized entries are recorded within the general ledger accounts. The property record cycle includes, but is not limited to: (1) property requisition request; (2) purchase order; (3) receipt; (4) payment; (5) recognition of asset and associated periodic depreciation and (5) disposition of the asset. The source documents used for recording property information in the subsidiary property system will be controlled and annotated to ensure that both the property records and the fiscal control and subsidiary accounts are updated immediately upon receipt of the property. At a minimum, source documents shall contain sufficient data to determine the historical cost of the personal property, description of the asset, type of property, date of acquisition, and sufficient information to determine the useful life based upon American Hospital Association and IRS useful life tables. Records pertaining to the property shall be maintained over the physical life of the asset.

The accounts and property management records shall be maintained in a form which will provide data for effective property management and for cost data which management can use in its overall program evaluation, control, and planning functions.

7.0. Capitalized Property (Non-expendable)

7.1. General

Capitalized (Nonexpendable) property consists of specific categories of property that meet the HHS capitalization threshold. The accounting records reflect the historical cost of these categories of property, which are included as assets of a program or activity until

disposed of by transfer, sale or salvage. When assets are purchased by HHS components, personal property records are recorded in the Property Management Information System, or similar personal property system. Detailed information concerning the Department's capitalized property resides on PMIS or a similar personal property system. An example of the PMIS process is found in Appendix 1, including a functional data flow and description of the process. Detailed information concerning weapons, resides on a separate system maintained by the Office of Inspector General.

Under Federal guidelines, accounting control with respect to capitalized property shall be established and maintained as an integral part of the agency's accounting system. Policies and procedures shall:

1. Clearly state the criteria for capitalization of nonexpendable personal property (GAO Accounting Standard P40.02). See Principles of Capitalization, below.
2. Provide for current recording of all such acquisitions and disposals to the general ledger control accounts and subsidiary property management records.
3. Provide for subsidiary property management records that support the financial accounting records. See Appendix 1, Property Management Information System and the Logistics Manual, found at <http://intranet.hhs.gov/about/#manuals>.
4. Provide for quarterly reconciliation of the subsidiary property management records to the general ledger control accounts. See the Department's Reconciliation Policy.
5. Provide for reconciliation and adjustment of general ledger control accounts to subsidiary property management records subsequent to the regularly scheduled physical inventories. See the Department's Reconciliation Policy.
6. Include requirements for determination and periodic recording of depreciation. See the section on Depreciation, below.

7.2. Principles of Capitalization

7.21 Capitalization of Personal Property

Nonexpendable personal property is capitalized at cost invoice price less discount plus significant and identifiable transportation and installation charges, and related costs of obtaining the property. When considering whether nonexpendable personal property should be capitalized, the following general capitalization criteria must be met.

1. An item is complete within itself and is not consumed.
2. It does not lose its identity by reason of being incorporated into another item of property.
3. It has a useful life of two or more years without material impairment of its physical condition.

4. An item has a unit cost of \$100,000 or more, including shipping costs, costs to place the asset in service, and enhancements that increase the useful life or significantly improve the functionality of the asset.

The capitalization threshold for internal use software is \$500,000 for revolving funds and \$1,000,000 for all other HHS funds. For more specific information concerning capitalization of software, see the policy on Internal Use Software.

Other Specific Capitalization Criteria:

1. Only weapons that meet the capitalization threshold are capitalized. However, ALL weapons are “accountable” regardless of cost. For specific procedures concerning internal controls related to weapons, contact the OPDIV or STAFFDIV Accountable Officer. Additionally, the Office of Inspector General has procedures specific to the OIG that must be followed.
2. The capitalized value of agency fabricated equipment will include direct material and labor costs, together with a representative overhead factor.
3. Initial installation charges are considered as part of the value at which an item of personal property is capitalized. These include costs required to install, erect, or otherwise construct or assemble an item of personal property. Costs incident to the installation of equipment are not capitalized as a part of the personal property cost when: (1) The costs are identifiable with an improvement to the building or structure housing the equipment and which will be capitalized as part of the real property costs; (2) The costs are of an indirect nature and consist of handling, moving or placing portable and plug-in type equipment in use; (3) The costs are directly identifiable to an item of equipment which is expensed.
4. Items will be capitalized at the aggregated total cost. For example, if a computer server is purchased for \$100,000 and software that is intrinsic to the operation of the computer is procured for \$10,000, the cost of the software is considered as part of the total aggregated cost of the capitalized asset at an aggregated value of \$110,000.
5. When a trade-in is involved in a purchase, the capital cost of the acquisition will be the lesser of (1) the cash paid and/or liability incurred plus the net book value of the traded-in property or (2) the amount that the purchase would have been without the trade-in. The item traded-in will be removed from the records together with accumulated depreciation upon release to the buyer.
6. The cost of an item acquired by donation, forfeiture or confiscation shall be established according to its value to the agency, considering its condition and fair market value.
7. When an item is retired from the inventory for any reason, the subsidiary records and general ledger accounts (asset, accumulated depreciation, and gain or loss on disposition of asset) shall be adjusted to reflect the retirement of the asset.
8. Assets acquired by lease-purchase contract shall be recognized at the time that the organization enters into the lease-purchase contract based upon the net present

- value of the lease payments, using the current Treasury prime rate applied to the term of the lease. A corresponding lease liability shall be established in the same amount. As payments are made, the liability shall be reduced and imputed interest expenses shall be recognized. Depreciation shall be recorded using the straight line method and a useful life that equates to the term of the lease.
9. Property acquired from other agencies will be recorded as capital assets. That transferred with reimbursement will be recorded at the agreed upon price, but no less than its estimated useful value. That transferred without reimbursement will be recorded at its depreciated value, from the transferring agency's records, plus all costs incurred in acquiring the item. If a valuation is not provided by the transferring agency, the asset shall be recorded at fair market value.
 10. Any penalty for late payment will not be considered an increase in the value of the asset acquired, but will be recorded as an added administrative cost of operation in the year in which the late payment penalty is incurred.
 11. As items are identified and segregated for trade-in, sale or other disposal, the gross capitalized value will be transferred from the In-Use general ledger accounts to the Pending Disposal general ledger accounts in UFMS.
 12. Property purchased by installment contracts will be capitalized at the time it is received and accepted by the Government, rather than periodically as installment payments are made or when title passes.
 13. Capitalization is based upon purchase price plus any related costs which may include site preparation, installation and similar costs whether included in the contract or incurred separately.
 14. Property, owned by HHS but made available to a contractor, will be recorded in the general ledger until disposed of by transfer, donation or sale, unless an exception is made by specific statute or regulation. If the title passes to the contractor based on specific contract terms, then the property is expensed. Similarly, property made available to a grantee will be recorded in the general ledger until the end of the grant period and then expensed if title is transferred to the grantee.
 15. In addition, if an asset was purchased in a prior year and expensed, and it was later determined the asset should have been capitalized due to the addition of items, the expense account in the current year shall be adjusted rather than recording it as a prior period adjustment in equity.

7.22. Capitalization of Real Property

Real property consists of land, buildings and other structures including leasehold and owned property improvements such as permanently attached fixtures, equipment and other appurtenances. HHS capitalizes all land and buildings, as these assets would generally be valued above the capitalization criteria described above. Additional capitalization guidance is described below.

1. Land purchased by the Department shall be capitalized at the acquisition price, plus all costs incidental to the acquisition and to preparing the land for use.
2. Buildings and structures shall be capitalized on the basis of original cost plus the costs of additions, betterments, rehabilitation, or replacements, which significantly increase the usefulness, productivity, service life or capacity. Repair and maintenance costs necessary to keep the buildings and structures in operating condition shall be treated as current operating costs.
3. When major improvements are made by replacement of fixed equipment, (e.g., installation of a more efficient heating plant or heating equipment) the cost of the new equipment will be additions to the property records. In addition, the historical cost and accumulated depreciation of the replaced equipment will be removed from the records when a replacement occurs.
4. The costs of non-structural improvements and alterations of buildings and structures for which an agency does not have holding and accountability responsibility will be included in current operation expenses. For additions, improvements or betterments which affect the capacity or change the basic design of the property the cost shall be treated as an asset, classified as a long term deferred charge and amortized over the planned period of possession. Such costs that are to be recouped by increased charges for services rendered in subsequent accounting periods may be prorated proportionately.
5. Property transferred from another Government Agency, at no cost or at a cost less than original acquisition cost, will be capitalized at the original acquisition cost. Annual inventory reports on real property owned by the United States are stated on the basis of original acquisition cost. Expired costs represented by depreciation accumulated to the date of transfer will be assumed and recorded in the cumulative depreciation accounts.
6. Property acquired by donation or forfeiture, from outside the Government, will be recorded in a capital account at the lower of the historical or market value at the date of acquisition.
7. Accrued costs for construction of real property are recorded in construction-in-process capital accounts on the basis of reported work performance under construction contracts. All significant elements of cost, whether direct or indirect, are accrued. Upon acceptance of property-from the contractor, the amount thus accrued is transferred to the appropriate real property account.
8. Additions, improvements and betterments to leasehold buildings and structures having a useful life of two or more years will be accounted for as an asset and amortized over the period of possession or the life of the improvement, whichever is less.
9. The period selected to amortize real property costs shall be estimated with due regard to all available information with respect to physical life, technological, and other factors of consequence which have a bearing on the probable useful period of life of the property to the agency. The maximum amortization period for real property, shall be 30 years, unless the OPDIV or STAFFDIV is able to justify and provide documentation for a different useful life, not to exceed a period of 100 years.

7.23 Non-Capitalized Property (Expendable Personal Property)

Personal property acquired at less than \$100,000 will be charged directly to the operating expense of the applicable activity in the general ledger and identified as non-capitalized personal property. Internal Use Software acquired at less than the capitalization threshold shall be charged directly to operating expense. Real property acquired at less than \$1,000,000 shall be charged directly to operating expense.

Although recording of an asset is limited to those assets with values equal to or greater than the capitalization threshold, the OPDIV Accountable Officers shall be responsible for proper control and safeguarding of the non-capitalized property. The property accounting system must maintain item accountability control over both capitalized and non-capitalized equipment records. Administrative controls shall include documentary evidence of purchase, delivery, receipt, transfer or disposal of both capitalized and non-capitalized real and personal property. Methods of control on non-capitalized items, especially sensitive items, may include memorandum receipt files, safekeeping facilities, unique decals, hand receipts, and other controls.

7.3 Capitalized Asset Valuation and Useful Life Assumptions

7.31 HHS Acquisitions

The Department's Property, Plant and Equipment acquisitions are recognized at the time that title passes to HHS and is valued at historical cost, as adjusted for significant enhancements. To be considered a significant enhancement, an improvement should either significantly add to the functionality of an asset, or should extend the useful life of the asset. Historical costs include all costs incurred to bring the Property, Plant and Equipment to a form and location suitable for its intended use, such as amounts paid to vendors; transportation charges to the point of initial use; handling and storage costs; labor and other direct or indirect costs for assets produced or constructed; costs of engineering, architectural, and other outside services for designs, plans, specifications and surveys; acquisition and preparation costs of buildings and other facilities; an appropriate share of the cost of equipment and facilities used in construction work; fixed equipment and related installation costs required for activities in a building or facility; direct costs of inspection, supervision, and administration of construction contracts and construction work; legal and recording fees and damage claims; fair value of facilities and equipment donated to the government; material amounts of interest costs paid; amount recognized as a liability for capital leases at its inception. If general Property, Plant and Equipment is under construction, it should be recorded as construction work in process until it is placed into service and transferred to general property, plant and equipment.

7.32. Transfers-In

Transfers-In of assets from other entities shall be recorded at the asset and accumulated depreciation values on the accounting system of record of the entity transferring the asset to HHS. A corresponding entry shall be made to Financing Sources Transferred In Without Reimbursement (closes to equity) reflecting the net book value of the asset at the time of the transfer. In the absence of this information, HHS shall record the fair market value of the asset at the time of transfer, considering the age and remaining useful life of the asset. Periodic depreciation expense and accumulated depreciation shall be recorded over the remaining useful life for assets transferred in.

7.33. Transfers-Out

The net book value of Transfers-Out of HHS assets to other entities shall be written off at the time of transfer. Documentation of the transfer, including approvals and authorities to transfer, the organization that the asset was transferred to, and documentation of the accounting entry to write off the asset shall be retained in property records for five years after the transfer.

7.34. Assets Acquired Through Capital Lease

Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. To be considered a capital lease, one or more of the following criteria must be met:

- Transfer of ownership to the lessee at the end of the lease term;
- A bargain purchase option is included within the terms of the lease;
- The lease term is equal to 75% of the estimated economic life of the property;
- The present value of rental and minimum lease payments, excluding executory costs, equals or exceeds 90 percent of the fair value.

If the terms of the lease meet one or more of the conditions of a capital lease, an asset should be recorded based upon the net present value of the lease payments, excluding operation and maintenance costs. The asset should be depreciated over the term of the lease. A corresponding liability should be established at inception of the lease.

Operating leases are leases in which the federal entity does not assume the risks of ownership of Property, Plant and Equipment. Multi-year service contracts and multi-year purchase agreements for expendable commodities are not capital leases. The cost of an operating lease is expensed as lease costs are incurred.

7.35 Improvements

Improvements to an asset that extend the functionality or useful life should be capitalized and amortized over the remaining useful life of the asset. If the addition of improvement costs would cause an expendable property, previously not capitalized, to meet the capitalization threshold, then the accountable property should be recognized as an asset at the revised historical cost (original historical cost, plus addition of improvement costs) and depreciation expense and associated accumulated depreciation should be recognized in the year of the improvement as though the item had been considered an asset from inception.

7.36. Useful Life Assumptions

HHS primarily follows the American Hospital Association; Estimated Useful Lives of Depreciable Hospital Assets (2004) and Internal Revenue Service; Publication 946, Table B-1 guidance to determine the useful life of an asset. If a significant enhancement extends the useful life of an asset, the useful life should be adjusted in the subsidiary property records, and depreciation should be calculated based upon the revised net book value, over the remaining useful life of the asset. If physical wear and tear or technological change would reduce the time that the property is useful, then the useful life should be changed, and appropriate accounting adjustments should be made to adjust accumulated depreciation based upon the new useful life. Documentation of the rationale and assumptions used when changing the useful life should be retained in permanent files over the remaining life of the asset.

7.37. Date Placed into Service

Property, Plant and Equipment is recognized as an asset at the time that title passes to HHS. Generally, title passes based upon the shipping conditions of the asset. For FOB shipping point, title passes at the time of shipment. For FOB shipping destination, title passes at the point of delivery of the asset to the delivery address. If general PP & E is under construction, it is recorded as construction work in process until it is placed into service and transferred to general Property, Plant and Equipment.

7.38 Removal from Service

When property is no longer in use due to dispositions, functional obsolescence, or other situations where the property is no longer usable, the subsidiary records and associated accounting records should be adjusted. Internal controls, including appropriate approvals before an asset is removed from service, should be followed. Accounting records shall be adjusted to remove the asset and associated accumulated depreciation from the general

ledger. Any difference between the book value of the Property, Plant and Equipment and amounts realized should be recognized as a gain or a loss in the period that the Property, Plant and Equipment is disposed of, retired, or removed from service.

If property is not usable by an OPDIV, property should be made available to other HHS OPDIVs via a transfer-in. If property is not usable within HHS, it may be made available to other Federal agencies. If property is not usable within the Federal government, property may be donated to certain other entities based upon Federal laws and regulations. For further information regarding subsidiary records related to property not in use, refer to the Logistics Manual.

7.4. Subsidiary and General Ledger Records

7.41 Personal Property Subsidiary Records

The Property Management System, or similar subsidiary property management system, includes detailed property records at the transaction level that are summarized with the general ledger accounts. The Accounting Treatment Manual includes scenarios that describe the accounting for property at the summarized transaction level in compliance with the United States Standard General Ledger (USSGL).

Detailed records in support of the general ledger control and sub accounts will be maintained by the property management staff. As a minimum, subsidiary property records will include individual property records and totals by Accountable Organization Segments; Operating Division; and each major grouping of property. Examples include, but are not limited to, furniture and furnishings, and mechanical, technical, medical, scientific and electronic equipment.

Subsidiary property records will contain a unique number that identifies the asset, description of the asset, location, accounting code, acquisition cost, date of acquisition, the estimated useful life, and accumulated depreciation for capitalized items. Additionally, property subsidiary records will be maintained to account for fixed equipment installed in leased real property; property loaned or borrowed or under personal custody; and federally owned property held in custody by a grantee or contractor, to include the name of the custodian and his physical location.

7.42 Real Property Subsidiary Records

Accounts subsidiary to the general ledger control accounts in UFMS will be maintained to show investment in land separately from investment in buildings and other structures. As a minimum, separate control records will be maintained for each Accountable Officer. The comprehensive real property records maintained by the Accountable Officer will be subsidiary to the general ledger control accounts. Procedures will provide that controlled real property vouchers, Form HHS-88, which assemble the documents evidencing these

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transactions, will be used to support entries to both the real property records and the general ledger accounts.

The computation of the annual charge for depreciation and maintenance of detailed records are the responsibility of the fiscal accounting office. This office will distribute the computed charges to the related general ledger accounts.

A review of the real property records and reconciliation with the general ledger accounts will be made at least annually to the accuracy of the real property records before the annual real property report is prepared. Any adjustments required updating either the property records, accounts, or both will be documented on a Real Property Voucher

7.5. Depreciation

Depreciation expense for capitalized real and personal property, except for land and land rights of unlimited duration, shall be recognized in the first month that a capitalized asset placed in service using a current month convention. Under generally accepted accounting principles, buildings are depreciated, but land is not depreciated. A consistent depreciation methodology shall be consistently applied, generally the straight line methodology applied to the useful life of the asset. HHS primarily follows the Veterans Administration (VA Catalog No. 3, Section V) Non-Expendable Items Tables or Internal Revenue Service guidance to determine the useful life of an asset.

For personal property, depreciation expense, and a corresponding entry to the contra-asset account accumulated depreciation, will be recorded monthly at the individual asset level within the subsidiary property system, and will be entered in the general ledger at a summarized level. Calculation of depreciation expense may be computed using a composite or group methodology for categories of assets acquired during the same fiscal year, using a half-year convention and straight line methodology. Real property depreciation is recorded quarterly and entered in the general ledger at a summarized level.

7.6. Physical Inventories

The physical inventory of both capitalized and non-capitalized property is the responsibility of the OPDIV Property Management Officer, to be conducted in accordance with policy described in the Logistics Manual. The physical inventory is necessary to verify the accuracy of the property management records and must be reconciled to the amounts recorded in the general ledger accounts. Capitalized nonexpendable property shall be inventoried annually, including all high risk and sensitive property, regardless of dollar value.

7.7. Reconciliation and Adjustment

The subsidiary property records and the general ledger accounts will be reconciled at least quarterly in accordance with reconciliation policy. The subsidiary property records and the general ledger accounts will subsequently be reconciled to the results of the annual physical inventory. Differences between the results of the physical inventory, subsidiary property records, and general ledger accounts will be investigated to determine explanations for differences and to ensure timely action when discrepancies exist. Additionally, accounting centers should periodically review operating expense accounts for errors in posting capitalized assets as expenses, or non-capitalized property as an asset. As errors are identified corrections should be made to both the subsidiary records and general ledger accounts.

Both the subsidiary and general ledger records shall be adjusted to agree with physical inventory results. Every effort should be made to identify and locate missing inventory. Differences which are determined to be the error in recording receipts or disposals will be fully documented and corrections shall be made.

With the approval of designated property management and accounting officials, adjustment to the accounts will be made for such differences without Board of Survey action. Shortages, determined to be other than errors in recording receipts or disposals, and damages will be documented with all known facts and be referred to a designated individual or Board of Survey for determination of responsibility. After the determination is made a copy of the determination will be used to adjust the property management records and the fiscal control accounts. If an individual is held personally liable, the fiscal office will set up an account receivable and initiate action to recover the amount of the loss. If pecuniary liability is not established, the loss will be written off by a charge against the appropriate invested capital account or special loss gain account.

7.8. Internal Controls Related to Property

Internal controls related to real and personal property assets include, but are not limited to controls at various phases of the life of the asset, beginning with the requisition request for acquisition of the asset and continuing through until asset disposal or removal occurs. It is the responsibility of the Accountable Officer and property management officials to ensure safeguarding of the physical asset over the period in which it is utilized. It is the responsibility of the Accounting Centers and receiving offices to ensure that the financial records properly reflect the ownership of HHS real and personal property assets. Examples of internal controls surrounding the physical custodianship and financial accounting are described in Appendix 2.

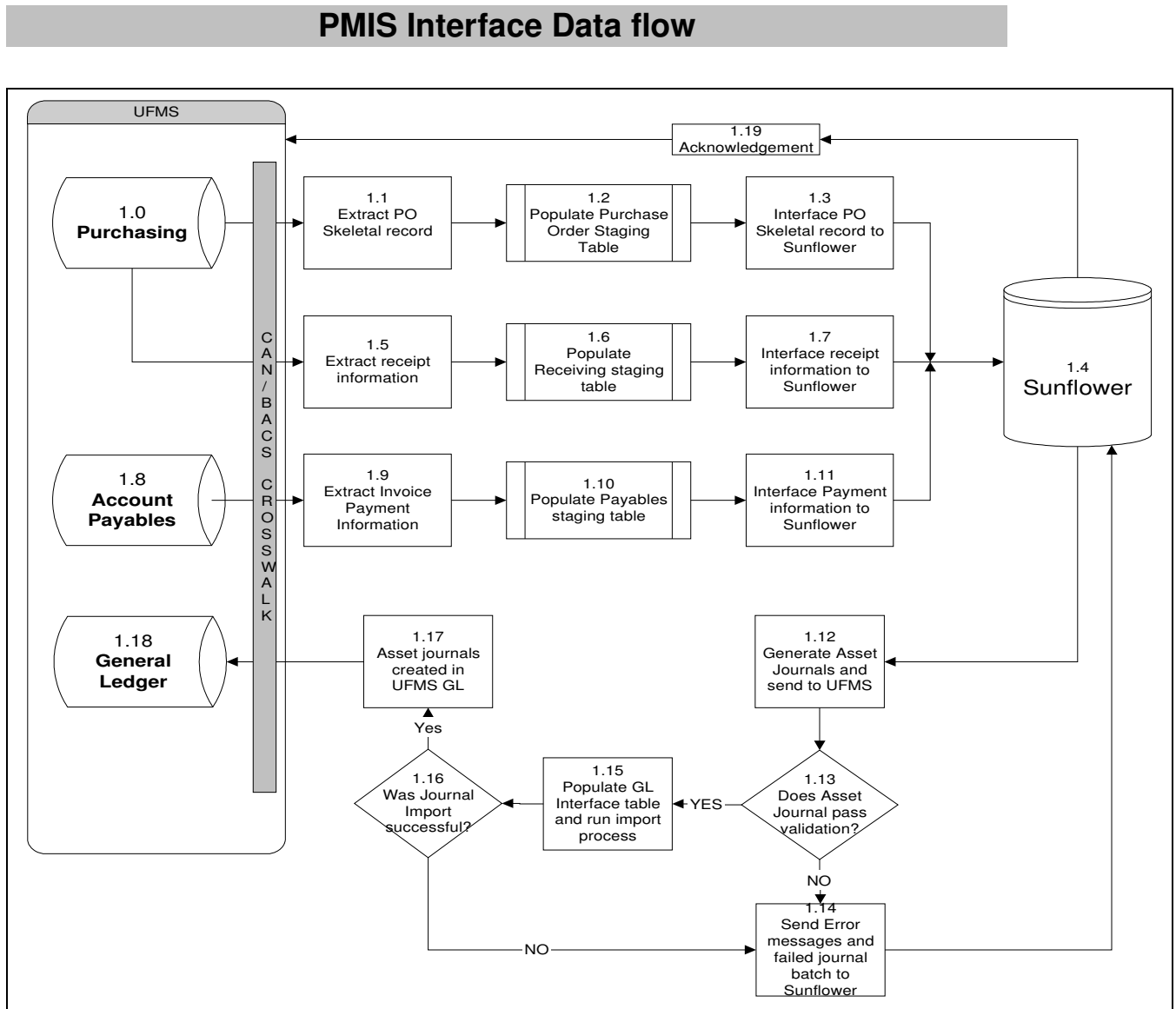
8.0. Definitions

Definitions for terms used in this policy are included in Appendix 4, Glossary.

Appendix 1 – Flowchart and PMIS Process

The following diagram depicts the detailed functional data flow of personal property activity from UFMS to Sunflower and vice versa. A detailed technical data flow (included processing steps and failure junctures) is also provided.

Please see the flowchart below.



Detailed Data Flow Processing Steps:

- a. Personal property purchase orders shall be created/interfaced to UFMS Purchasing as quantity based obligations. Purchase orders can be setup as 2-way or 3-way matched documents.
- b. The PMIS Outbound interface shall extract purchase order records where the object class is in the 31XXX series. Shipping and installation costs shall also be extracted if the object class value is 22403 and 25240.
- c. Once the PMIS outbound interface extracts personal property purchase orders, they are placed in a custom purchasing staging table from which a pipe 'l' delimited flat file shall be created for Sunflower.
- d. The pipe 'l' delimited flat file is created and sent to Sunflower. The flat file name shall be unique to the HHS OPDIV.
- e. Sunflower shall retrieve all PMIS flat files from the direct Production drop box on a nightly basis.
- f. Receiving shall be performed in either a feeder system like PRISM or in UFMS. Once the receiving record is available in UFMS, the PMIS interface shall extract receipt information and send to Sunflower. Sunflower shall use the receipt date of the asset as the date placed-in-service unless a post-receipt date is subsequently chosen by the user.
- g. The PMIS Outbound interface shall place the receipt information in the custom receiving staging table from which a pipe 'l' delimited flat file shall be created for Sunflower.
- h. The pipe 'l' delimited flat file is created for the receipts and sent to Sunflower. The receipt flat file shall also have the purchase order number and the number of items received.
- i. The credit card invoice payment information is fed into UFMS Payables by the MACCS or P-Card system. These credit card payments are created in UFMS as clearing payments. The PMIS interface shall extract invoice payment information for only 2-way matched obligations.
- j. The PMIS Outbound interface shall extract invoice payment records where the object class is in the 31XXX series. The majority of the personal property purchased via credit cards shall be expensed (based upon the dollar limit on credit card purchases).
- k. The PMIS Outbound interface shall place the payment information in the custom payables staging table from which a pipe 'l' delimited flat file shall be created for Sunflower.
- l. The flat file is created for the payments and sent to Sunflower. The payments flat file shall also have the purchase order number. Sunflower shall use the quantity

- and amount on the purchase order and compare it to the payment amount to determine the quantity paid on the invoice.
- m. At the end of the period (monthly), Sunflower shall generate asset journal entries and send the summary journal entries to UFMS.
 - n. The PMIS interface shall perform a pre-validation of the asset journal entries sent to ensure that the records can be populated in the GL interface table. All the required columns (CAN, Object class, Fiscal Year, USSGL Account, Amount, debit and credit accounts) shall be verified.
 - o. If an error exists when running the pre-validation, the PMIS Inbound interface shall send an error message to Sunflower including the failed journal batch. Sunflower shall resend a corrected batch to UFMS.
 - p. If the asset journal entry records pass pre-validation by the PMIS interface, the records shall be inserted into the GL interface table and the standard Oracle GL import process shall be run.
 - q. If journal import is successful, the asset journals shall be created in UFMS.
 - r. Asset journals are created in UFMS General Ledger as unposted journals. The following journals shall be sent from Sunflower: Addition, Adjustments, Reclassification, Transfers, Retirements, and Depreciation.
 - s. Prior to the UFMS General Ledger closing for the period, all unposted asset journals shall be posted. The trial balance can also be run to reflect the asset balances.
 - t. Prior period adjustments shall be recorded in the PMIS interface against SGL 610001 (Historically, SGL 740001 was used to reclassify items per the design of the interface).
 - u. An acknowledgement shall be sent back to UFMS from Sunflower on successful processing or failure to process the data files sent by the PMIS interface.

Appendix 2 – Example of Personal Property Management Control Review Guideline

Accountability and Capitalization

Control Objective: Personal property accountability is maintained in accordance with the Logistics Manual and the Financial Accounting Manual. The property accountability records shall reflect transactions affecting HHS's investment in personal property. In addition, the accountability records shall reflect transfer-in or transfer-out property valuations. For capitalized personal property, it is necessary to maintain both a general ledger account and a personal property accountability record. The total value of personal property reflected in each of these records is reconciled at least quarterly and upon completion of annual physical inventories. All HHS personal property has a property decal with a unique identifier that indicates that the property is owned by HHS.

Control Techniques:

1. Obtain inventory listing of personal property on hand at site being reviewed.
2. Are personal property records in agreement with the personal property on hand?
3. Has all system controlled personal property been identified with a property number?
4. Are acquisition documents routed through the personal property office for verification of object class?
5. Do the system controlled records indicate directly or indirectly the Custodial Officer?
6. How are entries made to system controlled personal property records (on-line by field, on-line by regional office, transmit to central location or entry, or other)?
7. Provide information on supporting evidence which verifies that acceptable system-controlled records are maintained for both capitalized personal property and personal property below the capitalization threshold.
8. Are capitalized personal property records reconciled with the general ledger account? (Review process and past reconciliations.)
9. Who performs the reconciliation function?
10. How frequent is the reconciliation?
11. How is the reconciliation performed? (Provide a copy of documented instructions.)

Sensitive Personal Property

Firearms have been identified by Personal Property Management as sensitive personal property and must be controlled in accordance with Departmental regulations.

Control Objective: Sensitive and bureau-managed personal property is controlled, regardless of value, by detailed accountability records and is classified as such because of its high probability of theft or misuse; or its susceptibility to pilferage, theft or misappropriation.

Control Techniques:

1. How is sensitive personal property controlled? (Review controls.)
2. Are hand receipts on file for all individual issues of firearms which indicate the name of the individual and the serial number and personal property number of the weapons? (Sight verify.)
3. Are procedures in effect to ensure that firearms are turned in prior to transfer or separation of employees? (Review procedures.)
4. Does the personal property record reflect the transfer of the weapon within the organization? (Review records.)
5. Are weapons marked for property identification? (Sight verify.)
6. If weapons are seized, how are they controlled during custody? Is a custodial officer assigned for seized weapons? (Review process.)
7. How are confiscated and Government-owned weapons disposed of? (Review process.)
8. What actions have been taken to ensure the physical safeguarding of all firearms, lockbox, secure storeroom, safe, etc.? (Inspect.)

Physical Property Issuance and Physical Inventories

Control Objective: Physical inventories are conducted in accordance with Departmental policy.

1. How frequently are inventories conducted? (Spot check completed inventories.)
2. Who conducts the inventories? (Inventory team, personal property staff, Accountable/custodial officers, etc.)
3. Describe any differences noted between items listed on the personal property records and located during the inventory. (Determine if patterns exist and corrective action taken.)
4. Does the organization utilize bar coding for conducting the physical inventories?
5. Has all system controlled personal property been identified with a numbered property decal? (Sight verify.)
6. Is all other personal property marked as U.S. Government property? (Sight verify.)

7. Are receipts for property used when personal property is issued? (Sight verify.)
8. Is personal property assigned to employees inventoried at time of employee transfer or separation? (Review documentation and process.)

Receipt of Personal Property

Control Objective: Policies and basic requirement for properly documenting the receipt of personal property and services are followed as prescribed by Departmental policy.

Control Techniques:

1. Have Receiving Officers (designated officials) been established? (How?)
2. Are copies of acquisition documents provided to the Receiving Officer to establish “due-in” personal property (Sight verify.)
3. Are partial and final receiving reports prepared? (Sight verify.)
4. Are receiving reports forwarded to the accounting center in a timely fashion?
5. Have Receiving Officers (designated officials) been notified in writing that they are accountable for the personal property until it is assigned to another authorized employee and can be held financially responsible for missing/damaged/destroyed personal property if negligence is a factor in such loss or damage?
6. Are shortage, defects, damages by carrier/vendor verified and claims submitted as appropriate? (Sight verify.)

Motor Vehicles

Control Objective: The OPDIV is in compliance with Departmental policies and procedures related to motor vehicles.

Control Techniques:

1. Are motor vehicles assigned to the organization listed on the personal property records? (Verify on-site vehicles with inventory listing.)
2. How many total vehicles do you have?
 - a. Number of HHS-owned vehicles?
 - b. Number of GSA-owned vehicles?
 - c. Number of leased vehicles?
 - d. Other?
2. Are mandated requirements considered during HHS vehicle acquisition planning?
3. Is vehicle operator records maintained on motor vehicles and other motorized equipment?

4. What actions are taken for vehicles not meeting the annual mileage/hours/usage standards? (Review actions.)
5. Are high-use vehicles rotated whenever possible? (Review process.)
6. Are vehicles “pooled” during the off season? (Review process.)
7. Is motorized equipment, which fails to meet minimum utilization standards, considered for transfer or disposal without replacement? (Review process.)
8. Is there a preventive maintenance program established? If yes, is it being adhered to? (Review records or logs.)
9. What maintenance facilities are available? Does the OPDIV/STAFFDIV maintain vehicles or are they maintained under contract?
10. Are separate maintenance records kept for each vehicle and heavy equipment? (Review records.)
11. Are any motor vehicles domiciled? Is this usage justified and approved? (Review approvals.)
12. When GSA commercial contractors are not used, what method is used to obtain leased vehicles (Review process.)
13. How are vehicles protected from unauthorized use, damage, or pilferage?
14. Are personal property controls in effect to prevent misuse of funds? (Review controls.)

Utilization and Disposal

Control Objective: Utilization and disposal of personal property is in accordance with policies and methods as prescribed by 41 CFR, Chapter 101, Subchapter H, Part 101-43.

Control Techniques:

1. Is excess personal property identified and reported on a timely basis on a SF-120 to GSA?
2. Are excess personal property listings used as a first source of supply?
3. Are excess personal property listings/reports routinely reviewed? By whom?
4. Does the site handle lost and found personal property?
 - a. If yes, who is responsible for the care and handling?
 - b. What action is taken with lost and found personal property?
 - c. Are procedures in place for disposition?
2. When equipment reaches age/miles/hours requirements, is an analysis made of repair costs to determine economy of repair?
3. Are miles or hours recorded on equipment utilization records?
4. Are periodic follow-ups made on excess personal property reported to GSA to ensure disposal actions are complete?
5. Identify any specific problems related to GSA disposals. Is timely action taken by GSA to dispose of personal property?

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6. Is unneeded personal property promptly identified and reported as available excess?
7. Is replaced personal property immediately reported as excess upon receipt of the new replacement item? (Compare receipts with excess reports.)
8. What procedures are followed in the disposal of excess electronic office equipment (i.e., computers, monitors, copiers, cell phones, etc.)? (Review procedures.)
9. Does the site utilize the Computers for Learning website for the donation of computers? (Verify on-line.)
10. What steps are taken for the disposal of unwanted surplus computers? (Review process, ensure that sensitive information is removed prior to disposal in accordance with CIO policy)

Appendix 3, Example of Property Reconciliation

Subsidiary Report to Aid with Reconciliation:

Asset Category	Beginning Balance*	Additions	Deletions	Ending Balance*
Land & Land Rights	50	0	0	50
Construction in Progress	737	525	-737	525
Buildings, Facilities & Other Structures	4,419	737	-400	4,756
Equipment	1,140	200	-100	1,240
Internal Use Software	1,116	500	0	1,616
Assets under Capital Lease	140	100	-50	190
Leasehold Improvements	43	100	-20	123
Total	7,645	2,162	1,307	8,500

Reconciliation Example:

Capitalized Balance per Subsidiary System	\$8,300
Capitalized Balance per General Ledger (itemize amount by account)	<u>\$8,500</u>
Difference	(\$ 200)

Explanation of Differences**:

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Variances between purchase orders and payment	\$100
Expendable Property recorded as a capitalized asset	(25)
Non-expendable property recorded as an expense	35
Timing difference – amounts not recorded in the general ledger	\$150
Deletions not recorded in the general ledger	<u>-60</u>
Total Differences explained	\$200

*Recorded as historical cost

**Indicate in explanation or footnote whether these amounts will be adjusted in the general ledger or subsidiary record to synchronize the GL to the subsidiary record.

Appendix 4, Glossary of Terms

Accountability: An obligation imposed by law, administrative order, or regulation, upon officials of an agency, to render an accounting to another official for funds or property entrusted to him/her, whether agency owned, leased or acquired by loan from any source through the maintenance of records and submission of prescribed reports. Accountability also includes the responsibility for the custody, use, care, and safekeeping of property.

Board of Survey: A committee consisting of three to five officials and/or employees appointed to make inquiries into the circumstances of a shortage, loss, damage, destruction or cannibalization of property. The Board reports its findings and recommendations to the determining authority.

Capitalization: The assignment of dollar values to property for the purposes of reflecting such values on property accountability records and general ledger asset accounts. To be capitalized, the historical cost of the property must meet the HHS capitalization threshold and capitalization criteria: (1) An item is complete within itself and is not consumed; (2) It does not lose its identity by reason of being incorporated into another item of property; (3) It has a useful life of two or more years without material impairment of its physical condition.

Capital Lease: Leases that transfer substantially all the benefits and risks of ownership to the lessee. A capital lease must meet one or more of the following criteria: (1) transfer of ownership to the lessee at the end of the lease term; (2) a bargain purchase option; (3) the lease term is equal to 75% of the estimated economic life of the property; (4) the present value of rental and minimum lease payments, excluding executory costs, equals or exceeds 90 percent of the fair value. Leases that do not meet one or more of the criteria for a capital lease are categorized as operating leases. See Operating Lease.

Expendable Property: Property which does not meet the definition for capitalized equipment, is of relatively low dollar value, is consumed in the performance of an agency function, or is incorporated into the end item. Also referred to as a "consumable item."

Federal Mission PP & E: PP & E exhibiting special characteristics, such as heritage assets or stewardship land.

General Ledger: A fiscal record maintained that reflects the dollar values of assets on hand. The general ledger is the primary record against which all other property financial records are balanced.

General PP & E: PP & E used to provide general government goods or services. It includes PP & E that could be used for alternative purposes or could be used by comparable entities.

Heritage Assets: assets possessing special educational, cultural, or natural characteristics.

Inventory Adjustment: Changes made to the official accountable property records when physical counts and records do not agree.

Inventory (Noun): Assets belonging to an organization. Also, a complete record of all personal property assigned to an organization, whether or not such property is in use. It includes nomenclature, serial and model numbers, decal number, location, acquisition cost and other descriptive information. Inventory is a short-term asset for financial accounting purposes.

Leased Personal Property: Property acquired from a vendor for a specified period which the Government has the right to use but does not own. At the end of the lease period the property is surrendered to the vendor.

Non-Expendable Property: Categories of property which are carried as assets on property control records and the HHS General Ledger account.

Operating Lease: a lease that does not meet one or more of the criteria for a capital lease. Operating leases are expensed as payments are incurred. See Capital Lease.

Personal Custody Property: Property which is less than the current accountability criteria, but which must be accounted for in property records during its useful life. Included are items, regardless of cost, which are issued for the exclusive use of an employee or a unit and by their very nature are considered sensitive and accountable. Included under this definition are all items of accountable property used by personnel while in travel status. Employees must sign for the receipt of this property and are personally responsible for it.

Property Management Officer: This individual is responsible for directing an effective personal property system, including: Property accountability, inventory, utilization and reutilization, declaration of excess property, and rehabilitation.

Property, Plant & Equipment (PP & E): Tangible assets that have a useful life of 2 or more years; are not intended for sale in the normal course of business; are intended for use or available for use by the entity.

Pecuniary Liability: A personal, joint, or corporate monetary obligation to make good any lost, damaged, or destroyed property resulting from fault or neglect. It may also result under conditions stipulated in a contract or bond.

Stewardship Land: land other than that included in general PP & E.