

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



December 11, 2007

TO: Chief Financial Officer
Director, Facilities Engineering and Real Property Division

FROM: Assistant Inspector General for Auditing

SUBJECT: Final Memorandum on NASA's Accounting for Capitalized Real Property Designated as Inactive (Report No. IG-08-005; Assignment No. S-08-002-00)

NASA has many accounting process improvements planned for fiscal year 2008. With regard to prospective changes to guidance, the Office of Inspector General (OIG) reviewed certain accounting procedures relating to NASA's treatment of property, plant, and equipment. Specifically, the OIG conducted a review to determine whether NASA is properly accounting for real property designated as inactive in accordance with applicable accounting standards. (See Enclosure 1 for details on the review's scope and methodology.)

Executive Summary

We found that NASA guidance improperly directs that the capitalized cost of temporarily inactive real property, be removed from its general ledger. As a result, NASA real property with a capitalized value of approximately \$247 million, which has been temporarily removed from service, was also removed from the general ledger. We estimated the book value of these properties to be approximately \$24.5 million as of September 30, 2007.

Our October 26, 2007, draft of this memorandum recommended that the Chief Financial Officer (CFO) and the Director, Facilities Engineering and Real Property Division (FERPD), revise NASA's applicable policies and procedures to comply with Federal guidance for accounting for real property designated as inactive. We also recommended that the CFO analyze NASA's property records and record adjustments that should be made to address the improper removal of certain inactive real property from the accounting records.

The Deputy CFO's comments, with concurrence from the Director, FERPD, on the draft of this memorandum are responsive (see Enclosure 3). We will close the recommendations upon completion and verification of management's corrective actions.

Background

Applicable Accounting Standards. The Statement of Federal Financial Accounting Standards (SFFAS) No. 6, “Accounting for Property, Plant, and Equipment,” June 1996, issued by the Federal Accounting Standards Advisory Board (FASAB), states in paragraph 38 that “in the period of disposal, retirement, or removal from service, general PP&E [property, plant, and equipment] shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and the amounts realized shall be recognized as a gain or loss in the period that the general PP&E is disposed of, retired, or removed from service.” Further, paragraph 39 states that “general PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement, or removal from service, it no longer provides service in the operations of the entity. This could either be because it has suffered damage, becomes obsolete in advance of expectations or is identified as excess.”

NASA Inactive Real Property Accounting Process. NASA maintains a NASA-wide data system for real property referred to as the Real Property Inventory (RPI). RPI was established to provide an easy-to-use, automated method for maintaining and reporting real property data. According to NASA Procedural Requirements (NPR) 8800.15A, “Real Estate Management Program Implementation Manual,” September 1998, section 3.9, “Facility Activity Policy,” paragraph 3.9.2, an inactive facility¹ is “any facility that has no specific and present, or near-term, program or institutional requirement. The inactive facility may be placed in a ‘Standby,’ ‘Mothballed,’ or ‘Abandoned’ status” (see Enclosure 2 for definitions). Facilities that are in mothballed or standby status are temporarily removed from service with the expectation that such facilities will be returned to service. The status is reported in RPI and updated as appropriate.

NASA’s Financial Management Requirements (FMR), Volume 6, Chapter 4, “Property, Plant and Equipment,” November 2006, directs the removal of general PP&E in an inactive status from general PP&E accounts. As directed by section 0405, “Policies and Procedures,” subsection 040510, “PP&E Not In Use,” and section 0406, “NASA Held Real Property,” subsection 040604, “Property Not In Use,” the capitalized cost of real property no longer being used for NASA purposes, including property reclassified as standby, mothballed, or abandoned, is to be removed from the accounting records. Further, the guidance directs that if NASA returns such property to active use, it will be returned to capitalized status at the capitalized value in effect when it was removed, plus the value of any modifications of \$100,000 or more made to return it to active status. Subsections 040510 and 040604 state that this accounting treatment is in accordance with SFFAS No. 6.

¹ According to NPR 8800.15A, paragraph 3.3.1, “facility” is synonymous with “real property.”

Improper Guidance and Accounting for NASA's Inactive Real Property

The Office of the CFO (OCFO) does not account for NASA's inactive capitalized real property, specifically property in standby or mothballed status, in accordance with applicable accounting standards. Because the reasons for classifying real property as inactive are varied, NASA chose to identify inactive status in a number of ways (i.e., standby, mothballed, and abandoned). Based on NASA's definition of each of these categories, removal of real property classified as standby and mothballed is temporary, while removal of abandoned real property is permanent. Yet the accounting treatment of these classifications in FMR Volume 6, Chapter 4, does not differentiate between real property removed on a temporary basis and real property removed on a permanent basis. However, SFFAS No. 6 implies, by emphasizing that the property "has suffered damage, becomes obsolete in advance of expectations or is identified as excess," that only property removed on a permanent basis is to be removed from the general ledger.

Guidance documents issued by at least two other Federal agencies reiterate that the accounting treatment is different when assets are removed from service depending on whether the removal is considered temporary or permanent. Below are excerpts from guidance issued by the Department of Defense (DoD) and the Department of Commerce, National Oceanic and Atmospheric Administration (NOAA), respectively.

General PP&E assets that have been temporarily removed from service/use with the expectation that such assets eventually will be returned to service shall continue to be depreciated during periods of non-use...Depreciation shall cease on General PP&E assets awaiting disposal that are damaged, obsolete, or excess (assets no longer providing the intended service to the entity's operations) or are retired before their intended disposal date based on useful life.²

Capitalized property will continue to depreciate until it is taken out of service with the intention that it will never be returned to service.³

Additionally, the FMR includes a provision detailing the accounting treatment when real property is returned to active status. SFFAS No. 6 does not address such a scenario because PP&E permanently removed from service would not be reactivated.

We reviewed Capitalization Reconciliation Reports generated from RPI as of August 27, 2007, for real property at each NASA facility. We found that of 78 real property items with an acquisition cost of at least \$100,000 each (i.e., the capitalization threshold) 59 have a status of mothballed and 19 have a status of standby. According to SFFAS No. 6, these property items should not have been removed from the general ledger, as their removal from service is considered temporary. The total acquisition cost of these real

² U.S. Department of Defense. Financial Management Regulation, Volume 4, (July 2006). Chapter 6, Section 060205, paragraph L. Posted July 2006. Accessed October 2007. Available at www.defenselink.mil/comptroller/fmr/04/04_06.pdf.

³ National Oceanic and Atmospheric Administration. Personal Property Policy #1: Capitalized Personal Property Policy. Last modified March 2007. Accessed October 2007. Available at www.pps.noaa.gov/New_menu/policy1.htm.

property items is approximately \$247 million. Of the 78 properties, 19 were not fully depreciated by September 30, 2007. Using the straight-line depreciation method, we estimated the net book value of the 19 properties to be \$24.5 million as of September 30, 2007, with an annual depreciation expense of approximately \$4.3 million.

The Capitalization Reconciliation Reports only reflect the cumulative total of the acquisition cost and the initial date that the property was placed in service. They do not provide details concerning the cost of the initial property acquisition, cost of subsequent improvements, if any, or the year that such improvements were made. As such, we were unable to determine the exact number of properties not fully depreciated and the corresponding net book value and depreciation expense.

Our research and analysis was limited to real property. The Federal accounting standards do not differentiate, however, between personal property and real property, so the accounting treatment would be the same for both.

Recommendations, Management's Response, and Evaluation of Management's Response

Recommendation 1.a. We recommended that the NASA Chief Financial Officer and the Director, Facilities Engineering and Real Property Division, review and revise the relevant FMR and NPR sections to comply with Federal accounting standards related to temporarily and permanently inactive real property and collaborate to ensure that the terminology used by each office is consistent.

Management's Response. Comments provided by the Deputy CFO, with concurrence from the Director, FERPD, concurred with the recommendation. The Deputy CFO stated that OCFO and FERPD are in the process of revising the applicable policy and procedural documents and expected the policy updates to be completed by the end of the third quarter of FY 2008.

Evaluation of Management's Response. The Deputy CFO's planned action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

Recommendation 1.b. We recommended that the NASA Chief Financial Officer and the Director, Facilities Engineering and Real Property Division, provide training on the revised (based on the above recommendation) FMR and NPR to OCFO and FERPD personnel at Headquarters and Centers that would be affected by the revisions.

Management's Response. The Deputy CFO concurred, stating that revised guidance will be discussed at annual training.

Evaluation of Management's Response. The Deputy CFO's planned action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

Recommendation 2.a. We recommended that the NASA Chief Financial Officer analyze NASA's real property currently classified as standby and mothballed. The analysis should identify all such properties, as well as related improvements, with costs equal to or in excess of the capitalization threshold, and the useful life has not expired. Based on the results, an adjustment should be recorded in the accounting records to address the improper removal of certain inactive real property from the accounting records and determine whether such an adjustment, or portion thereof, should be recorded as a prior period adjustment.

Management's Response. The Deputy CFO concurred, stating that an analysis of capital real property classified as standby and mothballed will be performed and an adjustment, if necessary, will be made. The analysis is expected to be completed by the end of the second quarter of FY 2008.

Evaluation of Management's Response. The Deputy CFO's comments are responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

Recommendation 2.b. We recommended that the NASA Chief Financial Officer research and analyze NASA's accounting treatment of inactive personal property to determine if it is in accordance with Federal accounting standards. If the research and analysis discloses that the accounting treatment is not in accordance with Federal accounting standards, OCFO should develop and implement recommendations for personal property similar to these recommendations for real property.

Management's Response. The Deputy CFO concurred, stating that additional research and analysis will be performed on inactive personal property.

Evaluation of Management's Response. The Deputy CFO's planned action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

We appreciate the courtesies extended during our review. If you have any questions, or need additional information, please contact Mr. Mark Jenson, Financial Statement Audits Director, at 202-358-0629 or me at 202-358-2572.

signed

Evelyn R. Klemstine

3 Enclosures

cc:

Assistant Administrator for Infrastructure and Administration
Deputy Chief Financial Officer
Executive Director, Ernst & Young LLP

Scope and Methodology

We performed this review from September through October 2007. However, the review was limited in that we did not follow generally accepted government auditing standards. We also did not review related internal controls. The purpose of the review was to determine whether NASA is properly accounting for real property designated as inactive in accordance with applicable accounting standards. The scope of the OIG review was limited to determining applicable criteria, reviewing NASA policies and procedures, and conducting a cursory review of records for inactive property. However, we believe that the evidence obtained during this limited review nonetheless provides a reasonable basis for our findings and conclusions.

We obtained and examined Capitalization Reconciliation Reports generated by the RPI for NASA sites; the following NASA and regulatory guidance: FMR Volume 6, NPR 8800.15A, and SFFAS No. 6; and the following guidance of DoD and NOAA: DoD Financial Management Regulation, Volume 4, Chapter 6 and NOAA Personal Property Policy #1. We interviewed OCFO personnel at Headquarters to clarify our understanding of the accounting treatment of inactive property by NASA.

Computer-Processed Data. Although we based our conclusions on evidence gathered from computer-processed data from the RPI and spreadsheets, we believe that evidence to be reliable based on our confirmation of specific instances with appropriate Headquarters personnel.

Prior Coverage. We did not identify any reports issued during the last 5 years that specifically addressed NASA's accounting for inactive real property.

Applicable NASA Guidance

NPR 8800.15A, “Real Estate Management Program Implementation Manual,” September 1998, section 3.9, “Facility Activity Policy,” defines standby, mothballed, and abandoned, which are as follows.

- Standby – “a facility that is temporarily not in use and appropriate maintenance measures have been taken to maintain its vital or essential operating systems in a state of readiness or availability for future use. Selective life cycle cost effective facilities maintenance and repair is required. Total time to deactivate and then to reactivate the facility, including the standby period, is expected to be less than 12 months.” Further, “utility system and collateral equipment have been secured as may be appropriate and equipment is cycled in operation on a planned basis to prevent deterioration.” Also, “facility interior has appropriate environmental control to prevent deterioration.”
- Mothballed – “a condition where a facility has been deactivated and appropriate maintenance measures have been taken to prevent deterioration of its vital or essential systems or placed in protective storage. Higher first year costs would be expected because of preparations for mothballing, but future annual costs should be significantly lower due to reduced maintenance and repair requirements. Total time to deactivate and then to reactivate the facility, including the mothballed period, is expected to exceed 12 months.” Further, “utility systems and collateral equipment have been shut down and properly prepared for long term inactivation without significant deterioration. Selected systems should be kept in operation and inspected, such as cathodic protection systems” and “facility interior has appropriate environmental control to prevent significant deterioration.”
- Abandoned – “a condition in which a facility has been ‘walked away from’ or ceasing to maintain any part of the property.” There are no plans for future reactivation. Plans have been made to demolish or declare the facility excess at the earliest practical date. Further, “all utilities have been secured and disconnected at the first service equipment location outside the facility” and “facility has been secured to prevent the pilfering of economically salvageable materials” and “until the facility is demolished, it may be necessary to maintain the exterior of the facility in a minimally aesthetically acceptable condition” and “all personal property and controlled equipment have been removed and accounted for.”

Management's Comments

National Aeronautics and Space Administration
Headquarters
Washington, DC 20546-0001



December 6, 2007

Reply to Attn of: Office of the Chief Financial Officer

TO: Assistant Inspector General for Auditing
FROM: Deputy Chief Financial Officer
SUBJECT: Response to Draft Memorandum on National Aeronautics and Space Administration's (NASA) Accounting for Capitalized Real Property Designated as Inactive (Assignment No. S-08-002-00)

We are providing you with comments on the Office of Inspector General (OIG) draft report entitled "NASA's Accounting for Capitalized Real Property Designated as Inactive (Assignment No. S-08-002-00)."

In the subject report, you made four recommendations to the Chief Financial Officer and the Director of Facilities Engineering and Real Property Division to properly account for real property designated as inactive in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 6. One of the OIG recommendations relates directly to the combined efforts of, the Offices of the Chief Financial Officer (OCFO) and Facilities Engineering and Real Property Division (FERPD) to update Financial Management Requirements (FMR) and NASA Procedural Requirements (NPR) related to Property, currently underway. Our comments related to your recommendations follow:

Recommendation 1: We recommend that the NASA Chief Financial Officer and the Director, Facilities Engineering and Real Property Division:

- a. review and revise the relevant FMR and NPR sections to comply with Federal accounting standards related to temporarily and permanently inactive real property and collaborate to ensure that the terminology used by each office is consistent.
- b. provide training on the revised (based on the above recommendation) FMR and NPR to OCFO and FERPD personnel at Headquarters and Centers that would be affected by the revisions.

Response: Management concurs that the relevant FMR and NPR sections should be revised to comply with Federal accounting standards related to temporarily and permanently inactive real property. The Offices of the CFO and FERPD are currently working to make the necessary revisions and will work in coordination to ensure that terminology is consistent across the various Mission Support Offices. The expected completion date for the Policy revisions is the end of the FY 2008, third quarter.

Management also concurs that annual property training should incorporate discussions on the revised guidance for the distinction between temporarily and permanently inactive real property and the appropriate accounting treatment. The modified training sessions that incorporated the revised guidance will be held no later than the end of the FY 2008, third quarter.

Recommendation 2: We recommend that the NASA Chief Financial Officer:

- a. analyze NASA's real property currently classified as standby and mothballed. Identify all such properties, as well as related improvements, with costs equal to or in excess of the capitalization threshold, and the useful life has not expired. Based on the results, record adjustments that should be made to address the improper removal of certain inactive real property from the accounting records and determine whether such an adjustment, or portion thereof, should be recorded as a prior period adjustment.
- b. research and analyze NASA's accounting treatment of inactive personal property to determine if it is in accordance with Federal accounting standards. If the research and analysis discloses that the accounting treatment is not in accordance with Federal accounting standards, OCFO should develop and implement recommendations for personal property similar to these recommendations for real property.

Response: Management concurs with the recommendation to perform an analysis of Capital real property currently classified as standby and mothballed. Based on the results of the analysis, a determination will be made as to whether either a prior period, or current year, adjustment should be made to the accounting records. This analysis is expected to be completed by the end of the FY 2008, second quarter.

The OCFO will coordinate with the Facilities Engineering and Real Property Division to ensure that future Standby and Mothballed transactions are properly recorded in the NASA Real Property Inventory database (NRPI) and evidenced by appropriate supporting documentation.

Management also concurs that additional research and analysis should also be performed on inactive personal property. If the research determines that the accounting treatment is not in accordance with accounting standards, an adjustment will be made and the applicable policy documents will be revised. The analysis is expected to be completed by the end of the FY 2008, second quarter.

Thank you for your continued interest and for the opportunity to provide comments. We look forward to our continued partnership in ensuring that NASA's Property balances are accurately stated in accordance with Generally Accepted Accounting Principles. This letter is

submitted in concurrence with the Director of Facilities Engineering and Real Property Division. If you have any questions or need additional information, please contact Leslie Hyland, Director, Financial Management Division, at (202) 358-2645.


for Terry Bowie