



Office of Inspector General

Accuracy of Property, Plant, and Equipment Financial Information

**Continued management oversight is
needed to correct control issues.**

Report No.: 8AF-G10-102

Date: May 27, 1998

Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

May 27, 1998

Memorandum to:
Deputy Assistant Secretary for Financial Management (047)
Chief Financial Officer, Veterans Health Administration (17)

Accuracy of Property, Plant, and Equipment Financial Information

1. As part of our audit of the Department of Veterans Affairs (VA) Fiscal Year (FY) 1997 Consolidated Financial Statements (CFS), we evaluated management's internal control structure over property, plant, and equipment (PP&E). In addition, we made an analysis of PP&E data in the general ledger and fixed asset subsystem, and actions taken by the VA and Veterans Health Administration (VHA) Chief Financial Officer (CFO) staff to improve internal controls.
2. As of September 30, 1997, VA had over 196,000 PP&E items totaling \$17.9 billion with accumulated depreciation of \$7.7 billion. To assess the accuracy and reliability of financial information in VA's FY 1997 CFS, we evaluated the accuracy and reasonableness of PP&E and related depreciation account balances and the adequacy of key internal controls over real property and equipment items. Specifically, we discussed PP&E accounting policies with appropriate VA Central Office staff, analyzed national PP&E general ledger account data, sent questionnaires to VA Central Office and 150 field activities, reviewed a sample of 800 PP&E items, and visited 9 VA Medical Centers.
3. Our prior audits¹ identified problems with the systems, processes, and procedures used to control PP&E items. These audits also identified a number of errors in PP&E account balances and related subsidiary records. In response to our prior audit findings, VA financial managers have increased oversight of PP&E account balances, provided additional guidance to facility staff, and conducted special reviews of high-value PP&E items. For example, during FY 1997, VHA had medical facilities (a) review all PP&E

¹ Audits of VA's Consolidated Financial Statements for Fiscal Years 1996, Report No. 7AF-G10-051; 1995, Report No. 6AF-G10-043; 1994, Report No. 5AF-G10-052; 1993, Report No. 4AF-M02-083; and 1992, Report No. 3AF-M02-155.

items that had acquisition values of \$750,000 or greater, and (b) certify to the accuracy of information recorded in the fixed asset subsidiary records for these large value items.

4. Although improvements have been made in the accuracy of PP&E financial information, our FY 1997 audit disclosed a number of errors and internal control weaknesses concerning real property and equipment. None of these issues had a material effect on VA's financial statements based on tests made. However, we are providing you our findings to emphasize the continuing need to enhance internal controls and improve operations. VA financial managers need to continue efforts to ensure that facility staff:

- Record acquisition costs, receipt/placed in service dates, and useful lives of real property and equipment items correctly in the financial records.
- Complete reconciliations of real property and equipment general ledger accounts, and make any appropriate adjustments.
- Capitalize costs in the construction work-in-process accounts when the building or building improvement is placed into service.
- Complete physical inventories of non-expendable equipment on time.

5. Details of our observations are discussed in Appendix II. In our opinion, the types of errors noted during the audit could result in a future material weakness if they are not corrected.

6. We are available to provide assistance to your staff on these issues. If you wish to discuss this report or if you need additional information, please contact Mr. Garry Martin at (202) 565-9404 or me at (202) 565-7013.

For the Assistant Inspector General For Auditing

(original signed by John A. Nesbit, Jr. for:)

John E. Jonson
Director, Financial Statement Audit
Operations Division (52CF)

TABLE OF CONTENTS

MEMORANDUM TO:

	<u>Page</u>
Deputy Assistant Secretary for Financial Management (047) Chief Financial Officer, Veterans Health Administration (17)	i

APPENDICES

I.	PURPOSE, BACKGROUND, AND SCOPE	1
II.	DETAILS OF AUDIT	5
A.	Continuing Oversight Is Needed to Refine Property, Plant, and Equipment Records.....	5
B.	Action Is Needed to Improve the Accuracy of Real Property and Non-expendable Equipment Information	7
C.	Increased Emphasis Is Needed to Ensure that Account Reconciliations Are Performed	10
D.	Better Management of Work-in-Process Accounts Would Ensure Timely Capitalization of Assets Placed in Service	10
E.	Improvements Are Needed to Ensure Accurate and Timely Physical Inventories of Non-expendable Equipment	11
F.	Conclusion – Continued Emphasis Is Needed in the Areas of Management Oversight and Implementing Internal Controls	12
III.	FACILITIES VISITED	15
IV.	FINAL REPORT DISTRIBUTION	16

PURPOSE, BACKGROUND, AND SCOPE

PURPOSE

As part of our audit of the Department of Veterans Affairs (VA) Fiscal Year (FY) 1997 Consolidated Financial Statements (CFS), we evaluated internal accounting controls over property, plant, and equipment (PP&E). The audit was conducted in accordance with generally accepted government auditing standards.

Our prior financial statement audits, for FYs 1992 through 1996, identified internal control problems, and significant errors in PP&E and related depreciation account balances. In response to our prior audits, VA has initiated corrective actions, and has made good progress in improving internal controls over PP&E and correcting account balances. For example, VA implemented the Financial Management System (FMS) Fixed Asset Subsystem, Fixed Asset Package (FAP), which is the subsidiary record for PP&E items. In addition, the VA and Veterans Health Administration (VHA) Chief Financial Officer (CFO) staff have:

- Issued additional guidance and instructions.
- Performed analytical reviews of general ledger accounts to identify and correct accounting errors and irregular account balances.
- Worked with facilities to reconcile general ledger PP&E account balances to the subsidiary record balances.
- Requested VA Medical Centers (VAMCs) to review and certify to the accuracy of FAP information for fixed assets costing \$750,000 or more.
- Held, with the assistance of Office of Inspector General staff, a national training session on PP&E accounting issues for VHA senior accountants.

BACKGROUND

Definition of Property, Plant, and Equipment. PP&E is divided into two basic groups. The first group consists of real property such as buildings, other structures, and land. The second group consists of non-expendable equipment, including computer software. VA policies usually address real property and equipment separately, since fund sources and transaction processing are different.

Chief Financial Officers Act. The CFO Act of 1990 (Public Law 101-576) requires VA to issue annual reports on its CFS. The Act also requires that the financial statements be audited each year to ensure financial data is accurate and reliable for use in making management decisions and improving accountability.

Financial System. The Financial Management System (FMS) is VA's core financial management system. FMS is a comprehensive, agency-wide system that supports a full range of financial activities. The system was designed to: (a) increase accounting controls, (b) enhance internal controls, (c) implement the Standard General Ledger, and (d) comply with the Joint Financial Management Improvement Program Core Financial Systems Requirements. In April 1995, VA facilities began installing the FAP for real property assets. The FAP contains detailed data (e.g., acquisition cost, receipt/placed in service date, and useful life) for each asset and computes depreciation for each item. In June 1996, facilities implemented the Automated Engineering Management System/Medical Equipment Repair System, a centralized database residing in FAP, which contains data on equipment.

VA Policies. VA policies state that the accounting system should provide for effective internal controls. The internal control structure should provide reasonable assurance that: (a) accounting operations and transactions are in accordance with applicable laws, regulations, and agency policies; (b) assets are safeguarded against waste, loss, and unauthorized use; and (c) assets, expenditures, and revenues applicable to agency operations are properly recorded and accounted for to permit accurate and reliable financial reports.

Real Property Capitalization. Real property, acquired either by construction, purchase, transfer, donation, trade-in, or exchange, should be capitalized when the acquisition cost is \$5,000 or more, and the asset's projected useful life is 2 years or more. The useful life is the estimated years the asset is projected to be in service. Real property contracts, which are part of the same project, should be capitalized when the total aggregate cost of the project is \$5,000 or more, even if the individual component costs are less than \$5,000. Systems (alarms, sprinklers, etc.) which service more than one building or structure should be recorded as a separate asset in the FAP. The acquisition value should include (a) labor, material, and supply costs; (b) architectural and engineering costs; and (c) site preparation costs. The acquisition date should be the date that the asset was placed into service. This information is obtained from Engineering Service.

Construction Work-in-Process (WIP). Project costs related to buildings and structures under construction should be accumulated in the WIP account. Subsequently, costs in the WIP account should be capitalized in the asset accounts when the asset is placed in service. Moreover, project costs should be expensed if (a) the total cost does not meet the

\$5,000 capitalization criteria, or (b) VA policy specifically excludes the costs from capitalization, such as costs for removing asbestos.

Equipment Capitalization. Non-expendable equipment costing \$5,000 or more, and having a useful life of 2 years or more should be capitalized in the FAP. The acquisition costs should consist of: (a) all amounts paid to the vendor; (b) transportation charges; (c) handling and storage costs; and (d) labor (including purchase and hire), materials, and supplies. The acquisition date should be the date that the facility received the equipment item (i.e., date on the receiving report). The FAP automatically records each equipment item's useful life based on its category stock number.

Account Reconciliations. VA policies require that monthly reconciliations be accomplished to compare the balances in the general ledger accounts with the balances in the subsidiary records. These reconciliations are essential for ensuring the accuracy of the general ledger account balances.

Equipment Inventories. VA facilities are required to perform physical inventories of non-expendable equipment and reconcile the inventory counts to accountable records. Facility staff use the last inventory date and accuracy rate for each Consolidated Memorandum Receipt² (CMR) to determine when the next inventory should be performed. If the accuracy rate of the last inventory is 100 percent, the next inventory should be completed within 2 years; if the accuracy rate is between 95 percent and 99 percent, the next inventory should be completed within 12 months; and if the accuracy rate is below 95 percent, another inventory should be performed within 6 months.

Bar-coding Equipment. To better control equipment and facilitate the physical equipment inventory process, VA procured bar-coding equipment for VAMCs. The use of bar codes enables VAMC staff to quickly identify equipment items, reduces the time for conducting inventories, and increases inventory accuracy. These benefits are possible because facility staff do not have to manually verify and record equipment identification numbers.

SCOPE

As of September 30, 1997, VA had over 196,000 PP&E items totaling \$17.9 billion and accumulated depreciation totaling \$7.7 billion. To assess the accuracy and reliability of financial information in VA's FY 1997 CFS, we evaluated the accuracy and reasonableness of PP&E and related depreciation expense account balances, and the adequacy of key internal controls over real property and equipment. Specifically, we discussed PP&E accounting policies with appropriate VA Central Office staff, analyzed

² A list of equipment items that belong to an activity or section within a facility.

national PP&E financial information, sent questionnaires to VA activities, reviewed a sample of 800 PP&E items, and visited selected VAMCs.

Central Office Visits. We interviewed appropriate staff assigned to the VHA CFO and the Office of Deputy Assistant Secretary for Financial Management. We discussed financial policies, oversight of financial information, and actions taken to correct accounting errors identified during prior CFS audits.

Analyses of Financial Information. On a national basis, we analyzed PP&E (a) general ledger account balances to identify abnormal and irregular balances, and (b) asset information recorded in the FAP to identify inaccurate transactions.

Questionnaires to VA Activities. We sent questionnaires to VA Central Office and 150 facilities to validate the accuracy of data recorded in the FAP for 800 selected PP&E items. We also sent VA Central Office and the 150 facilities questionnaires on equipment inventories, real property and equipment account reconciliations, and WIP accounts. These questionnaires were sent to VAMCs, Regional Offices, and various support activities. As appropriate, we followed up questionnaire responses with responsible facility staff.

Review of PP&E Items. We selected a sample of 800 items (buildings and equipment) to test the accuracy of the data recorded in the FAP and to determine whether the items were on-hand. Our sample consisted of three strata. The first stratum consisted of all 120 assets that had a book value of \$10 million and greater. The second stratum consisted of a sample of 300 items that had book values of \$750,000 up to \$10 million. The third stratum consisted of 380 items that had book values under \$750,000. For the 800 sample items, we sent questionnaires to the appropriate VA activities requesting them to verify the acquisition costs, date the asset was received or placed in service, useful life, and whether the item was on-hand.

Medical Center Visits. We visited nine VAMCs to evaluate internal accounting controls for PP&E, and follow-up on questionnaire results. (See Appendix III for a list of activities visited.) We reviewed procedures concerning account reconciliations, equipment inventories, and accuracy of PP&E data recorded in the general ledger and the FAP.

DETAILS OF AUDIT

A. Continuing Oversight Is Needed to Refine Property, Plant, and Equipment Records

Our analyses and tests of fixed asset general ledger and FAP data for FY 1997 disclosed improvement in the accuracy of financial data. However, during the audit, we noted a number of accounting errors and internal control weaknesses. Therefore, VA financial managers need to continue oversight to refine the accuracy of PP&E records.

Analyses of General Ledger and FAP Information

General Ledger Accounts. We analyzed FY 1997 year-end trial balance data for PP&E asset and accumulated depreciation accounts for all VA activities. We found that VA has made significant progress in reducing the number of PP&E accounts with irregular balances (i.e., normal debit accounts with credit ending balances and normal credit accounts with debit balances). It is important that these types of irregular account balances are corrected because they indicate that errors were made in recording and/or adjusting transactions in these accounts. The table below shows the number of irregular account balances noted at the end of FY 1997 versus FY 1996.

<u>Irregular Account Balance</u>	<u>End of FY 1997</u>		<u>End of FY 1996</u>	
	<u>Number of Accounts</u>	<u>Dollar Amount</u>	<u>Number of Accounts</u>	<u>Dollar Amount</u>
Normal Debit Accounts with Credit Ending Balances	48	\$4,675,118	92	\$92,168,948
Normal Credit Accounts with Debit Ending Balances	4	168,477	46	14,627,373

Normal Debit Accounts with Credit Ending Balances. The 48 irregular account balances involved asset (buildings, equipment, etc.) accounts with credit balances, at the end of FY 1997, which should have been debits. For these accounts, the credit balances totaled \$4.7 million indicating an understatement of the assets by this amount or more.

Normal Credit Accounts with Debit Ending Balances. The four irregular account balances involved accumulated depreciation accounts with debit balances at the end of FY 1997, which should have been credits. For these accounts, the debit balances totaled

\$168,477, indicating an overstatement of assets and an understatement of accumulated depreciation by this amount or more.

FAP Information. Our analyses of data recorded in the FAP, as of September 30, 1997, disclosed that for the most part, the number of errors and/or indicators of problems decreased from those noted in FY 1996. For example:

- At the end of FY 1996, we found 484 building and equipment items (\$7.7 million) that were fully depreciated (book value was zero) but the designated useful life had not expired, indicating that errors had occurred. VA management took adequate action to correct these deficiencies. We found no similar deficiencies at the end of FY 1997.
- At the end of FY 1997, 1,680 building and equipment items had a book value of \$180.3 million, which should have been zero because their designated useful lives had expired, indicating that errors had occurred either in the system or in processing the accounting entries. As a result, the asset accounts were overstated and the related depreciation expense and accumulated depreciation accounts were understated. The number of FY 1997 exceptions decreased from 2,639 noted at the end of FY 1996.
- At the end of FY 1997, 22 building and equipment items (\$969,000) had acquisition dates in the future; therefore, depreciation was not started. As a result, the assets were overstated and depreciation expense and accumulated depreciation for these items were understated. The number of FY 1997 exceptions decreased from 204 noted at the end of FY 1996.
- For FY 1997, no depreciation expense was charged for 1,743 building and equipment items (costing \$108.1 million) acquired before September 1, 1997, for which depreciation should have started. As a result, the depreciation accounts were understated. The number of FY 1997 exceptions increased slightly from 1,610 noted at the end of FY 1996.
- At the end of FY 1997, 2,532 equipment items (\$4.3 million) with acquisition values of under \$5,000 each were recorded in the FAP. In addition, 66 other equipment items were shown as having no acquisition value. None of these items should have been capitalized under VA capitalization policy, which states that items under \$5,000 should be expensed. As a result, the equipment account balance was overstated by \$4.3 million. The number of FY 1997 exceptions increased from 1,377 noted at the end of FY 1996.

B. Action Is Needed to Improve the Accuracy of Real Property and Non-expendable Equipment Information

Fixed Asset Sample. As of September 30, 1997, VA activities had over 196,000 fixed assets. The acquisition value for these assets totaled \$17.9 billion and their book value totaled \$10.2 billion. From this universe, we selected a sample of 800 PP&E items to test the accuracy of the data recorded in the FAP and to determine whether the items were on-hand. For the 800 sample items, we sent questionnaires to the appropriate VA activities requesting them to verify the acquisition costs, date the asset was received or placed in service, useful life, and whether the item was on-hand. We also visited nine VAMCs and followed-up with other activities, when appropriate.

Sample Review Results. Our review showed that the accuracy of data recorded in the FAP needed improvement. We noted deficiencies for 92³ of the 800 items reviewed. Specifically, 31 items had incorrect acquisition costs, 49 items had incorrect receipt or placed in service dates, 5 items had incorrect useful lives, and 18 items could not be found. The overall projected net impact of the deficiencies found is: (a) an overstatement of the asset accounts by \$37.6 million, (b) an overstatement of prior year depreciation accounts by \$13.4 million, (c) an overstatement of FY 1997 depreciation expense account by \$1.6 million, and (d) an overstatement of accumulated depreciation accounts by \$120.3 million. The following are examples of the deficiencies found for real property and equipment items.

Real Property

- VAMC staff erroneously capitalized a hospital building for only \$13.2 million in the FAP rather than the actual \$123.5 million that it cost to construct the building. This error understated the building general ledger account by \$110.3 million; understated the prior year depreciation expense by \$5.5 million; understated the FY 1997 depreciation expense by \$2.8 million; and understated the accumulated depreciation account by \$8.3 million. During the audit, we brought this discrepancy to management's attention. VA CFO staff adjusted the asset account by \$110 million prior to finalizing the FY 1997 financial statements.
- VAMC staff incorrectly capitalized a \$7.9 million parking structure effective August 1, 1995. However, this item should have been capitalized effective June 27, 1994, when it was placed in service. Therefore, depreciation was started about 13 months late. This occurred because the Facilities Plant Manager did not provide Fiscal Service staff with timely information concerning the activation date of the

³ Some items had more than one deficiency.

asset. As a result, the accumulated depreciation account and prior year depreciation expense were understated by \$230,900.

- VAMC staff did not capitalize a \$2.9 million boiler on time. This asset was capitalized on July 27, 1993, when the last progress payment was made. However, the item should have been capitalized effective December 31, 1992, when it was placed in service. Therefore, depreciation was started about 7 months late. As a result, both the accumulated depreciation account and prior year depreciation expense were understated by \$83,600 each.
- VAMC staff did not remove a nurse's station remodeled for \$13,700 from the FAP when it was demolished on November 29, 1994, to allow for renovation of the patient care area. This asset remained on the FAP as of September 30, 1997. As a result, the asset account was overstated by \$13,700 and the accumulated depreciation account was overstated by \$3,700.
- VAMC staff incorrectly capitalized \$35,700 for costs to remove asbestos from air unit heat wheels. VA policies require facilities to expense asbestos removal costs. As a result, the asset account was overstated by \$35,700, and prior year expenses were understated by \$35,700. In addition, the accumulated depreciation account was overstated by \$18,900.
- VAMC staff recorded on the FAP a 10-year useful life for a pneumatic tube system costing \$1.1 million. During our audit, VAMC staff reported that the correct useful life for this item was 15 years. This overstated the accumulated depreciation account by \$80,200, prior year depreciation expense by \$44,900 and FY 1997 depreciation expense by \$35,300.

Equipment

- VAMC staff incorrectly recorded on the FAP the gross cost of \$26,100 for a radio frequency brain lesion maker. The purchase order showed that the supplier discounted the gross cost by \$7,800. Therefore, the net cost of \$18,300 should have been recorded on the FAP. This error overstated the asset account by \$7,800 and overstated the accumulated depreciation account by \$1,600.
- VAMC staff incorrectly recorded on the FAP a receipt date of October 26, 1994, for an arthroscopic instrument costing \$14,300. However, the receiving report showed that the item was received on October 26, 1992. It appears that VAMC staff inadvertently recorded the wrong year (1994 instead of 1992) on the FAP. Therefore,

depreciation was started 2 years too late. This error resulted in understating both the accumulated depreciation account and prior year depreciation expense by \$2,900 each.

- In April 1997, VAMC staff turned in a \$10,800 analyzer assembly to be sold as scrap. However, this item remained on the FAP as of September 30, 1997. Therefore, the asset account was overstated by \$10,800; and the accumulated depreciation account was overstated by \$9,300 at the end of FY 1997. In response to our audit, VAMC staff stated that they removed the item from the FAP on November 3, 1997.
- VAMC staff scrapped a \$6,000 receiver in 1994. However, the item incorrectly remained on the FAP at the end of FY 1997. This overstated both the asset and accumulated depreciation accounts by \$6,000.
- VAMC staff could not locate a centrifuge rotor attachment stand costing \$6,800 that was assigned to Research Service. During our visit to the VAMC, Research Service was moving to a new location. Acquisition and Materiel Management staff said they would look for the item after the move, but they could not subsequently locate it. Therefore, the asset account was overstated by \$6,800; and the accumulated depreciation account was overstated by \$4,400.
- VAMC staff erroneously capitalized a \$730 pressure module. This item should have been expensed because it did not meet the VA capitalization criteria of \$5,000. As a result, the asset account was overstated by \$730, and prior year expenses were understated by the same amount. Moreover, the accumulated depreciation account was overstated by \$600.

Twenty-four of the 92 data errors found were for high dollar value items (\$750,000 net book value or greater). We made a follow-up review to determine whether the data errors found for the high dollar value items had been corrected. We reviewed the FAP as of May 10, 1998, and found that corrections had not been made for 8 of the 24 errors. We provided VHA's CFO staff with a list of these eight errors so that they could advise the facilities to initiate corrective actions.

In view of the above deficiencies, we believe that the VA and VHA CFO staff need to continue working with facilities to ensure that fixed asset data are correctly recorded in the FAP. In addition, source documents (such as purchase orders, contracts, Engineering capitalization memos, etc.) are no longer available for many assets because there is no criteria to retain supporting documents for the life of the assets. Therefore, we believe that VA needs to establish a requirement that facilities maintain a permanent folder or computerized file for each asset that contains basic documentation supporting the cost of the asset, the date received or placed in service, and the useful life. Also, we believe

VHA's CFO staff needs to continue their review of high-dollar value building and equipment items, and have VAMCs research applicable documentation or make reasonable estimates to certify the accuracy of the asset amounts recorded in the general ledger and the FAP. From our recent discussions with VHA CFO staff, they requested VAMCs to review the accuracy of information for high-dollar value assets recorded in the FAP as of May 8, 1998.

C. Increased Emphasis Is Needed to Ensure that Account Reconciliations Are Performed

We sent questionnaires to VA Central Office and 150 facilities to determine whether they completed the required monthly reconciliations of general ledger asset account balances with subsidiary record balances during FY 1997. We found that some facilities did not complete the reconciliations. The major reasons cited for not completing account reconciliations were staffing problems, and integration and consolidation of facilities. Details of our results for equipment and real property reconciliations are discussed below:

Equipment. Sixteen of 151 (11 percent) activities did not complete all monthly equipment account reconciliations during FY 1997. Moreover, 36 of the 151 (24 percent) activities did not complete reconciliations of equipment accounts in time for adjustments to have reached the FY 1997 year-end trial balance.

Real Property. Twenty-six of 150⁴ (17 percent) activities did not complete all monthly real property account reconciliations during FY 1997. Four of the 26 activities had not completed any reconciliations during the year. Moreover, 14 of the 150 (9 percent) activities did not complete reconciliations of real property accounts in time for adjustments to have reached the FY 1997 year-end trial balance.

VA and VHA CFO staff should continue working with the facilities to ensure that monthly account reconciliations are completed as required, and proper and timely adjustments are made. Completing monthly account reconciliations would identify and resolve variances before major problems occur.

D. Better Management of Work-In-Process Accounts Would Ensure Timely Capitalization of Assets Placed In Service

Improved management controls are needed to ensure timely capitalization of assets and the accuracy of the WIP account. We sent questionnaires to 150⁵ facilities to determine

⁴ This sample does not include VA Central Office since it does not have real property.

⁵ See footnote 4.

whether costs for completed projects in the WIP account were capitalized in a timely manner. We found that 40 of 150 (27 percent) activities did not capitalize completed construction projects as of September 30, 1997. The costs of the completed projects that were not capitalized totaled \$14.1 million. In addition, \$2.5 million in the WIP account should have been expensed. As a result, the asset account was understated by \$14.1 million, and expenses were understated by \$2.5 million. For example:

- At a VAMC, 21 projects listed in the WIP account at the end of FY 1997 were completed and in use on or before September 30, 1997. The total dollar value of these projects was \$582,106 (\$398,535 to be capitalized and \$183,571 to be expensed). Engineering staff had not notified Fiscal Service when the projects were completed and placed in service.
- At another VAMC, WIP account reconciliations were not completed monthly. Therefore, \$31,479 for 3 completed projects remained in the WIP account as of September 30, 1997.

The conditions discussed above occurred primarily because of inadequate coordination between Engineering and Fiscal Services. To facilitate timely capitalization of assets, Engineering Service needs to inform Fiscal Service of: (a) the date each project was completed and placed in service as soon as the event occurs; (b) projects that have been canceled; and (c) assets that have been disposed of so that Fiscal Service can make adjustments to the appropriate asset and accumulated depreciation accounts. In this regard, Engineering Service should work with Fiscal Service to establish a procedure for communicating information on completed projects, such as preparing memorandums or sending E-mail messages.

E. Improvements Are Needed to Ensure Accurate and Timely Physical Inventories of Non-expendable Equipment

Historically, VA activities have had problems with conducting timely and accurate inventories of non-expendable equipment. We sent questionnaires to VA Central Office and 150 facilities to determine whether required equipment inventories were performed. We found that equipment items on many CMRs were not inventoried on time. In addition, about half of the facilities were not using available bar-coding equipment to conduct equipment inventories. Details of our results are discussed below:

Equipment Inventories Were Not Performed On Time. Sixty-two of the 151 (41 percent) activities did not complete all required inventories during FY 1997 (i.e., these inventories should have been performed in FY 1997, but they were not completed). The asset value of items that were not inventoried in FY 1997 totaled \$645.4 million, or about

15 percent of all equipment items. The major reasons cited for delinquent equipment inventories were staffing problems and changes due to consolidation, reorganization, and restructuring at the facilities.

Bar-coding Systems Were Not Implemented. Seventy-five of the 151 (50 percent) activities had not fully implemented the bar-coding system to facilitate physical inventories of equipment. Facility implementation of the bar-coding system has been a problem in the past. Our FY 1996 audit found that about half of the facilities visited had not implemented the bar-coding system. The major reason cited for not using the bar-coding system was equipment and software problems. Timely and accurate equipment inventories are essential for ensuring that equipment is accounted for, adequately safeguarded, and missing items are detected. We believe that greater use of the bar-coding equipment would improve equipment identification, facilitate conducting equipment inventories, and improve the accuracy of the inventories because facility staff do not have to manually verify equipment identification numbers.

F. Conclusion - Continued Emphasis Is Needed in the Areas of Management Oversight and Implementing Internal Controls

We found that VA has made good progress in improving internal controls over PP&E and correcting account balances. However, accounting errors and internal control problems still existed which, if not corrected, may result in a material weakness in the future. Accordingly, we encourage the VA and VHA CFO staff to continue their efforts to provide additional written instructions and training to field staff, and emphasize the importance of financial reconciliations, physical inventories, and analytical reviews of general ledger and FAP data. On April 28, 1998, we provided VHA CFO staff detailed schedules of all deficiencies noted during the audit to assist them in initiating appropriate actions. We believe continued emphasis is needed in the following areas of management oversight and implementing internal controls by field activities.

Management Oversight

VA and VHA CFO staff need to continue to:

- Provide management oversight of PP&E accounting activities.
- Report any errors or irregularities noted during oversight reviews to the appropriate Veterans Integrated System Network financial manager or activity director so that corrective actions can be initiated.
- Provide guidance, instructions, and training to field staff.

- Analyze national general ledger and FAP data to identify potential errors and irregularities.
- Perform a special review of high-dollar value PP&E items similar to the reviews made in FY 1997. Have field staff research applicable documents or make reasonable estimates to certify the accuracy of asset value and data recorded in the general ledger and the FAP.
- Establish a requirement that facilities maintain a permanent folder or computerized file for the life of each asset that contains basic documentation supporting the cost of the asset, the date received or placed in service, and the useful life.

Field Activity Financial Controls

VA and VHA CFO staff should continue emphasizing to field activity staff to:

- Input fixed asset data (e.g., acquisition cost and date, and useful life) into the FAP accurately.
 - ◇ For equipment, acquisition values should include: (a) all amounts paid to the vendor; (b) transportation charges; (c) handling and storage costs; and (d) labor (including purchase and hire), materials, and supplies.
 - ◇ For real property, Engineering and Fiscal Services should coordinate and exchange information regarding: (a) the dates buildings or improvements are placed in service; (b) the description of old assets that have been retired or disposed of so they can be removed from the general ledger accounts and the FAP; (c) project costs that need to be capitalized including architectural and engineering and installation costs; and (d) project costs that need to be expensed, such as asbestos removal and repair and maintenance costs.
- Reconcile fixed asset general ledger account balances to subsidiary record balances at least monthly.
- Review and reconcile FMS-generated WIP monthly reports and coordinate with Engineering staff to ensure timely capitalization and/or expensing of costs, as appropriate.
- Complete equipment inventories on time by advising appropriate managers and employees to: (a) maintain a suspense file of CMR inventories; (b) follow up on delinquent inventories; (c) notify the Facility Director of delinquent inventories; and

(d) require responsible officials to certify that the equipment inventories were conducted in accordance with applicable VA policies.

- Implement the bar-coding system for tracking equipment and conducting inventories, and use this equipment to conduct physical inventories of equipment items.

FACILITIES VISITED

VA Health Care System Palo Alto, CA (640)
VA Maryland Health Care System (512, 566, and 641)
VAMC Cleveland, OH (541)
VAMC Dallas, TX (549)
VAMC Detroit, MI (553)
VAMC Little Rock, AR (598)
VAMC Minneapolis, MN (618)
VAMC St. Louis, MO (657)
VA South Texas Veterans Health System San Antonio/Kerrville, TX (671/591)

FINAL REPORT DISTRIBUTION

VA Distribution

Acting Assistant Secretary for Management (004)
Under Secretary for Health (105E)
Deputy Assistant Secretary for Financial Management (047)
Chief Financial Officer, Veterans Health Administration (17)
Veterans Benefits Administration, Director, Office of Resource Management (24)
National Cemetery System, Director, Office of Operations Support (402)
Deputy Assistant Secretary for Public Affairs (80)
Director, Office of Management Controls (004B)
Chief Network Officer (10N)

Audit reports are available on the Office of Audit web site (<http://www.va.gov/oig/52/52-home.htm>). This report will remain on the web site for 2 fiscal years after its issue date.