
Office of Inspector General
Audit Report

Valuation of Vessels and Aircraft
U.S. Coast Guard

Report Number: FE-1999-075

Date Issued: March 24, 1999





Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Subject: **ACTION: Report on Valuation of Vessels and Aircraft**
U. S. Coast Guard, FE-1999-075

Date: March 24, 1999

From: John L. Meche
Deputy Assistant Inspector General for Financial,
Economic, and Information Technology

Reply To
Attn Of: Meche:x61496

To: Chief of Staff
U. S. Coast Guard

This report presents the results of our audit on the valuation of Coast Guard's vessels and aircraft. Our objective was to determine whether the Coast Guard's vessel and aircraft assets were on-hand and reported at their current book value. Book value represents the purchase price, less an allowance for "wear and tear" since purchase (commonly called depreciation). This audit was performed in conjunction with our Chief Financial Officer Act responsibilities to opine on the Department of Transportation's Consolidated Financial Statements for Fiscal Year (FY) 1998.

RESULTS-IN-BRIEF

As of September 30, 1998, the Coast Guard reported the value of its 243 vessels at \$1.7 billion, and 209 aircraft at \$786 million. These values represent the acquisition and major improvement costs, less depreciation, of these assets. In some cases, documentation to support accounting information was not available because assets were old and records were not retained. Therefore, we used other sources of information (including Congressional testimony, appropriation and budget data, and project manager records) to assure ourselves that reported values were fair and reasonable. We also obtained information from sources outside the Coast Guard. For two types of aircraft, we obtained cost information from other customers who purchased the same aircraft. For example, the amount recorded in Coast Guard records for the HC-130 aircraft was within five percent of the price paid for the same type of aircraft by the Air Force. In our opinion, the values presented by Coast Guard, and reflected in its financial statements for its vessels and aircraft, are fair and reasonable.

BACKGROUND

The Statement of Federal Financial Accounting Standards Number 6 states that property, plant, and equipment should be recorded at historical cost, less depreciation. If historical cost information has not been maintained, estimates are required. Estimates shall be based on (1) cost of similar assets at the time of acquisition, or (2) current cost of similar assets deflated for inflation to approximate the cost at acquisition. Coast Guard did not retain complete documentation to support the value of its vessels and aircraft. Most of these assets are old, and records supporting historical cost either did not exist or were difficult to locate.

With the exception of 12 new vessels delivered since October 1, 1994, the average Coast Guard vessel is 30 years old and is substantially depreciated. Most of the reported value for vessels is the buoy tender and patrol boat replacement programs, the 270-and 110-foot vessels acquired during the 1980s, and major improvement programs to older vessels.

Coast Guard's aircraft fleet primarily consists of four types of aircraft, including the HU-25 Falcon jet, HC-130 Hercules turboprop, and HH-65 Dolphin and HH-60 Jayhawk helicopters. About 94 percent of the reported value for aircraft is related to the HC-130 turboprop and the two helicopters.

SCOPE AND METHODOLOGY

Our audit covered Coast Guard's vessel and aircraft assets as of September 30, 1998. To test for valuation, we reviewed (1) contracting records, (2) amounts and commissioning dates reported in financial records, (3) contract costs from accounting systems, (4) project manager records, (5) budget documents, and (6) prior Office of Inspector General (OIG) audit reports on major vessel and aircraft programs. We also tested depreciation calculations to ensure the process was acceptable, and accurate values were reported on the financial statements.

To test for existence, we reviewed disposal records and requested that the Assistant Commandant for Operations certify ownership of reported vessels and aircraft. We also made site visits to 11 vessels, the Coast Guard Yard and the Aircraft Repair and Supply Center to ensure existence. To test for completeness, we identified all capital projects included in Coast Guard's appropriations for the past 4 fiscal years, and traced the delivery of these assets to the property records.

We did not audit the construction-in-progress accounts since the Coast Guard is developing a new system to capture these costs. We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller

General of the United States. We performed the work between June and December 1998 at Coast Guard Headquarters in Washington D.C. and selected sites.

ANALYSES AND RESULTS

On December 2, 1996, the Department's Chief Financial Officer issued a policy statement advising the Operating Administrations to use alternative procedures to value assets acquired prior to October 1, 1994. Actual documentation must be available for purchases occurring after this date.

For the two buoy tender and patrol boat replacement programs, we reviewed contract documentation and accumulated expenses recorded in the Departmental Accounting and Financial Information System. For the 270-foot cutters, we reviewed contract data establishing final pricing for 9 of 13 vessels. Based on the contract information, we concluded the values of the other four vessels were reasonable. For the 110-foot patrol boat, we reviewed an OIG audit report identifying total cost of the program. We compared the program cost information to the cost of the new 87-foot patrol boats and concluded the costs reported for 110-foot patrol boats were reasonable. For the major improvement programs, we reviewed program costs, cost reports, Congressional testimony, and appropriation and budget data. We also reviewed prior OIG audit reports for the service life extension and the major maintenance availability programs that identified actual costs.

For the HC-130 aircraft, we compared Air Force costs to the cost reported by Coast Guard. For the Jayhawk helicopters, we reviewed unit costs identified in Congressional testimony and appropriation history. For the Dolphin helicopters, we reviewed a prior OIG report and compared total program costs identified in the audit report to the unit cost reported by Coast Guard. We also compared the Coast Guard recorded amount to the amount paid by the Maryland State Police to acquire a similar aircraft. In our opinion, the amounts reported by the Coast Guard as of September 30, 1998, for its vessels and aircraft are fair and reasonable.

ACTION REQUIRED

Since corrective actions were completed during the audit, no response is required. We appreciate the courtesies and cooperation of Coast Guard representatives. If you have questions, please call me at (202) 366-1496, or Harry Fitzkee at (410) 962-3612.

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