

March 26, 2004



Financial Management

Controls Over U.S. Army Corps of
Engineers Buildings and Other
Structures (D-2004-063)

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Acronyms

CEFMS	Corps of Engineers Financial Management System
COEMIS	Corps of Engineers Management Information System
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
PP&E	Property, Plant, and Equipment
REMIS	Real Estate Management Information System
RPAO	Real Property Accountable Officer
SFFAS	Statement of Federal Financial Accounting Standards
USACE	U.S. Army Corps of Engineers
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer



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March 26, 2004

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Controls Over U.S. Army Corps of Engineers Buildings and Other Structures (Report No. D-2004-063)

We are providing this report for your information and use. The audit was performed to meet the requirements of Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. We considered management comments on the draft of this report when preparing the final report. The U.S. Army Corps of Engineers comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Barbara A. Sauls (703) 604-9129 (DSN 664-9129) or Mr. Carmelo G. Ventimiglia at (317) 510-3855 (DSN 699-3855). See Appendix F for the report distribution. The team members are listed inside the back cover.

A handwritten signature in black ink, reading "Paul J. Granetto", is positioned above the typed name.

Paul J. Granetto, CPA
Director
Defense Financial Auditing
Service

Office of the Inspector General of the Department of Defense

Report No. D-2004-063

March 26, 2004

(Project No. D2003FI-0044)

Controls Over U.S. Army Corps of Engineers Buildings and Other Structures

Executive Summary

Who Should Read This Report and Why? U.S. Army Corps of Engineers personnel responsible for the financial reporting and accountability of buildings and other structures should read this report about controls needed to support the financial reporting of buildings and other structures.

Background. The audit was performed in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. The Inspector General of the Department of Defense is required to audit the annual financial statements of DoD activities. This report is a result of work performed in support of agreed-upon procedures to establish beginning balances for the audit of the U.S. Army Corps of Engineers Civil Works FY 2003 Financial Statements.

General Property, Plant, and Equipment was the largest category of assets reported on the U.S. Army Corps of Engineers Civil Works FY 2002 Financial Statements. Buildings and other structures comprised \$18.0 billion of the \$36.9 billion reported as General Property, Plant, and Equipment. Between October 1, 1999, and September 30, 2002, the net book cost of buildings and other structures increased by about \$610.2 million. Buildings and other structures include all buildings, structures, and other facilities affixed to U.S. Army Corps of Engineers land in the continental United States, Alaska, and Hawaii.

Results. Sufficient controls were not in place to ensure that 95 percent (5,470) of the 5,758 buildings and other structures, with a change made to book cost between October 1, 1999, and September 30, 2002, were valued correctly on the U.S. Army Corps of Engineers Civil Works FY 2002 Financial Statements. Specifically, the placed-in-service and retirement dates were often unsupported or improperly established in the Corps of Engineers Financial Management System, “useful life” of the buildings and other structures was not always established in accordance with Engineer Regulation 37-2-10, “Financial Administration – Accounting and Reporting, Civil Works Activities,” and book costs of buildings and other structures were frequently not supported by sufficient third party documents. As a result, the U.S. Army Corps of Engineers has a high-risk control environment that may result in a material misstatement of the Civil Works financial statements. Standardized procedures for documenting and reporting financial events affecting the valuation of U.S. Army Corps of Engineers buildings and other structures, along with training U.S. Army Corps of Engineers personnel to follow the procedures, are critical to providing timely, accurate data for financial statements (finding A).

The U.S. Army Corps of Engineers established a zero-dollar capitalization threshold for buildings and other structures that was unreasonably low and did not comply with DoD policy. The low dollar threshold created an unnecessary and costly workload at district offices and contributed to weaknesses in the controls over buildings and other structures. The U.S. Army Corps of Engineers decision on August 12, 2003, to increase the capitalization threshold to \$25,000 for buildings and other structures needs to be supported by a detailed cost analysis, and must be approved by the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The U.S. Army Corps of Engineers should also update policy guidance for implementing the new capitalization threshold and ensure that the assets removed from financial accountability were properly valued (finding B).

Controls at district offices did not ensure that computer data systems access was properly controlled, and that information in the systems was complete and accurate. As a result, the amounts recorded for buildings and other structures in the U.S. Army Corps of Engineers Civil Works FY 2002 Financial Statements were misstated. In addition, the U.S. Army Corps of Engineers had limited assurance that buildings and other structures would be fairly stated in the FY 2003 financial statements. The U.S. Army Corps of Engineers should review systems access, perform and resolve problems identified during physical inventories, implement proper fiscal year closeout procedures, and standardize methods for classifying and recording buildings and other structures (finding C). See the Findings section for the detailed recommendations.

Management Actions and Comments. During the audit, the U.S. Army Corps of Engineers reemphasized and clarified some of its policies and increased the capitalization threshold for buildings and other structures (see findings A and B for a complete discussion of the management actions). In comments on this report, the Commander of the U.S. Army Corps of Engineers concurred with all of the findings and recommendations and agreed to implement all of the recommendations.

Table of Contents

Executive Summary	i
Background	1
Objective	2
Findings	
A. Controls Over Buildings and Other Structures	3
B. Capitalization Threshold	14
C. Other Control Issues	19
Appendixes	
A. Scope and Methodology	28
Management Control Program Review	29
Prior Coverage	30
B. Glossary	31
C. Accounting Guidance for Real Property Assets	32
D. Statistical Sampling Methodology	35
E. Buildings and Other Structures Cycle	37
F. Report Distribution	41
Management Comments	
U. S. Army Corps of Engineers	43

Background

The audit was performed in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. The U.S. Army Corps of Engineers (USACE) Civil Works reports General Property, Plant, and Equipment (PP&E) as an asset line item on the balance sheet. For FY 2002, the net book value of PP&E was \$36.9 billion. Buildings and other structures¹ comprised \$18.0 billion of the total PP&E. The net book value represents the difference between the historical book cost and the accumulated depreciation of the assets. As of September 30, 2002, USACE had about 57,500 structures located in the continental United States, Alaska, and Hawaii. See Appendix B for a glossary of terms used throughout the report.

Generally Accepted Accounting Principles (GAAP). GAAP requires that expenses be recorded in the same accounting period as the revenue they helped to earn. GAAP further states that structures should be recorded at acquisition cost, including all costs necessary to bring the asset to its location in working condition. That cost, less salvage value, should be depreciated over the estimated useful life of the structure. Structures approved for disposal should be reclassified in general ledger accounts and reported at the lower of their book value or fair market value, less costs to sell.

Accounting for Property, Plant, and Equipment. Statement of Federal Financial Accounting Standards (SFFAS) No. 6, “Accounting for Property, Plant, and Equipment,” June 1996, contains accounting standards for federally owned PP&E. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, “Accounting Policies and Procedures,” chapter 6, “Property, Plant and Equipment,” August 2000, provides the DoD accounting policies for PP&E. See Appendix C for detailed accounting guidance related to structures.

The Period Under Review. USACE has long-standing issues related to the proper reporting of structures. Specifically, USACE has been unable to provide adequate independent documentation to support the recorded book cost of structures that were placed in service prior to the implementation of the Corps of Engineers Financial Management System (CEFMS). We held a meeting with the General Accounting Office (GAO) on November 1, 2002, to discuss an approach for reviewing and accepting the support for the recorded book costs for USACE structures. The GAO agreed that internally-generated documentation would be acceptable support for structures provided that CEFMS could accurately and consistently capture, track, and report the post-FY 1998 additions, deletions, and other changes to the structures accounts. However, USACE could not support the trial balance for structures as of September 30, 1998, because CEFMS was not fully implemented at all USACE districts until the end of FY 1999. In February 2003, after consulting GAO and reconciling the trial balances for

¹In this report, the term “structures” implies inclusion of “buildings and other structures,” unless otherwise specified.

structures with detailed CEFMS information, we modified our audit scope and began reviewing changes made to structures since October 1, 1999. Some of the changes affected structures that were placed in service before October 1, 1999.

Objective

Our audit objective was to determine whether proper controls were in place to ensure the reliability of changes made to the USACE Civil Works structures accounts during FYs 2000 through 2002. USACE was unable to provide audit-ready evidential matter in time for us to complete the audit of the USACE Civil Works FY 2002 Financial Statements. Therefore, we continued the audit in accordance with agreed-upon procedures to try to establish beginning balances for the FY 2003 financial statements. See Appendix A for a discussion of the scope and methodology, our review of the management control program, and prior coverage related to the objective.

A. Controls Over Buildings and Other Structures

Sufficient controls were not in place to ensure that 5,470 of the 5,758 (95 percent) buildings and other structures, with a change made to book cost between October 1, 1999, and September 30, 2002, were valued correctly on the U.S. Army Corps of Engineers Civil Works FY 2002 Financial Statements. Specifically:

- the placed-in-service and retirement dates were often unsupported or improperly established in CEFMS,
- useful lives were not always established in accordance with Engineer Regulation 37-2-10, and
- the book cost of structures was frequently not supported by sufficient third party documents.

Controls were weak because USACE guidance was not consistently implemented and strictly enforced. As a result, USACE has a high-risk control environment that may result in a material misstatement of the Civil Works financial statements.

Control Environment

A good control environment ensures that all real property is properly identified, documented, and accurately recorded in the accounting and property systems over the useful lives of the assets. Establishing accurate and supportable balances for structures in CEFMS requires that:

- the date the building or other structure is placed in service is supported by documentation identifying the date the asset was completed and ready for use;
- the prescribed useful life over which the economic benefit of the asset is realized is consistently established;
- the costs to acquire and bring an asset to the condition required for USACE use are identified, fully documented, and maintained; and
- the date the building or other structure is retired is based on the date of proper approval of the retirement actions.

USACE established guidance in several of its regulations for districts and field sites to use in controlling and maintaining accurate balances in CEFMS. Accounting guidance for real property assets is contained in Appendix C.

Sample Methodology

Sample Selection. A statistical sample was performed to determine whether sufficient controls were in place and operating to capture, track, and maintain the CEFMS balances for structures. We obtained a population of 5,758 structures, with a book cost of \$8.7 billion, that had a change made to recorded book cost between October 1, 1999, and September 30, 2002. Each building and structure was identified in the population using a distinct property identification code. From this population, we selected a sample to test whether specific controls were in place and operating for 80 property identification codes. See Appendix D for the statistical sampling methodology.

Controls Tested. To determine which controls to test, we categorized the sample items as either an addition² or a deletion.³ For the 50 property identification codes classified as additions, we performed tests to determine whether USACE had controls in place to establish the correct placed-in-service date, useful life, and book cost. We performed the following tests.

- We tested whether a properly completed and approved Engineer Form 3013, “Work Order/Completion Report,” existed and supported the placed-in-service date recorded in CEFMS. We also tested whether the date of completion on the Engineer Form 3013⁴ was supported by the corresponding financial transactions in CEFMS.
- We tested whether the established useful life complied with USACE guidance in Engineer Regulation 37-2-10.
- We tested whether the book cost reflected all appropriate costs expended to bring the asset into service. We also determined whether the costs were supported by source documentation. To test this, we reviewed the detailed cost ledgers to assess whether all costs appeared to be captured.

For the 30 property identification codes categorized as deletions, we assessed whether the proper retirement date was established in CEFMS. We determined whether documentation existed to support a determination that the asset no longer served a useful purpose to USACE, and should be retired. We also determined whether an authorized official approved the decision, and whether the retirement date in CEFMS matched the approval date.

²Establishment of a new property identification code in CEFMS, or an existing property identification code that had an increase in book cost.

³Property identification codes that had a reduction in book cost, including those that were retired from service.

⁴A reference to the Engineer Form 3013 includes the actual form and any district office equivalents.

Sample Results

Overall, we are 90 percent confident that for a number of structures, between 5,204 and 5,736, USACE had inadequate controls in place to ensure that the data recorded in CEFMS were accurate. Specifically, we are 90 percent confident that USACE failed to properly support:

- the placed-in-service date recorded in CEFMS for between 2,679 and 3,799 structures,
- the useful life recorded in CEFMS for between 393 and 1,190 structures,
- the book cost recorded in CEFMS for between 2,244 and 3,370 structures, and
- the retirement date recorded in CEFMS for between 1,475 and 2,555 structures.

Some sample items failed more than one control test. See Appendix D, Table D, for additional details on the sampling results.

Placed-in-Service Date. Controls were not in place to ensure that the date an asset was placed in service in CEFMS accurately reflected the date the building or other structure was completed and available for use. USACE had policies on how to place structures in service. Engineer Regulation 37-2-10 required that field site personnel provide the district offices with an Engineer Form 3013 to use as the control document for identifying the date the asset was physically completed and available for use. Structures (including any improvements) need to be placed in service on the proper dates, so that they can be properly depreciated over their useful lives. Personnel placing an asset in service should ensure that the completion date entered on the Engineer Form 3013 accurately reflects the date the asset is physically completed and available for use. If they determine that the date is incorrect, they should annotate the correct date on the Engineer Form 3013, indicate that they made the change, and enter the date in CEFMS.

Results of Control Testing. The sample identified that an incorrect placed-in-service date had been entered in CEFMS for 45 property identification codes. When the 45 control failures are projected over the entire population, 3,239 structures were placed in service with an incorrect placed-in-service date. Appendix D gives details of the sample projections; again, some sample items failed more than one control test. The control testing performed on the 50 sample items showed that:

- An Engineer Form 3013 was not available for 14 items. An additional 2 items had an Engineer Form 3013 that did not contain proper signatures.
- District personnel did not use the date of completion on the Engineer Form 3013 as the placed-in-service date in CEFMS for 30 items.

-
- For 27 sample items, the date in CEFMS was not consistent with the dates of the final financial transactions.

The Engineer Form 3013 was not properly used as a control document for placing all structures in service. This often occurred when the district identified a structure during inventories and district personnel attempted to track down and identify the source documentation needed to place the assets in service, or to determine the fair market value of structures found at the field sites (commonly referred to as a Found on Works asset). In other instances, district personnel incorrectly used the date they processed the Engineer Form 3013 into CEFMS as the placed-in-service date. We observed that district personnel performed only limited reviews to ensure that the date of completion on the Engineer Form 3013 was supportable by corresponding financial transactions.

According to DoD Regulation 7000.14-R, volume 4, chapter 6, depreciation should start on the date the asset is received, as shown on the receiving document, or the date the asset is physically completed and ready for use, regardless if the asset is actually used. Engineer Regulation 37-2-10 states that real property assets should be placed in service no later than the month after receipt of the receiving report. Based on this guidance, we concluded that the placed-in-service date of a structure should occur either when the asset is completed and ready for use, or within 30 days after the final receiving report is dated or another relevant financial transaction occurs, whichever is earlier.

Found on Works Assets. All 13 sample items that were identified as “Found on Works” lacked documentation supporting how their placed-in-service dates were established. USACE policy and a proposed update to Engineer Regulation 405-1-12, “Real Estate Handbook,” require USACE real property found on USACE property during inventories, but not recorded in CEFMS, to be placed in service. However, USACE guidance did not require that an Engineer Form 3013 be used to identify the placed-in-service date. The procedures used by districts to place “Found on Works” assets in service differed between districts and occasionally varied within a district itself. For example, the Tulsa District, Tulsa, Oklahoma, had a Quonset hut that was found at Fort Gibson, Oklahoma on January 12, 2000. District personnel used the day the asset was found as the placed-in-service date. In other cases, districts placed assets in service on the assumed construction date. District personnel should have assessed the age and fair market value of the assets at the time of discovery and documented their determination on an Engineer Form 3013. An Engineer Form 3013 should document both the date the asset was discovered and the date it should be placed in service.

Dates of Completion. District personnel responsible for placing assets in service did not always use the date of completion on the Engineer Form 3013 as the placed-in-service date in CEFMS. Instead, district personnel used the date the authorized individual signed the Engineer Form 3013 or the date the asset was created in CEFMS as the placed-in-service date. Engineer Regulation 37-2-10, chapter 6, requires that the date of actual completion of an asset be provided to the resource management office. District personnel did not follow established guidance because they were inadequately trained and did not understand the requirement, or were careless in entering dates of completion in

CEFMS. Further, USACE had no enforcement mechanism in place to ensure that established procedures were followed.

Final Receiving Reports. District personnel did not routinely check the reasonableness of the completion date on the Engineer Form 3013 to ensure that the proper placed-in-service date was recorded in CEFMS. For 28 sample items, the final receiving report or another related financial transaction was dated from 2 to 634 months before the asset was placed in service. District personnel did not check to ensure that the dates of completion, provided to them for entry of new structures in CEFMS, accurately reflected the completion dates of construction of the structures. A simple check, made by the resource management office, of the date of the last receiving report or other related financial transaction (such as labor charges) would determine if the date of completion closely matched (within 1 month) the transaction date. Upon determining that the date of completion is not reasonable, the individual placing the hypothetical structure in service should annotate on the Engineer Form 3013 the correct date and the reason for the change.

Conclusion. Procedures must be in place to ensure that the date an asset is placed in service reflects the date a building or other structure was physically completed and ready for use. USACE should use the Engineer Form 3013 as a control document for all assets placed in service including those “Found on Works.” USACE should develop procedures to establish and enforce a requirement to validate the dates provided for placing assets in service. An inaccurate placed-in-service date may cause a misstatement in the depreciation charged.

Useful Life. Controls were not in place to ensure that the useful life of an asset was established in CEFMS according to USACE policy. Structures, and related improvements to them, should be depreciated if they have a useful life of 2 years or greater. Engineer Regulation 37-2-10 provided guidance on establishing the useful life for various USACE assets, including structures. However, the guidance was not always followed, was subject to misinterpretation, and was inconsistent with DoD policy. The sample identified that adequate controls were not in place to ensure that the proper useful life was established in CEFMS for 11 sample items. When the 11 control failures are projected over the entire population, 792 structures were placed in service with a useful life that was established differently from Engineer Regulation 37-2-10. Inspector General of the Department of Defense Report No. D-2004-059, “Assets Depreciation Reported on the U.S. Army Corps of Engineers FY 2002 Financial Statements,” March 16, 2004, discusses issues related to the USACE useful life policy.

Book Cost. Controls were not in place to ensure that the book costs of buildings and other structures were accurately established in CEFMS and supported with appropriate source documentation. In order to accurately report the value of buildings and other structures in the USACE Civil Works financial statements, assets must be recorded at full cost which includes all costs incurred to bring the asset to a form and location suitable for its intended use.

Results of Control Testing. Of the 50 property identification codes we tested for proper asset valuation and supporting source documentation, we found that 39 did

not have source documentation supporting the recorded book costs in CEFMS. When the 39 control failures are projected across the population, 2,807 structures were placed in service with improper or unsupported book costs.

Documentation Supporting the Recorded Book Cost. Documentation was not available to support the book cost of most sample items. District personnel could not provide adequate third party documentation to support the recorded book cost of 39 of the 50 sample items. Thirteen sample items classified as Found on Works had little or no documentation supporting how the recorded book costs were determined. For the other 26 sample items, independent source documentation (for instance, invoices, Visa bills, Engineer Form 93) was found for only a portion of the total book cost. Further, we found no consistency in where the documentation supporting the book cost of an asset was maintained. Some districts maintained documentation in files at the district office, while other districts allowed field sites to maintain the documentation. The Mobile District, Mobile, Alabama, used a scanning system that provided an excellent tool to systematically maintain and view documentation supporting the district's structures.

Capturing Appropriate Costs. Limited procedures were in place to ensure that all costs, as specified in SFFAS No. 6, associated with bringing an asset into service were captured before placing the assets in service. None of the 23 districts we visited used a checklist or other method to ensure that all costs associated with placing an asset in service were recorded in CEFMS. Therefore, districts had limited assurance that all costs were captured prior to placing an asset in service. For example, one sample item in the Rock Island District had costs recorded in CEFMS to support the materials purchased for constructing the structure, but did not include labor or other equipment charges needed to construct the structure. At the New Orleans District, New Orleans, Louisiana, the material line of a contract was capitalized as part of the book cost, but the related installation costs were expensed and not included as part of the book cost. In each case, the book cost of the asset was understated. A checklist or other control mechanism should be developed and used to ensure that all costs, as detailed in SFFAS No. 6, have been identified and reported as part of the book cost.

Valuation of Found on Works Assets. Standard procedures were not in place on how to determine and document the fair market value of Found on Works assets. District procedures varied. Some districts used appraisers to assess the fair market value of the Found on Works assets. Other districts relied on lake and site managers to provide a best guess of the value of the structures. We concluded that the valuation of Found on Works assets should depend on when the asset was acquired or constructed.

Pre-Conversion. For assets that existed when USACE converted from the Corps of Engineers Management Information System (COEMIS) to CEFMS, the value of the Found on Works assets should have been part of the value established previously for converted assets. A reassessment of those values may be required. For example at John Martin Reservoir, Colorado, the district discovered 14 campsites that should have been part of the original conversion. The district managers reassessed the book cost of 61 existing assets in order to create a book cost for the 14 discovered campsites. Although this reassessment

appeared appropriate, documentation was not available to show how district personnel determined the book costs for either the 61 existing assets or the 14 campsites until after our visit. Conversely, at other districts, appraisers assessed the fair market value of Found on Works assets and placed them in service without considering whether the assets should have been part of the value established for the converted assets. Therefore, the book cost of total assets may be overstated because the historical cost of these Found on Works assets may already have been erroneously allocated to other converted assets. Additionally, the placed-in-service dates should be adjusted.

Post-Conversion. For assets that did not exist at the time of the conversion, an assessment should be made of the asset's fair market value so that it can be indexed to the date of original construction. The appraised value, less any accumulated depreciation that should have been recorded to date, should be depreciated over any remaining useful life. District personnel were not able to provide us information or documentation for 13 Found on Works assets that indicated a similar methodology was followed. Following our visit, Kansas City District personnel developed a methodology for establishing and supporting the book cost and book value of Found on Works assets.

Review of Additional Costs. Additional costs were often inappropriately added to the book cost of structures after they were placed in service. Each night, USACE ran a CEFMS application titled "CRON" that capitalized any additional costs recorded in the construction-in-progress accounts for asset work items that had previously been placed in service. USACE had no procedures for conducting a detailed review of these costs to ensure that:

- the costs were associated with the property identification code and required capitalization,
- proper source documentation was maintained for the additional capitalized costs, or
- the costs were not actually misclassified expenses.

Procedures for screening costs captured after an asset is placed in service are necessary to ensure that documentation supports the decision to capitalize the additional costs.

Conclusion. USACE policies must ensure that appropriate costs are captured and capitalized and that independent source documentation is maintained for the life of the building or structure. When the acquisition cost cannot be determined, a method of establishing the fair market value must be used and properly documented. Additional costs added to an asset after the placed-in-service date must be screened for validity and proper support. A proposed update to Engineer Regulation 405-1-12, would require consistent procedures for district offices to maintain documentation supporting USACE assets. The regulation should

include procedures for ensuring the proper placed-in-service dates and book costs for Found on Works assets. USACE should also centrally maintain the documentation that supports the recorded book costs of structures.

Retirement Date. Controls were not in place to ensure that the date an asset was retired from service in CEFMS accurately reflected the date the building or other structure was approved for disposal. Twenty-eight of the 30 property identification codes we tested for proper controls over establishing the retirement date had an incorrect retirement date in CEFMS. District offices did not have adequate controls for ensuring that the retirement date in CEFMS accurately reflected the approved date for disposal actions. When the 28 control failures are projected across the population, 2,015 structures were retired in CEFMS improperly.

Results of Control Testing. USACE had issued policy on how to retire structures. The policy required that the district personnel approve requests for disposal actions before retiring assets from service. The retirement process is described in Appendix E. The control testing performed on the 30 sample items, some of which failed more than one control test, showed that:

- 4 items had no documentation available that identified the date the asset was approved for disposal,
- 10 items had no signature or evidence of approval by an authorized official, and
- 21 items had the date of approval and the date of retirement in CEFMS in a different accounting period.

District Procedures. Standard procedures on how to accomplish and document the retirement of structures had not been implemented at the 23 district offices we visited. Visits to the Savannah District, Savannah, Georgia, and Fort Worth District, Fort Worth, Texas, identified structures that were demolished, destroyed, or disposed of without first gaining prior approval from the district office. At districts, including the Kansas City and Mobile Districts, the retirement and disposal actions in CEFMS occurred simultaneously and only after the disposal of the asset had actually occurred. In addition, districts did not consistently document how the retirement dates were established. Some districts, such as St. Louis District, St. Louis, Missouri, and Tulsa District, had detailed procedures that required an approved “finding of fact” be prepared by the real estate division before retiring the asset. The New England District, Concord, Massachusetts, stated that disposal procedures within the district did not exist. Further, district approvals of disposition actions did not always occur timely.

For example, a field activity in the St. Louis District requested disposal of an asset on May 10, 1999, but the district office did not provide approval until September 2000, more than 1 year later. Discussions with district personnel identified that CEFMS did not permit them to enter the actual retirement date of a building or other structure in CEFMS. CEFMS only allowed them to place the current transaction date in the system. Consequently, structures remained in CEFMS and were depreciated long after the building or other structure ceased

providing a useful service. We identified this issue to CEFMS systems personnel who implemented a system change in July 2003 that allows for the entry of the actual retirement date.

Conclusion. Enforceable procedures must be in place to ensure that field activities promptly identify structures that require disposal to the district real estate office. Based on this notification, district personnel need to take timely actions to assess whether disposal actions are required, and grant approval for field activities to take necessary actions. The request for disposal and its approval should be documented. When approval is granted, the building or other structure should be immediately retired in CEFMS and, once final disposal actions occur, the disposal can be recorded in CEFMS.

Corrective Actions

USACE reemphasized and clarified some of its policies regarding structures in a series of updates to information papers it originally issued in June 2003. A proposed update to Engineer Regulation 405-1-12 provides additional detailed guidance. However, more needs to be done to ensure consistency in establishing placed-in-service dates, retaining supporting documentation, and assessing the value of Found on Works assets.

Summary

USACE had issued guidance on how to place buildings or other structures in service, establish their useful life, capture and document their book cost, and retire them from service. However, the procedures were inconsistently followed at district offices and some policy issues needed to be addressed. The control environment at USACE district offices did not ensure that pertinent financial information about the structures could be properly supported and recorded accurately in CEFMS. Controls over the reliability of financial reporting and compliance with applicable guidance did not provide reasonable assurance that misstatements or noncompliance—material in relation to the financial statements—would be prevented or detected. USACE needs to evaluate, update, and consolidate its policies on managing structures to provide consistent accounting procedures for use throughout USACE. Once implemented, appropriate training and enforcement is necessary to provide for an adequate control environment.

Recommendations and Management Comments

A. We recommend that the Chief of Engineers, U.S. Army Corps of Engineers:

1. Evaluate, update, and consolidate policies for managing U.S. Army Corps of Engineers buildings and other structures. Include them in Engineer Regulation 405-1-12, Real Estate Handbook, or develop a separate Engineer Regulation that would be used to enforce standardized procedures for:

a. Preparing and processing accurate Engineer Form 3013s to support the placed-in-service dates of all new buildings and other structures, and significant improvements to them. Emphasize the need for field activities to provide an accurate date of completion that corresponds to the actual date the building or other structure was physically completed.

b. Validating the date of completion of assets to ensure the proper placed-in-service date is established in the Corps of Engineers Financial Management System.

c. Establishing placed-in-service dates for assets that are Found on Works.

d. Identifying, capturing, and centrally maintaining the source documentation (third party and internal) required to support the book cost of the buildings and other structures.

e. Developing a checklist to ensure all costs specified in Statement of Federal Financial Accounting Standards No. 6, that are associated with bringing assets into service, are captured.

f. Reviewing costs that were added to the book cost of the asset after the placed-in-service date to ensure that documentation supports the decision to capitalize the additional costs.

g. Obtaining and documenting disposition approval and disposal actions.

Management Comments. The Commander of USACE concurred and stated that policies and standard procedures for managing buildings and other structures will be updated and consolidated in Engineer Regulation 405-1-12, Real Estate Handbook. The Commander stated that USACE intends to issue the revision to Engineer Regulation 405-1-12 in early FY 2004 as an Engineer Circular for 1 year. As the district offices use it, their comments and suggestions for improvements will be evaluated for possible incorporation in Engineer Regulation 405-1-12. USACE also plans to develop a new CEFMS report that will provide asset managers with the capability to review all costs that have been added to the asset's book cost after the placed-in-service date.

2. Develop and document an appropriate training program that provides district personnel with an understanding of their current asset management responsibilities.

Management Comments. The Commander of USACE concurred and stated that he will direct Regional Business Centers to develop and document a training program to provide district personnel with an understanding of their asset management responsibilities.

3. Perform periodic reviews to ensure that districts enforce the management controls for establishing and maintaining proper data for buildings and other structures in the Corps of Engineers Financial Management System.

Management Comments. The Commander of USACE concurred and stated that the interim update to Engineer Regulation 405-1-12 will require Regional Business Centers to perform and document periodic reviews to ensure that districts enforce management controls for establishing and maintaining proper data for buildings and other structures in CEFMS.

4. Develop a plan for centrally maintaining all third party documentation needed to support the recorded book costs of buildings and other structures. Examine the potential for implementing scanning technology.

Management Comments. The Commander of USACE concurred and stated that Regional Business Centers will be responsible for developing a regional plan for their districts to centrally maintain third party documentation needed to support the recorded book costs of buildings and other structures. The Internal Review Office will validate the existence of the regional plans.

5. Develop a standard methodology and documentation requirement for assessing the fair market value of assets that are placed in service as Found on Works assets.

Management Comments. The Commander of USACE concurred and stated that the USACE Chief Appraiser will work with district appraisers to develop standard methodology and documentation for assessing the fair market value of assets that are placed in service as Found on Works assets.

B. Capitalization Threshold

USACE established a zero-dollar capitalization threshold for buildings and other structures. The threshold was unreasonably low and did not comply with DoD policy. USACE established the zero-dollar capitalization threshold because it believed that Civil Works structures did not need to comply with DoD policy, and compliance with the DoD policy would cause an unnecessary expense to some of its customers. The low dollar threshold created an unnecessary and costly workload at district offices, and contributed to weaknesses in the controls over structures accounts.

Criteria

SFFAS No. 6 allows each Federal entity to establish a capitalization threshold. In March 1998, the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) issued a memorandum on DoD policy for capitalizing real property (excluding land) and set the dollar threshold at \$100,000. Beginning September 21, 1998, USACE undertook an effort to obtain a waiver from this policy for its Civil Works real property assets. A business study dated April 25, 2000, determined that increasing the threshold to \$100,000 would impact the projects and customers, be inconsistent with like entities, and impact structures at locations with Power Marketing Agency assets regulated by the Federal Energy Regulatory Commission. Although a request for waiver was submitted to the USD(C)/CFO, the waiver was never approved. Appendix C identifies accounting guidance for real property assets, including the establishment of a capitalization threshold.

Capitalization of Buildings and Other Structures

Without the approval of the USD(C)/CFO, USACE established a zero-dollar capitalization threshold for all Civil Works structures. USACE districts were required to capitalize each new building and structure as well as all changes to them. Although the DoD threshold of \$100,000 may be too high and would potentially misstate the USACE financial statements, establishment of the zero-dollar threshold adversely impacted district operations and weakened controls. USACE should perform a detailed cost analysis to select the best dollar threshold for use in reporting Civil Works assets, and obtain a written waiver to DoD policy.

Problems With the Zero-Dollar Threshold. The need to identify, classify, and capitalize every building and other structure, and any changes made to them, placed a burden on personnel at the USACE district and field offices. Inconsistencies also existed in which items located on USACE property should be classified as a separate building or structure, and capitalized. These situations

created a number of unreported assets, complicated the control environment, and increased the potential that structures would not be properly accounted for in CEFMS.

Capturing Low-Dollar Items. USACE personnel at the 23 district offices and 22 field sites we visited experienced significant workload related to capitalizing and accounting for low-dollar structures. Because every new building and other structure, and every improvement to an existing building or other structure, should have been capitalized according to USACE policy; district personnel often depended on operations personnel at lakes and other properties to identify and provide the required source documentation. When site managers made low-dollar additions or improvements to their property, they either failed to complete, or did not identify the need to complete and maintain, an Engineer Form 3013, “Work Order/Completion Report,” and other required documentation.

Consistency in the Capitalization of Structures. USACE districts were not consistently identifying and capitalizing low-dollar project items as buildings or other structures. We identified inconsistencies in how districts capitalized structures at recreational areas. For example, at Saylorville Lake, Iowa, the Rock Island District, Rock Island, Illinois, created a detailed inventory of every item attached to the land, including sign boards, guard rails, fire grills and water spigots. The district capitalized each as an individual building or other structure. At lakes in other districts, similar items were not separately capitalized. Establishing a higher dollar threshold would eliminate the need to identify, capitalize, and track all the changes made to individual recreation areas. USACE could then develop consistent procedures for capitalizing assets. Finding C identifies additional problems in classifying structures.

Improving Controls. Increasing the capitalization threshold would likely result in an improvement in controls over structures. The current environment required a significant amount of source documentation to be maintained for a large number of assets that did not materially affect the financial statements. The amount of paperwork and time expended by USACE personnel would be reduced by not having to place in service, manage, and ultimately retire thousands of individual structures in CEFMS. Reduction in paperwork and time expended would permit district personnel to better enforce controls over structures that materially affect the balance sheet.

FY 2002 Buildings and Other Structures Breakout. The USACE capitalization policy required that 57,534 unique structures with a useful life of 2 or more years be recorded in CEFMS. As of September 30, 2002, CEFMS identified that these structures had a total book cost of about \$30.5 billion and book value of about \$18.0 billion. Our analysis showed that that even an increase in the capitalization threshold to \$5,000 would result in a significant number of individual buildings and other structures that would no longer need to be recorded and tracked in CEFMS. Table 1 relates the number of structures and the associated book cost and book value that could be excluded if one of four different capitalization thresholds were implemented.

Table 1. Effect of Using Different Capitalization Thresholds

Threshold (less than or equal to)	Number of Properties		Book Cost		Book Value	
	Quantity	Percent of Total	Dollars (millions)	Percent of Total	Dollars (millions)	Percent of Total
\$ 5,000 ¹	15,482	26.9	\$ 35.3	0.1	\$ 16.7	0.1
\$ 25,000 ²	31,627	55.0	\$ 242.6	0.8	\$ 120.5	0.7
\$100,000 ³	45,374	78.9	\$ 971.4	3.2	\$ 474.3	2.6
\$250,000 ⁴	50,622	88.0	\$1,797.5	5.9	\$ 905.3	5.0

¹This threshold represents the DoD accountability threshold.

²This threshold represents the current capitalization threshold for USACE personal property and the threshold used to capitalize real property at the Tennessee Valley Authority and Department of Energy.

³This threshold represents the current DoD capitalization threshold.

⁴This threshold represents the expense investment threshold.

Implementation of the current DoD capitalization threshold of \$100,000, would cause USACE to exclude 78.9 percent of the individual structures and 2.6 percent of the total book value reported in CEFMS as of September 30, 2002. However, excluding this much of the General PP&E could materially misstate the USACE balance sheet. Using the DoD capitalization threshold could also significantly impact the USACE hydropower customers by not identifying a material portion of the costs needed in establishing rates. Increasing the capitalization threshold to an amount anywhere from \$5,000 to \$25,000 would be more cost-effective and easier for the district personnel to track without materially misstating the financial statements.

Establishing a Cost-Effective Capitalization Threshold. USACE needed to determine whether its policy of capitalizing all structures ensured the most cost-effective method of capturing the structures that materially impact the USACE financial statements. A detailed cost analysis would determine at what dollar threshold it becomes most cost-effective and least time consuming for district personnel to capture, track, and maintain individual assets without materially affecting the USACE balance sheet. Once this threshold is determined, Engineer Regulation 37-1-29, “Financial Administration – Financial Management and Capital Investment,” November 30, 2002, and other appropriate Engineer Regulations should be updated to provide USACE districts with policy guidance on capitalizing future assets and improvements to existing assets. Further USACE must obtain and document a waiver from the USD(C)/CFO, adjust CEFMS, and disclose the change in capitalization policy in the FY 2003 financial statements.

Corrective Actions

Based on our discussions with USACE personnel, USACE raised the dollar threshold for most Civil Works structures to \$25,000. On August 12, 2003, the USACE Director of Resource Management issued a corps-wide memorandum that increased the threshold for all Civil Works appropriation structures to \$25,000, except for revolving fund and Power Marketing Agency assets.⁵ It directed that all structures that had a book cost valued at less than the new threshold be expensed within FY 2003 and be removed from CEFMS. On August 22, 2003, the CEFMS Development Team in Huntsville, Alabama, developed a computer program that identified 17,760 structures, with a book value of \$63.3 million, that were removed from CEFMS and expensed. However, USACE took these actions without first ensuring that the recorded book cost for each of the targeted structures had been accurately established in CEFMS. Control weaknesses discussed in findings A and C indicate that the book cost of the structures removed from CEFMS may not have been properly valued and classified in CEFMS. District personnel should be directed to review the items being removed from CEFMS, and ensure that they were originally established at the correct book cost.

Conclusion

Capitalization threshold policies should ensure that appropriate costs are capitalized and allocated to the periods benefiting from the use of the structures. However, excessively low capitalization thresholds that overburden the entity should not be implemented if property accountability is maintained and the fair presentation of an entity's financial position and results of operation are not jeopardized. Decisions as to the capitalization threshold level should be based on a detailed cost benefit analysis showing the impact at various dollar thresholds. Establishing new dollar thresholds requires each district to thoroughly research the items to be removed to ensure that the book cost has been properly established in CEFMS and falls below the new threshold. Further, USACE needs to fully document the study made to raise the threshold, provide detailed implementation guidance to district offices, and obtain documented approval from the USD(C)/CFO. USACE disclosed the impact of the threshold change in the FY 2003 financial statements.

⁵All structures acquired after September 30, 2003, with a book cost under \$25,000, will be expensed with the exception of Power Marketing Agency assets. All Power Marketing Agency assets will continue to be capitalized.

Recommendations and Management Comments

B. We recommend that the Chief of Engineers, U.S. Army Corps of Engineers:

1. Perform and document a detailed cost analysis that supports the decision to raise the capitalization threshold for structures in the U.S. Army Corps of Engineers, Civil Works. Obtain documented approval from the Under Secretary of Defense (Comptroller)/Chief Financial Officer for any threshold that varies from the DoD policy.

Management Comments. The Commander of USACE concurred and stated that USACE has performed a detailed cost analysis and determined that the proper capitalization threshold for buildings and other structures for Civil Works and revolving funds assets is \$25,000. He stated that USACE received verbal approval from the USD(C)/CFO and plans to request a formal waiver from the DoD capitalization policy.

2. Direct the district offices to review the buildings and other structures removed from the Corps of Engineers Financial Management System as a result of implementing the \$25,000 capitalization threshold, to ensure that they were properly valued. For assets that were undervalued or misclassified, that now meet the capitalization threshold; reestablish the asset with the proper book value in the Corps of Engineers Financial Management System.

Management Comments. The Commander of USACE concurred and stated that the CEFMS Development Team provided each district with a report of all assets that were removed for review and corrective action as necessary.

3. Update Engineer Regulation 37-1-29, “Financial Administration – Financial Management and Capital Investment,” and other appropriate Engineer Regulations to provide policy guidance for implementing the new capitalization threshold. Include detailed procedures for:

a. Capitalizing all newly acquired and constructed buildings and other structures.

b. Capitalizing future improvements to existing buildings and other structures.

Management Comments. The Commander of USACE concurred and stated that USACE has issued procedures for implementing the new capitalization threshold. USACE will also update Engineer Regulation 37-1-30, Financial Administration – Accounting and Reporting,” September 30, 2002, to reflect the capitalization change.

C. Other Control Issues

Controls at district offices did not ensure that computer data systems access was properly controlled, and that information in computer data systems was complete and accurate. This occurred because:

- computer data systems access was not periodically reviewed to ensure proper segregation,
- districts did not always follow proper inventory procedures,
- district procedures were inconsistent and did not ensure completeness of the building and other structure accounts,
- districts inconsistently established property identification codes, and
- anomaly reviews and system reconciliations were not always performed.

As a result, the amount recorded for buildings and other structures in the USACE Civil Works FY 2002 Financial Statements was misstated. In addition, the USACE had limited assurance that buildings and other structures would be fairly stated in the Civil Works FY 2003 Financial Statements.

Criteria

The General Accounting Office (GAO) publication GAO/AIMD-00-21.3.1, “Standards for Internal Control in the Federal Government,” November 1999, provides guidance related to establishment of sufficient internal control. This publication states that key duties and responsibilities need to be segregated among different people to reduce the risk of error or fraud. This includes separating the responsibilities for authorizing a transaction, processing and recording the transaction, and reviewing and accounting for the related assets.

USACE uses the Real Estate Management Information System (REMIS) to provide accountability over structures, and CEFMS as its accounting system. Permissions are granted in CEFMS to allow users to make changes to an asset’s property phase code. The “asset manager authority” grants users permission to:

- reverse a previously recorded placed-in-service transaction,
- update the property phase of military or civil fixed assets,
- change the property identification code,
- activate a real property fixed asset into service,

-
- activate an addition and betterment work item, and
 - create or update transactions relating to loss or damages to fixed assets.

USACE had an organizational structure that segregated duties between each district's real estate and resource management offices. To place an asset in service and establish accountability, the Real Property Accountable Officer (RPAO) needed to enter the asset work item into REMIS, which assigned a property identification code and a corresponding structure number to the new structure. Once this property identification code was created, the resource management office could then place the structure in service in CEFMS, and transfer the costs associated with the asset work item to this property identification code. Administratively segregating the responsibilities ensures that the real estate office maintains responsibility for asset accountability, while the resource management office maintains the financial records.

The performance of physical inventories allows a periodic verification that the amounts reported in the financial records accurately reflect the existence and condition of all real property assets and the financial records reflect the effects of financial transactions for the period. USACE regulations required that the district RPAOs perform physical inventories of all USACE real property at least once every three years, or when a change in an RPAO occurs. During the intervening years, a responsible employee (hand receipt holder appointed by the RPAO) at each project site should perform an annual review of structures and provide any changes, including all supporting documentation, to the RPAO to update the inventory records. Upon completion of an inventory, the RPAO, in conjunction with the district's resource management office, must make any necessary corrections to the property identification codes, and provide a hand receipt to the responsible employee for verification and signature.

Asset Management Responsibilities

An excessive number of individuals were granted asset manager authority in CEFMS. In addition, although district offices had administratively segregated management responsibilities for controlling structures, the corresponding system access controls did not maintain this segregation in the 23 districts reviewed. USACE had granted individuals the ability within both CEFMS and REMIS to create, update, and delete structures without intervention from another individual.

CEFMS Access Authority. USACE districts had granted 1,823 individuals asset manager authority in CEFMS. The listing, dated May 19, 2003, showed that a large disparity existed in the number of individuals who were granted asset manager authority at each of the individual districts. The listing showed that the number of individuals who had been given this access ranged between 3 and 105 individuals. Access was assigned to individuals in a wide variety of organizations within a district. Some district managers told us that individuals were granted access manager authority because they needed to view asset data in CEFMS. The asset manager authority permission was granted because "view only" permission did not exist.

In May 2003, based on our site visits and discussions with the CEFMS system personnel, a CEFMS system change was developed to permit individuals view only access to the CEFMS asset screens. USACE should promptly implement this system change and require that each district identify and remove the asset manager authority permission given individuals who are not required to update property phase codes or asset work items. The number of individuals with asset manager authority should be consistently established at USACE district offices.

Dual System Access. District personnel who had been granted privileges in CEFMS to perform asset manager authority also had been granted the ability to update REMIS. Districts should have limited this access and granted users only the “REMIS user” privilege. The REMIS user privilege would have allowed individuals to view asset management screens without having the ability to update the records. Authorities at the 23 districts gave 104 individuals the ability to control all aspects of asset management by giving them the ability to update both CEFMS and REMIS. To ensure proper segregation of duties, districts must periodically review systems access to ensure that real estate personnel responsible for the accountability of structures are not granted asset manager authority in CEFMS. Likewise, the district should ensure that individuals who have been granted asset manager authority are granted view only access to REMIS.

Completeness of Buildings and Other Structures Accounts

USACE did not take appropriate actions to ensure the completeness of the structures accounts as of the end of FY 2002. Procedures, such as performing periodic inventories and taking appropriate corrective actions as a result, and ensuring that cut-off dates are established had not been effectively implemented. The procedures should have also ensured that the structures were properly classified and recorded in CEFMS. To accurately report the value of structures in the financial statements, controls must be in place to ensure that all USACE structures have been placed in service by the close of each accounting period.

Proper Inventory Procedures. Controls were not in place to ensure that the districts conducted inventories properly, or that discrepancies discovered during the inventories were resolved. Failure to account for all structures causes the General PP&E accounting line on the financial statements to be misstated. District personnel often failed to perform required inventories and correct discrepancies identified during physical inventories. We identified problems at selected field sites at each of the 23 district offices.⁶ Specifically:

- 15 districts did not perform inventories on a 3-year cycle,
- 8 districts did not correct discrepancies identified during physical inventories,

⁶We identified more than one problem at some district offices

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- 12 districts did not implement procedures to ensure hand receipt holders performed inventories in intervening years, and
 - 2 districts did not assign individuals at each field site to serve as a hand receipt holder.

The inventories we performed at two lakes identified structures that had been added, disposed of, or modified that were not identified to the district for correction. Some of the inventory changes occurred more than 60 months before our inventory. The St. Louis District had conducted an inventory at one of its properties in 1999 but had failed to take the corrective actions more than 3 years after the inventory. Additionally, not all of the districts were assigning responsible employees as hand receipt holders at each of the district field sites. For example, Rock Island District had never established hand receipts within REMIS until the auditor's visit, while Louisville District, Louisville, Kentucky, assigned the same individual as hand receipt holder for all district property. Consequently, the property managers did not convey responsibility and accountability for the property under their control to field site property officers.

Property Identification. Structures were not routinely marked with a unique structure number that could be used to facilitate physical inventories and positively identify the asset. Although REMIS associated a unique structure number to the individual property identification code, this number was not routinely affixed to the buildings or structures for identification purposes at the 23 districts we visited. For example, at the Kansas City District, 10 country kitchen picnic shelters were reported on the inventory at the Arrow Rock recreation area. Seven of these shelters had been destroyed but as none of the shelters were identifiable by property identification code or structure number we could not determine which of the 10 shelters had been destroyed. Kansas City District personnel informed us that, with the most recent inventory cycle, they were obtaining Global Positioning Satellite readings for each property identification code in order to tie an exact location to each building and other structure. This is a good use of technology and provides an undisputed location for each item inventoried. To ensure proper accountability, USACE should establish and enforce a method of physically identifying each of its structures.

Testing for Completeness. To test the completeness of the structures accounts and adequacy of districts' inventory procedures, we selected structures located at the 22 field sites visited and attempted to trace them back to CEFMS. We found that 80 of the 266 items selected at 21 of the 22 field sites had not been recorded in CEFMS. Our research on some of the items shows that they should have been identified during either the 3-year or the annual inventory of the property.

Establishing a Transaction Cut-Off. Districts did not have procedures in place to ensure that all transactions that affected the structures accounts were identified and posted before the close of the fiscal year. We tested the completeness of the building and other structures accounts by determining whether proper cut-off procedures had been established to ensure all transactions that occurred during FY 2002 were capitalized or retired by the end of the fiscal year. At the

23 districts we reviewed, we identified account changes that occurred from October 1 through November 12, 2002, that should have been reflected in financial records as of September 30, 2002. Of the 122 changes posted to structures accounts in the first 43 days of FY 2003, 90 actually occurred during FY 2002. As a result, USACE understated FY 2002 account balances by \$2.0 million because districts failed to place in service about \$3.2 million of structures and did not retire about \$1.2 million of structures during FY 2002. USACE needs to establish a firm cut-off date for fiscal year transactions that will affect the fiscal year financial statements.

Resolving Asset Anomalies and Inconsistencies

USACE district personnel did not take appropriate actions to ensure that the data recorded in CEFMS and REMIS were proper and consistent. Anomaly and other reconciliation reports need to be reviewed and irregular conditions researched and corrected timely to ensure that the proper balances are maintained.

Resolving Asset Anomalies In CEFMS. District personnel did not regularly review CEFMS data to ensure that the data would be correctly recorded in accounting records. CEFMS produces an anomaly report that identifies conditions that are abnormal and require correction. We assessed the data reliability of the FY 2002 database by reviewing and analyzing anomalies in the recorded book costs and book values in CEFMS. We identified 761 property identification codes in the database that had one or more of the following anomalies:

- zero dollar book cost;
- no useful life;
- no book value reported, with remaining useful life on the asset;
- an irregular placed-in-service date;
- a useful life greater than 100 years; or
- an identical asset work item.

We held detailed discussions with each of the 30 districts that reported anomalies to determine what corrective actions were needed to properly report the structures in CEFMS. District personnel indicated that the anomalies occurred for a variety of reasons including problems experienced during the conversion process from COEMIS to CEFMS, when depreciation was accelerated without correcting the useful life, and data entries and depreciation entries were made incorrectly. In most instances, the anomaly was identified in the districts' anomaly reports but actions were not taken to correct the problems. The anomaly reports identified that some of the problems remained unresolved for more than 1 year. We requested that districts review each problem and take appropriate corrective actions. USACE adjusted the book value of affected structures by about

\$22 million. The book value of structures reported on the FY 2002 financial statements was understated by a net amount of about \$17.7 million.

Resolving Anomalies Between CEFMS and REMIS. District personnel did not periodically review and take actions to resolve anomalies in the “REMIS Real Property Reconciliation (Property Not Placed-in-Service) Report.” The report identified property identification codes that were established in REMIS, but had not been placed in service in CEFMS. We reviewed these reports at 13 of the district offices visited. We found that often the reports identified structures that had not been placed in service, and no actions were underway to resolve these anomalies. For example, at the Tulsa District, the REMIS Real Property Reconciliation (Property Not Placed-in-Service) Report identified more than 1,700 structures, valued at \$845 million, that had not been placed in service in CEFMS. USACE district should periodically review the REMIS report and either place the assets in service, or document the reasons for not taking actions.

Classifying Buildings and Other Structures

Districts were not consistent in how they established property identification codes for individual structures. Distinct variances existed in how the 23 districts we visited grouped structures when identifying individual property identification codes. While each building and other structure in one district was accounted for individually, other districts did not individually account for structures. Most often inconsistencies existed in how structures with lower dollar value were treated. Other districts grouped these types of structures together, combined them with other structures, or expensed them. However, we identified structures that should have had their own property identification code established. For example, Rock Island District personnel informed us that an ancillary dam structure was captured as part of the main dam at Saylorville Lake even though the second structure was geographically separated from the main structure and required its own operation and maintenance costs. Guidance did not clearly establish the circumstances under which an item should be captured as an individual property identification code, or when it should be combined with other structures as a part of a single property identification code. USACE should ensure that individual property identification codes are established for each separate building or other structure that is not physically or geographically connected to the main structure. The need for consistent treatment should become apparent after the capitalization threshold is raised to \$25,000. Structures with lower dollar value will be removed from CEFMS, but similar types of structures that are grouped together will remain.

USACE is in the process of updating Engineer Regulation 405-1-12. The amended regulation should include procedures on how to establish property identification codes for structures. USACE must also ensure that the regulation is consistently implemented.

Summary

USACE relies on CEFMS and REMIS to manage and financially report information on structures. USACE districts need to properly segregate the duties of personnel in the resource management and real estate offices. To ensure that the data recorded in financial systems is complete and accurate, USACE should also develop and enforce control procedures that ensure that district offices conduct, and follow up on the results of, physical inventories; establish cut-off procedures for fiscal year-end transactions; and resolve anomalies within and between systems. Once proper procedures and controls are identified, USACE needs to promptly update USACE regulations and provide detailed training to district and field personnel.

Recommendations and Management Comments

C. We recommend that the Chief of Engineers, U.S. Army Corps of Engineers:

1. Review access to the Corps of Engineers Financial Management System and Real Estate Management Information System granted to district personnel to ensure that proper segregation of duties is maintained over the control of buildings and other structures. Specifically, ensure that the access needed to perform:

a. Asset manager authority functions within the Corps of Engineers Financial Management System is restricted to those individuals required to update asset files. Provide individuals granted this authority with view only authority to the Real Estate Management Information System.

b. Asset accountability functions within the Real Estate Management Information System is restricted to those individuals required to account for buildings and other structures. Provide individuals granted update capability with view only access to the asset management screens within the Corps of Engineers Financial Management System.

Management Comments. The Commander of USACE concurred and stated that the Real Estate Systems National Center staff and CEFMS technical staff will establish and implement processes to review access to CEFMS and REMIS.

2. Enforce and monitor the 3-year inventory cycle for all U. S. Army Corps of Engineers buildings and other structures. Assign hand receipt holders for each individual field site to ensure accountability for individual buildings and other structures and inventories during the intervening years.

Management Comments. The Commander of USACE concurred and stated that the interim update to Engineer Regulation 405-1-12 will require that the RPAO to designate a hand receipt holder for each piece of realty to ensure that each

property is properly used, accounted for, and cared for. The RPAO will physically inventory real property at least once every 3 years. The Commander also stated that the Regional Business Centers will be given oversight responsibility to enforce and monitor the 3-year real property inventory cycle. During the intervening years, the responsible hand receipt holder will perform annual reviews of the assets on the inventory list, update it accordingly, sign to verify accuracy, and return the updated inventory list to the RPAO.

3. Resolve problems identified during inventories conducted by the real property office and hand receipt holders. Take prompt and appropriate corrective actions.

Management Comments. The Commander of USACE concurred and stated that the interim update to Engineer Regulation 405-1-12 will require that any discrepancies relating to the physical inspection be resolved promptly. The Regional Business Center will require the RPAO to conduct the required inventory, and will require the district to provide an explanation for any unresolved discrepancies.

4. Develop a method to positively identify each building and other structure.

Management Comments. The Commander of USACE concurred and stated that the interim update to Engineer Regulation 405-1-12 will require that a structure number be assigned to each item on the inventory in accordance with a standard format. The property identification code established in REMIS and used in CEFMS will be shown on the building or structure.

5. Establish a fiscal year closeout process that will ensure that transactions affecting buildings and other structures occur by the close of each fiscal year.

Management Comments. The Commander of USACE concurred and stated that USACE will develop an automated fiscal year closeout process that is practical and possible with existing resource limitations to ensure that transactions occur in the proper fiscal year.

6. Develop and enforce standard procedures to ensure that all buildings and other structures are properly recorded in the Corps of Engineers Financial Management System. Reconcile and resolve anomalies within and between the accounting and accountability systems.

Management Comments. The Commander of USACE concurred and stated that three new REMIS to CEFMS reconciliation reports have been established to help to ensure that all buildings and other structures are properly recorded in CEFMS. After the monthly reviews of the reconciliation reports are completed, each district will note the variances in each report, initiate appropriate corrective actions, and ensure that the reason for the variance is documented.

7. Include in Engineer Regulation 405-1-12 procedures on how to establish property identification codes for buildings and other structures within the accounting system.

Management Comments. The Commander of USACE concurred and stated that the interim update to Engineer Regulation 405-1-12 will require the RPAO to assign a structure number to each item on the real property inventory in accordance with a standard format. Locally developed numbering systems will not be allowed.

8. Provide training to all appropriate personnel on procedures developed for improving controls over buildings and other structures.

Management Comments. The Commander of USACE concurred and stated that when the interim update to Engineer Regulation 405-1-12 is issued, Regional Business Centers will be directed to provide annual training to all appropriate personnel on procedures developed for improving controls over buildings and other structures.

Appendix A. Scope and Methodology

We selected a statistical sample from the 5,758 structures that experienced a change in book cost during the period from October 1, 1999, through September 30, 2002. We used the sample to evaluate the controls in place for placing structures in service, establishing their useful life, retiring them from service, and establishing and supporting their book cost. During the 3-year period ending September 30, 2002, USACE reported that the book costs of structures increased by \$610.2 million. We reviewed a simple random sample of 80 of the 5,758 property identification codes related to structures to determine whether adequate controls were in place and operating. The 80 sample items were located at 64 USACE field sites located within 23 USACE districts. We reviewed the internal controls in place at the 23 district offices and visited 22 field sites. While at the field sites, we performed a reverse inventory to determine whether the items were properly recorded in CEFMS. We performed this audit from January through October 2003 in accordance with generally accepted government auditing standards.

We obtained from USACE the individual property identification codes that comprised the trial balance totals for general ledger account codes 1730 (buildings) and 1740 (other structures) as of September 30, 1999, and September 30, 2002. While the year-end FY 1999 data reconciled, we determined that a variance totaling about \$5.8 billion existed between what was reported in the trial balance and what was in the database of property identification codes. The reason for the difference was identified, and the variance was corrected in the FY 2003 database. We compared the amounts reported in general ledger account codes 1730 and 1740 as of September 30, 2002, with those reported as of September 30, 1999, and developed a population of 5,758 structures for which the book cost was changed in CEFMS during the period from October 1, 1999, through September 30, 2002. From this population we randomly selected 80 property identification codes for review. From March through May 2003, we visited or requested data from 23 USACE districts to assess the controls they used to place in service and establish the useful life and value of an asset, or to retire an asset from service. We reviewed the Engineer Form 3013 and associated supporting documentation for accuracy and propriety. We compared what was recorded in CEFMS to source documentation to determine whether the building or other structure:

- was placed in service at the correct date,
- had a useful life established in accordance with Engineer Regulation 37-2-10,
- was properly valued and had appropriate third party documentation to support the established book cost, or
- was properly retired from service.

We also reviewed guidance issued by USACE and its districts for placing assets in and removing assets from service. We held discussions with personnel at 23 district offices to determine what control procedures were in place at each district. We also visited with site managers at 22 field locations to help us understand procedures and ascertain the physical existence of selected sample items. At the 22 field sites, we also selected items physically located at the site and traced them back to CEFMS to ensure that the assets had been placed in service.

Use of Computer-Processed Data. Although we relied on computer-processed data from CEFMS and REMIS, we did not evaluate the adequacy of the systems' general and application controls. Previous audits have identified general and application control weaknesses and questioned the reliability of the CEFMS data. We determined that access authority was not properly limited to prevent an individual from having total control over a transaction affecting structures. We were able to reconcile the USACE trial balances as of September 30, 1999, and September 30, 2002, for the structures accounts with subsidiary databases of property identification codes for the corresponding periods without material variance. We evaluated data reliability related to the sample items we reviewed by comparing information recorded in CEFMS with source documentation in USACE district and field offices.

Use of Technical Assistance. We obtained assistance from the Quantitative Methods Division, in the Office of the Inspector General of the Department of Defense to determine a statistical sampling plan and calculate the statistical projections. See Appendix D for the statistical sampling methodology.

General Accounting Office High-Risk Area. The GAO has identified several high-risk areas in DoD. The report provides coverage of the Defense Financial Management and Federal Real Property high-risk area.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of USACE management controls over the financial reporting of structures. Specifically, we reviewed USACE controls over data gathering to provide a complete universe, and maintaining supporting documentation for structures. We reviewed the controls in place for placing assets in and removing assets from service on the proper date. We did not assess management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses for USACE as defined in DoD Instruction 5010.40, related to the financial reporting of structures. USACE management controls over the

financial reporting of structures do not ensure a complete universe was provided, proper placed-in-service and retirement dates were recorded in CEFMS, and useful life was established in accordance with Engineer Regulation 37-2-10. Controls also did not ensure that the proper book cost would be established, maintained, and supported by appropriate source documentation for the life of the asset. Recommendations in this report, if implemented, will correct the identified weaknesses and could result in reliable financial statement reporting for structures. A copy of the report will be provided to the senior official responsible for management controls in USACE.

Prior Coverage

During the last 5 years, GAO, the Office of the Inspector General of the Department of Defense, and U.S. Army Audit Agency have issued several reports discussing the reporting of USACE Civil Works financial statements. Unrestricted GAO reports can be accessed over the Internet at www.gao.gov. Unrestricted Inspector General of the Department of Defense reports can be accessed at www.dodig.osd.mil/audit/reports. Unrestricted Army Audit Agency reports are accessed at www.aaa.army.mil/reports.html, which is accessible on the extranet to military domains and GAO only.

Appendix B. Glossary

Accumulated Depreciation. The amount of depreciation expense that has been added over a period of time, calculated from the placed-in-service date of the asset.

Book (Acquisition) Cost. All amounts incurred to bring the asset to a form and location suitable for its intended use. Examples include amounts paid to vendors, transportation charges, and handling and storage costs.

Book Value. The book (acquisition) cost less accumulated depreciation charged on the asset.

Capitalization Threshold. The dollar value at which costs incurred will be added as capital expenditures to the Plant in Service accounts. All real property above the threshold, with an inherent useful life of 2 or more years, is capitalized.

Found On Works. Assets that are discovered during physical inventories that have not been placed in service. Districts are required to establish a fair market value for these assets.

Feature. A group of assets grouped to facilitate accounting control.

Improvement. A change to an existing asset that results in an increase of efficiency, durability, or capacity of the asset or a change in the asset's useful life.

Placed-in-Service Date. The date that an asset is physically complete and available for use. Assets are recognized when title passes to the acquiring entity or when the asset is delivered to the entity or to an agent of the entity. It defines the start of the capitalization and depreciation expense process.

Power Marketing Assets. Assets reported on the USACE financial statements that are located at sites producing power under the supervision of the Federal Energy Regulatory Commission.

Property Identification Code. A number that links REMIS with CEFMS. The property identification code is generated by REMIS when information about a new asset is entered and committed.

Property Phase. A stage in an asset's life cycle. An asset can be transferred from Construction-in-Progress to Plant in Service (S), Retirement (R), and to Disposal (D) over the course of the asset's life.

Straight Line. A method of depreciation that allocates the book cost of an asset equally over the useful life period.

Useful Life. The estimated time period for an asset to provide its intended service. The concept recognizes the deterioration of items as they age.

Appendix C. Accounting Guidance for Real Property Assets

Accounting guidance for real property assets, including buildings and other structures, is in SFFAS No. 6. DoD and USACE have issued additional guidance to implement the requirements of SFFAS No. 6. This appendix identifies guidance on capitalization thresholds, placing assets in service, valuing assets, and retiring assets.

Statement of Federal Financial Accounting Standards. SFFAS No. 6, “Accounting for Property, Plant, and Equipment,” June 1996, contains the accounting standards for federally owned PP&E.

Capitalization Thresholds. Instead of the Federal Accounting Standards Advisory Board establishing a centralized capitalization threshold, each Federal entity should establish a threshold.

Placement in Service. Assets shall be recognized when title passes to the acquiring entity or when the asset is delivered to the entity or to an agent of the entity. In the case of constructed structures, the asset shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to General PP&E.

Valuation. All General PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E asset to a form and location suitable for its intended use including:

- amounts paid to vendors;
- transportation charges to the point of initial use;
- handling and storage costs;
- labor and other direct or indirect production costs (for structures produced or constructed);
- engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
- acquisition and preparation costs of buildings and other facilities;
- appropriate share of the cost of the 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; and
 - material amounts of interest costs paid.

Retirement from Service. At the time of disposal, retirement, or removal from service, PP&E shall be removed from the asset accounts along with any associated accumulated depreciation. Any difference between the book value and amounts realized should be recognized as a gain or a loss in the period that the General PP&E is disposed of, retired, or removed from service. General PP&E shall be removed from accounts along with associated accumulated depreciation, if prior to disposal, retirement, or removal from service it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value.

DoD Financial Management Regulation. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, “Accounting Policies and Procedures,” chapter 6, “Property, Plant and Equipment,” August 2000, provides the DoD accounting policies for PP&E. The regulation defines PP&E as a tangible asset that has a useful life of two years or more, are not intended for sale, are acquired or constructed with the intention of being used by the entity, and have an initial acquisition cost or fair market value that equals or exceeds the capitalization threshold.

Capitalization Threshold. DoD Regulation 7000.14-R, volume 4, chapter 6 establishes a capitalization threshold of \$100,000 for both General and Working Capital Funds. In addition, the regulation requires the cost of an improvement be capitalized only when the cost of the improvement equals or exceeds the DoD capitalization threshold.

Placement in Service. Completed construction projects shall be capitalized and recorded in the appropriate standard general ledger account and real property accountability or management system upon placing the property in service, regardless of whether a certificate of occupancy has been issued or regardless of close-out of the construction contract(s) and issuance of final payment to the contractor. For structures that were not constructed, but Found on Works the guidance states that when the acquisition cost cannot be determined, the estimated fair market value of buildings and the cost of placing such structures in the form intended for use shall be recorded less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired.

Valuation. Documentation (original documents or hard and electronic copies of original documentation) shall be maintained in a readily available location, during the applicable retention period, to permit the validation of information pertaining to the asset such as the acquisition cost, acquisition date, cost of improvements, etc. Supporting documentation may include, but is not limited to, purchase invoices, sales and procurement contracts, DD Form 1354, “Transfer and Acceptance of Military Real Property,” Engineer Form 3013, “Work Order/Completion Report,” construction contracts, work orders, and other

such documentation generated independently of the entity in possession of the property.

Retirement From Service. Structures that have been identified for permanent removal from service shall no longer be depreciated once the asset no longer contributes to the operation of the entity. General PP&E structures that have been temporarily removed from service or use with the expectation that such structures eventually will be returned to service shall continue to be depreciated during periods of non-use.

Corps Policy. USACE policy guidance, including Engineer Regulation 37-1-29, "Financial Administration – Financial Management and Capital Investment," November 30, 2002; Engineer Regulation 37-2-10, "Financial Administration-Accounting and Reporting, Civil Works Activities," April 1, 1969; and Engineer Regulation 405-1-12, Real Estate Handbook, November 20, 1985, establish procedures for capturing, tracking, and maintaining USACE structures. Engineer Regulation 37-1-29 establishes capitalization thresholds for USACE PP&E. The regulation also states that capital structures that are acquired will be recorded at full cost. The full cost includes payments to vendors and/or contractors, shipping and/or delivery charges, handling and storage costs, labor and other direct or indirect production costs including architectural and engineering costs. Engineer Regulation 37-2-10 states that acquisitions will be transferred to plant-in-service no later than the month succeeding receipt of the receiving report. Transfer will not be delayed pending completion of the Engineer Form 3013. Transfer may be delayed upon receipt of written documentary request from the applicable operating manager justifying the delay. Engineer Regulation 405-1-12 provides guidance on how districts should account for PP&E.

Appendix D. Statistical Sampling Methodology

Sampling Plan

Sampling Purpose. The purpose of the sampling plan was to determine whether controls were in place to properly record the placed-in-service date, useful life, book cost, and retirement date of structures in CEFMS.

Universe Represented. USACE provided databases by property identification code representing the structures reported in CEFMS as of September 30, 1999, and September 30, 2002. By comparing these databases, auditors determined the additions, deletions, and modifications that were made to individual structures during FYs 2000 through 2002. The audit population was made up of 5,758 property identification codes with a combined book (acquisition) cost of \$8.7 billion.

Sample Design. The sampling design used a simple random sample to determine whether controls were in place and operating. A total of 80 property identification codes was selected. The 36 structures that were added to CEFMS since September 30, 1999, were classified as additions. The 26 structures that were removed from CEFMS as of September 30, 2002, were classified as deletions. The 18 structures that were in CEFMS as of both September 30, 1999, and September 30, 2002, but had a change in book cost were classified as an addition or deletion depending on whether the book cost increased or decreased over that period. Fifty of the 80 sample items were determined to be additions and were tested for controls related to placement in service, useful life, and valuation. The remaining 30 sample items were determined to be deletions and were tested for controls related to retiring the assets from service.

Sampling Results

Table D identifies the statistical estimates of property identification codes that did not have proper controls in place and operating.

Table D. Failures of Internal Control			
Control Tested	Lower Bound	Point Estimate	Upper Bound
Placed-in-service Date Errors	2,679	3,239	3,799
Useful Life Errors	393	792	1,190
Book Cost Errors	2,244	2,807	3,370
Retirement Date Errors	1,475	2,015	2,555
One or More of the Above Errors	5,204	5,470	5,736

Overall, we are 90 percent confident that between 5,204 and 5,736 buildings and structures had inadequate controls in place to ensure that the data recorded in CEFMS were accurate. Specifically, we are 90 percent confident that USACE failed to properly support:

- the placed-in-service dates recorded in CEFMS for between 2,679 and 3,799 structures,
- the useful life recorded in CEFMS for between 393 and 1,190 structures,
- the book cost recorded in CEFMS for between 2,244 and 3,370 structures, and
- the retirement date recorded in CEFMS for between 1,475 and 2,555 structures

Appendix E. Buildings and Other Structures Cycle

Accounting applications that process a related group of transactions and accounts comprise cycles. A cycle should be considered significant if it processes an amount of transactions in excess of design materiality or if it supports a significant account balance in the financial statements. The USACE Civil Works FY 2002 Financial Statements reported that the net book value of structures was \$18.0 billion. The structures cycle begins with placing the asset in service and ends when the asset is retired from service. During the cycle, the assets are inventoried and maintained. While the exact flow and methods of communication between parties varies from one district to the next, the necessary steps are essentially the same.

Placement in Service

Background. Projects are funded by amounts received from appropriations approved by Congress and established in funded asset work items (or acquiring work items) in CEFMS. An initial Engineer Form 3013 serves as the work order to begin a project and the final Engineer Form 3013 serves as the completion report. Asset work items are linked with the parent project work item in CEFMS and REMIS via the property identification code.

Work Completion. The project manager notifies the district resource management personnel that the asset is ready to be placed in service by submitting an Engineer Form 3013, or similar local variation of the document listing all work items applicable to the completed asset and the date when construction was complete. This date becomes the placed-in-service date for CEFMS. All signatures required on the Engineer Form 3013 should be present to document the placed-in-service date and authenticity of the document. All documentation supporting the cost of the asset must be maintained for 10 years after the disposal of the asset. The asset documentation file should be reviewed before the asset is placed in service to ensure that all costs are capitalized and supported. Placement in service should take place no later than the month succeeding receipt of the final receiving report. Asset cost should include all costs incurred to bring the asset to a form and location suitable for its intended use. The cost of General PP&E acquired through:

- *Purchase* should be acquisition cost, plus applicable ancillary costs.
- *Construction* should be costs of project design and actual construction such as labor, materials, and overhead.
- *Donation* should be its estimated fair value at the time acquired.
- *Transfer* from other Federal entities should be the cost recorded by the transferring entity for the PP&E net of accumulated depreciation or amortization.

-
- *Found on Works* should be the estimated fair market value and the cost of placing such assets in the form intended for use less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired.

Assigning the Property Identification Code. A property identification code is required before the resource managers place the asset in service in CEFMS. Real estate personnel create the property record in REMIS based on information contained on the Engineer Form 3013. The asset work item field must be filled in based upon the asset work item specified on the Engineer Form 3013. The hand receipt holder, usually the property manager, is assigned to the asset in the REMIS accountability screen. If a betterment is to be placed in service, there are links from the main RD5 screen to the betterment screen via the “betterment” tab at the top of the RD5 screen. The betterment screen pulls all information in from the RD5 screen, with the exception of the work item (acquired from Engineer Form 3013), description (made up by the employee entering the information), cost (from CEFMS), and constructed date (from Engineer Form 3013). The property identification code links the betterment records to the original record. A unique structure number is assigned to every structure. If the asset has been constructed, the structure number will be determined at the beginning of the project.

Placement in Service in CEFMS. Resource management personnel place the asset into service in CEFMS. They enter the placed-in-service screen in CEFMS through either the appropriate civil or revolving fund menus. To place additions in service, they select the property identification code from a list of all property identification codes waiting to be placed in service from REMIS. If the origination of the asset work item is in CEFMS via construction-in-progress, the only field populated manually is the useful life. There is a screen in CEFMS that personnel may check to ensure that the useful life falls within minimum and maximum guidelines. The cost of a constructed asset is accumulated in the construction-in-progress account (general ledger account code 1720). The balance in the construction-in-progress account at the time the asset is placed in service becomes the asset’s book cost and is automatically transferred into either general ledger account code 1730.10 (buildings) or general ledger account code 1740.10 (other structures) based on property category code (05 for buildings, 10 for other structures). Once the asset is placed in service, CEFMS will populate the book cost field in REMIS, because that information is located in CEFMS.

Because assets are placed in service when they are physically complete as opposed to financially complete, the actual book cost of the asset may change after it is placed in service if any additional costs are added and capitalized afterward. If any additional costs are incurred on the project after it is placed in service, a “CRON job” (DISTCOST program) is run nightly to pick these up and add them to the capitalized book cost. These “extra” costs are allocated to the correct project because they are associated with the project by the asset work item number. CEFMS automatically re-calculates and updates book cost and depreciation. When an asset is placed in service, CEFMS allows the user to enter an acquisition date (or completion date) different from the date the transaction is processed. The correct completion date should be recorded on the Engineer Form 3013 and entered into CEFMS as the asset’s placed-in-service date.

Transfer-in, Donation, or Found on Works. When an asset is acquired through transfer-in, donation, or found on works, the asset is generally placed in service in the same manner as in acquisition/construction. A report of survey should be completed to determine the value of the asset if it is donated or found on works. The field must send the paperwork to the district, where the real estate personnel will create a property record and establish the property identification code. An asset work item must then be created in CEFMS. The asset can then be placed in service in CEFMS.

Improvements. Improvements that either extend the useful life of an asset or enlarge or improve its capacity, size, or efficiency, shall be capitalized. Engineer Regulation 37-1-29 states that if the total cost of an improvement is equal to or greater than 35 percent of the estimated replacement cost of an item, then the remaining book value and the cost of the improvement will be added together to determine a new acquisition cost, a new useful life, depreciation, and new date of acquisition.

Asset Management

Physical Inventory. USACE is required to perform a physical inventory of real property at least once every 3 years and when there is a change of RPAO.

Review Performed. The RPAO runs either the REMIS report (*inv_hand_lrp*), which is the real property inventory report listing by hand receipt holder with property identification code, or the REMIS report (*inv*), which is the inventory report by project. The RPAO is responsible for keeping track of the schedule of due dates for property inventories. The RPAO, or their designated representative, physically examines the asset and notes any abnormalities that need to be corrected in the asset's file.

Asset Updates. The results of the inventory must be reconciled with the accounting records. After determining the appropriate solution to problems identified during performance of the inventory, district personnel make the necessary corrections to the asset records in REMIS and/or financial records in CEFMS.

Retirement

General PP&E assets that have been identified for permanent removal from service shall no longer be depreciated once the asset no longer contributes to the operation of the entity. This is accomplished by placing the asset in a retirement status (that is, the assets awaiting disposal account).

Request Authorization to Dispose. Buildings and improvements may be declared excess when, among other things:

- they have no current use,
- they have deteriorated or been damaged to the point of being nuisances or hazards to life and property and cannot be repaired or maintained at justifiable cost, or
- they have served the purpose for which they were constructed and cannot be economically or practicably adapted to other beneficial use.

When it has been determined that an asset is no longer fit to serve its intended purpose, field personnel should submit a written request for approval of disposal to the district Real Estate office. DA Form 337, "Request for Approval of Disposal of Buildings and Improvements," may be used; however, there is no specific form required by the Corps for request of disposal. The date that the asset was identified as excess is the date the District Commander or Chief of Real Estate gave his approval to dispose of the asset. This date should become the asset's retirement date. The District Commander or Chief of Real Estate, not the field personnel, are directly accountable for the property and must make the official decision upon a finding in writing to identify the property as excess to the district. The finding will be prepared as a separate document and will be sufficiently complete within itself to justify the decision to donate, abandon, or destroy the property proposed, without outside reference. Real property that becomes excess to the needs of the Corps will be screened against requirements of other DoD agencies and the U.S. Coast Guard to promote and obtain the most efficient and complete use of real property before disposing of it. The McKinney Homeless Assistance Act requires Federal agencies to identify to Housing and Urban Development all real property that is underutilized or excess, and a determination is required before any disposal action. There are also certain environmental and historical clearances necessary before disposal, a priority of eligible buyers, and sales procedures and the appraisal of buildings and other improvements prior to sale.

Asset Retirement. Once approval for disposal has been granted, a copy of the signed memo is sent back to the field to take disposal action. Another copy should be forwarded to the resource management office, which will transfer the asset from its in-service account to a retirement account in CEFMS by changing the property phase code from in-service ("S") to retired ("R"). The asset's book cost and accumulated depreciation are then automatically moved from general ledger account codes 1730.10 (buildings) or 1740.10 (other structures) and 1739.00 (accumulated depreciation on buildings), or 1749.00 (accumulated depreciation on other structures), to the retirement "assets awaiting disposal" accounts using general ledger accounts codes 1990.93 (buildings) and 1990.94 (other structures). This transaction automatically stops further depreciation of the asset. The asset remains in this account until physical disposal takes place.

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Chief of Engineers, U.S. Army Corps of Engineers
Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Civil Works)
Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

U.S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G ST. NW
WASHINGTON, D.C. 20314-1000

CEIR-I (36-2b)

12 February 2004

MEMORANDUM FOR Director, Defense Financial Auditing Service, Inspector General Department of Defense, 400 Army Navy Drive, Arlington, Virginia 22202

SUBJECT: DoDIG Draft Report - Project No. D2003FI-0044, Controls over U. S. Army Corps of Engineers (USACE) Buildings and Structures, dated 12 December 2003

1. USACE responses to recommendations contained in the subject report follow:

a. **Report Recommendations A - Controls Over Buildings and Structures, Pages 12-13:**

(1) **Recommendation 1.** Evaluate, update and consolidate policies for managing U.S. Army Corps of Engineers buildings and other structures. Include them in Engineer Regulation 405-1-12, Real Estate Handbook, or develop a separate Engineer Regulation that would be used to enforce standardized procedures for:

(a) Preparing and processing accurate Engineer Form 3013s to support the placed-in-service dates of all new buildings and other structures, and significant improvements to them. Emphasize the need for field activities to provide an accurate date of completion that corresponds to the actual date the building or other structure was physically completed.

(b) Validating the date of completion of assets to ensure the proper placed in service date is established in the Corps of Engineers Financial Management System

(c) Establishing placed-in-service dates for assets that are Found on Works.

(d) Identifying, capturing, and centrally maintaining the source documentation (third party and internal) required to support the book cost of the buildings and other structures.

CEIR-I (36-2b) 12 February 2004
SUBJECT: DoDIG Draft Report - Project No. D2003FI-0044, Controls over U. S.
Army Corps of Engineers (USACE) Buildings and Structures, dated 12 December
2003

(e) Developing a checklist to ensure all costs specified in Statement of Federal Financial Accounting Standards No.6, that are associated with bringing assets into service, are captured.

(f) Reviewing costs that were added to the book cost of the asset after the placed-in-service date to ensure that documentation supports the decision to capitalize the additional costs.

(g) Obtaining and documenting disposition approval and disposal actions.

Command Response: Concur.

Additional Facts: USACE intends to issue the revision to Engineer Regulation (ER) 405 -1-12 in early FY04 as an Engineer Circular (EC) for one year and then as the districts use it, we intend to keep up with comments and improvements so that they can be evaluated and incorporated before the ER is formally published. The revision to the Engineer Regulation 405-1-12 will update and consolidate policies for managing USACE buildings and other structures and include the standard procedures recommended in items a-g above. Also, a new CEFMS report is being developed that will provide asset managers with the capability to review all costs that have been added to the asset's book cost after the placed-in-service date. All capitalized costs for the current fiscal year will be summarized. The target date for issuing the circular and completing the CEFMS report is July 2004.

(2) **Recommendation 2.** Develop and document an appropriate training program that provides district personnel with an understanding of their current asset management responsibilities.

Command Response: Concur.

Additional Facts: USACE Regional Business Centers will be directed in FY04 to develop and document an appropriate training program to provide district personnel with an understanding of their current asset management responsibilities. The target completion date is September 2004 and the Internal Review Office will, by January 2005, validate that the above action was completed.

CEIR-I (36-2b)

12 February 2004

SUBJECT: DoDIG Draft Report - Project No. D2003FI-0044, Controls over U S. Army Corps of Engineers (USACE) Buildings and Structures, dated 12 December 2003

(3) **Recommendation 3.** Perform periodic reviews to ensure that districts enforce the management controls for establishing and maintaining proper data for buildings and other structures in the Corps of Engineers Financial Management System (CEFMS).

Command Response: Concur.

Additional Facts: The Engineer Circular interim update to Engineer Regulation 405 -1-12 will require Regional Business Centers/Major Subordinate Commands to perform and document periodic reviews to ensure that Districts enforce the management controls for establishing and maintaining proper data for buildings and other structures in the CEFMS. The corrective action will be completed by July 2004.

(4) **Recommendation 4.** Develop a plan for centrally maintaining all third party documentation needed to support the recorded book costs of buildings and other structures. Examine the potential for implementing scanning technology.

Command Response: Concur.

Additional Facts: Using guidelines established by HQUSACE the Regional Business Centers will be responsible for developing a regional plan for their Districts to centrally maintain all third party documentation needed to support the recorded book costs of building and other structures. The target date for completing these plans is July 2004 and the Internal Review Office will validate their existence and guideline compliance by September 2004.

(5) **Recommendation 5.** Develop a standard methodology and documentation requirement for assessing the fair market value of assets that are placed in service as Found on Works assets.

Command Response: Concur.

Additional Facts: The USACE Chief Appraiser working in collaboration with District appraisers in FY 04 will be assigned the task of developing a standard methodology and documentation for assessing the fair

CEIR-I (36-2b) 12 February 2004
SUBJECT: DoDIG Draft Report - Project No. D2003FI-0044, Controls over U S.
Army Corps of Engineers (USACE) Buildings and Structures, dated 12 December
2003

market value of assets that are placed in service as Found on Work assets. The standard methodology developed will be issued by September 2004.

b. Report Recommendations B - Capitalization Threshold, Page 18:

(1) **Recommendation 1.** Perform and document a detailed cost analysis that supports the decision to raise the capitalization threshold for structures in the US Army Corps of Engineers, Civil Works. Obtain documented approval from the Under Secretary of Defense (Comptroller)/Chief Financial Officer for any threshold that varies from the DoD policy.

Command Response: Concur.

Additional Facts: The Corps of Engineers has performed the required analysis above and determined the proper capitalization threshold for structures for Civil Works and Revolving Funds assets is \$25K. Corps received verbal approval from the Under Secretary of Defense (Comptroller)/Chief Financial Officer and plans to request a formal waiver from the DOD Financial Management Regulation capitalization threshold of \$100K. This action will be complete July 2004.

(2) **Recommendation 2.** Direct the Districts offices to review the building and other structures removed from the Corps of Engineers Financial Management System as a result of implementing the \$25,000 capitalization threshold, to ensure that they were properly valued. For assets that were undervalued or misclassified, and now meet the capitalization threshold, reestablish the asset with the proper book value in the Corps of Engineers Financial Management System.

Command Response: Concur.

Additional Facts: The CEFMS Development Team provided each District a report of all assets that were removed for review and corrective action as necessary. This was completed during FY 03.

(3) **Recommendation 3.** Update Engineer Regulation 37-1-29, "Financial Administration – Financial Management and Capital Investment," and other appropriate Engineer Regulations to provide policy guidance for

CEIR-I (36-2b) 12 February 2004
SUBJECT: DoDIG Draft Report - Project No. D2003FI-0044, Controls over U.S.
Army Corps of Engineers (USACE) Buildings and Structures, dated 12 December
2003

implementing the new capitalization threshold. Include the detailed procedures
for:

- a. Capitalizing all newly acquired and constructed buildings and other
structures.
- b. Capitalizing future improvements to existing buildings and other
structures.

Command Response: Concur.

Additional Facts: The Corps of Engineers provided implementation
instructions during FY 03. Engineer Regulation 37-1-30 will also be updated to
reflect capitalization change with an expected completion date of 30 July 2004.

c. Report Recommendations C - Other Control Issues, Page 25-26:

(1) **Recommendation 1.** Review access to the Corps of Engineers
Financial Management System and Real Estate Management Information System
granted to district personnel to ensure that proper segregation of duties is
maintained over the control of buildings and other structures. Specifically, ensure
that the access needed to perform:

- a. "Asset Manager Authority" functions within the CEFMS are restricted to
those individuals required to update asset files. Provide individuals granted this
authority with "read only" authority to the REMIS.

Command Response: Concur.

Additional Facts: The Real Estate Systems National Center staff and
the CEFMS technical staff will be tasked during FY04 to collaboratively establish
and implement a process to identify and ensure that individuals who have been
granted "asset management authority" are granted "read-only" access to REMIS
both now and in the future. The completion date for this corrective action is July
2004

Also on
page 27

CEIR-I (36-2b)

12 February 2004

SUBJECT: DoDIG Draft Report - Project No. D2003FI-0044, Controls over U S. Army Corps of Engineers (USACE) Buildings and Structures, dated 12 December 2003

b. Asset accountability functions within the Real Estate Management Information System is restricted to those individuals granted update capability with "view only" access to the asset management screens within the Corps of Engineers Financial Management System.

Command Response: Concur.

Additional Facts: The Real Estate Systems National Center staff and the CEFMS technical staff will be tasked during FY04 to collaboratively establish and implement a process to identify and ensure that individuals who have asset accountability within REMIS is restricted to only those individuals granted update capability with "view only" access to the asset management screens within CEFMS. The completion date for this corrective action is July 2004.

(2) **Recommendation 2.** Enforce and monitor the 3-year inventory cycle for all U.S. Army Corps of Engineers buildings and other structures. Assign hand receipt holders for each individual field site to ensure accountability for individual buildings and other structures and inventories during the intervening years.

Command Response: Concur.

Additional Facts: The Engineer Circular interim update to ER 405-1-12 will require the Real Property Accountability Officer (RPAO) to designate a hand receipt holder for each piece of realty to ensure that each property is properly used, accounted and cared for and that proper custody and safekeeping are provided. The RPAO will physically inventory real property at least once every three years. The Regional Business Centers will be given oversight responsibility to enforce and monitor the 3-year real property inventory cycle. During the intervening years the responsible hand receipt holder designated employee at each project will perform annual reviews of the assets on the inventory list, update accordingly, sign to verify accuracy, and return updated inventory list to the RPAO. The RPAO will update REMIS and coordinate changes with the Resource Management Office to update CEFMS if necessary. Individual asset folders will be updated accordingly. The District Engineer will have his Internal Review Office verify that the RPAO is conducting the inventory as required. This corrective action will be completed September 2004.

CEIR-I (36-2b)

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(3) **Recommendation 3.** Resolve problems identified during inventories conducted by the real property office and hand receipt holders. Take prompt and appropriate corrective actions.

Command Response: Concur.

Additional Facts: The Engineer Circular interim update to ER 405-1-12 will require that any discrepancies relating to the physical inspection be resolved promptly to ensure an accurate resolution. The Regional Business Center will verify that the RPAO is conducting the required inventory and will require the District to provide an explanation for any unresolved discrepancies. This corrective action will be completed September 2004 and the Internal Review Office will validate the completion in January 2005.

(4) **Recommendation 4.** Develop a method to positively identify each building and other structure.

Command Response: Concur

Additional Facts: The Engineer Circular interim update to ER 405-1-12 will require the RPAO to assign a structure number to each item on the inventory in accordance with a standard format. Locally developed numbering systems will not be approved. The property identification code (which is systems generated in REMIS and will never change) established in REMIS and used in CEFMS will be shown on the building or structure. The corrective action will be completed September 2004 and the Internal Review Office will validate the completion in January 2005.

(5) **Recommendation 5.** Establish a fiscal year closeout process that will ensure that transactions affecting buildings and other structures occur by the close of each fiscal year.

Command Response: Concur.

Additional Facts: HQUSACE, working with the Finance Center, Regional Business Centers, and District Operation Officers, will develop an

CEIR-I (36-2b)

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SUBJECT: DoDIG Draft Report - Project No. D2003FI-0044, Controls over U S. Army Corps of Engineers (USACE) Buildings and Structures, dated 12 December 2003

automated fiscal year closeout process is practical and possible with existing resource limitations to ensure that transactions occur in the proper fiscal year. This action will be completed by September 2004.

Recommendation 6. Develop and enforce standard procedures to ensure that all buildings and other structures are properly recorded in the Corps of Engineers Financial Management System. Reconcile and resolve anomalies within and between the accounting and accountability system.

Command Response: Concur.

Additional Facts: Three new REMIS to CEFMS monthly reconciliation reports have been established for Placed in Service, Not Placed in Service and Property in CEFMS not in REMIS. After these monthly reviews are completed, each District notes any variances in each report and initiates corrective action if necessary or ensures that the reason for the variance is documented. In addition, annually using the query "Place in Service Acquisition Date Check," each District is required to review each variance between the REMIS acquisition date and the CEFMS placed in service date that is greater than one year. The completion date for implementing this corrective action is September 2004.

(7) **Recommendation 7.** Include in Engineer Regulation 405-1-12, procedures on how to establish property identification codes for buildings and other structures within the accounting system.

Command Response: Concur.

Additional Facts: The Engineer Circular interim update to ER 405-1-12 will require that the RPAO assign a structure number to each item on the real property inventory in accordance with the format in Appendix D. Locally developed numbering systems will not be allowed. The property identification code is systems generated in REMIS when information about the new asset is entered and committed. The property identification code generated in REMIS links REMIS with the financial database CEFMS. The corrective action completion date is July 2004.

CEIR-I (36-2b) 12 February 2004
SUBJECT: DoDIG Draft Report - Project No. D2003FI-0044, Controls over U.S.
Army Corps of Engineers (USACE) Buildings and Structures, dated 12 December
2003

(8) **Recommendation 8.** Provide training to all appropriate personnel
on procedures developed for improving controls over building and other structures.

Command Response: Concur.

Additional Facts: Upon the issuance of the Engineer Circular for the
interim update to ER 405-1-12, Regional Business Centers will be directed to
provide annual training to all appropriate personnel on procedures developed for
improving controls over buildings and other structures. The corrective action
completion date is September 2004 and the Internal Review Office will validate
that the training occurred by January 2005.

2. The Point of Contact for this Command response is the undersigned (202-761-
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FOR THE COMMANDER:



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