



Office of Inspector General

MANAGEMENT LETTER: ACCURACY OF FISCAL YEAR 1999 PROPERTY, PLANT, AND EQUIPMENT FINANCIAL INFORMATION

VA needs to continue its oversight and emphasis on improving internal controls over property, plant, and equipment.

Report No. 99-00001-75

Date: June 1, 2000

Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

June 1, 2000

Memorandum to:
Deputy Assistant Secretary for Finance (047)
Chief Financial Officer, Veterans Health Administration (17)
Under Secretary for Health (105)

**Management Letter: Accuracy of Fiscal Year 1999 Property, Plant, and
Equipment Financial Information, Report No. 99-00001-75**

1. As part of our audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements (CFS) for Fiscal Year (FY) 1999, we assessed the accuracy of property, plant, and equipment (PP&E) account balances, analyzed PP&E data in the general ledger and fixed asset subsystem, and evaluated actions taken by the VA and Veterans Health Administration (VHA) staff to improve compliance with internal controls.
2. As of September 30, 1999, VA had over 184,300 PP&E fixed assets acquired at a cost of \$20.8 billion with accumulated depreciation totaling \$8.7 billion. About 96 percent of VA's total PP&E were at VHA facilities. The rest of the PP&E assets were held by the Veterans Benefits Administration, National Cemetery Administration, and Central Office.
3. To assess the accuracy and reliability of financial information in VA's FY 1999 CFS, we analyzed the accuracy and reasonableness of PP&E and related depreciation account balances and evaluated the adequacy of key internal controls over real property and equipment assets. We discussed PP&E accounting policies with appropriate VA Central Office staff, analyzed national PP&E general ledger account data, reviewed the accuracy of data in a statistical sample of PP&E assets, sent questionnaires on internal controls to 22 medical facilities, and did on-site testing at 14 of the 22 facilities. We also evaluated VA's implementation of reporting requirements for heritage assets, clean-up costs, and deferred maintenance costs.

4. Our prior audits identified problems with the systems, processes, and procedures used to control PP&E assets. 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 and provided additional guidance to facility staff. For example, during FY 1999, the Office of Financial Policy (047G) issued guidance regarding maintenance of basic documentation on assets shown in the Fixed Asset Package (FAP). Also, to improve controls over reporting and record keeping, they had Veterans Integrated Service Network (VISN) Chief Financial Officers (CFOs) act as an intermediary control point responsible for collection of updated heritage assets inventory data.

5. Improvements have been made in the accuracy of PP&E financial information. However, errors and internal control weaknesses observed on our FY 1999 audit show further improvements in the accuracy and reliability of PP&E information can be achieved by: (1) increasing analytical reviews of accounts and data; (2) increasing emphasis on internal controls concerning real property and equipment such as periodic inventories and reconciliations; and, (3) emphasizing PP&E stewardship asset reporting requirements. None of these issues had a material effect on VA's financial statements. We are providing you our findings to emphasize the continuing need to provide oversight and enhance internal controls to improve the accuracy and reliability of PP&E financial information. VA facility managers need to continue efforts to ensure that their staff:

- Review asset and depreciation accounts to identify incorrect balances.
- Review financial records to identify incomplete or illogical data.
- Record acquisition costs, receipt/placed in service dates, and useful lives of real property and equipment assets accurately in the financial records.
- Complete monthly reconciliations of real property and equipment general ledger accounts, and make any appropriate adjustments in a timely manner.
- Promptly determine the location or disposition of equipment not found during physical inventories; if the asset no longer exists, it should be removed from the FAP.
- Promptly adjust asset records when real property is demolished or disposed of during construction or renovation projects by better communication between Engineering and Financial Management.
- Capitalize costs in the construction work-in-process account when the building or building improvement is placed into service.

- Complete required physical inventories of nonexpendable equipment on schedule so that reconciliations can be made and missing assets identified.
 - Identify and report heritage assets.
 - Document that deferred maintenance costs have been identified.
6. Details of our findings are discussed in Appendix II of this report. The types of errors noted during the audit should be emphasized to facility managers and staff because they could result in a future material weakness if not corrected. During the audit, we provided VHA and VA Central Office staff with interim audit results so they could implement appropriate corrective actions.
7. You are not required to provide an official response to this management letter. However, we would appreciate receiving any written comments you wish to make. We will continue to monitor and follow-up on the issues in this report during future financial statement audits.
8. If you wish to discuss this report or need additional information, please contact Robert McElroy at (310) 268-4335, or me at (202) 565-7013.

For the Assistant Inspector General for Auditing

(Original signed by:)

JOHN E. JONSON
Director, Financial Audits Division

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PURPOSE, BACKGROUND, SCOPE, AND METHODOLOGY

PURPOSE

As part of our audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements (CFS) for Fiscal Year (FY) 1999, we assessed the accuracy of property, plant, and equipment (PP&E) account balances, the accuracy of data on which the account balances are computed, and evaluated internal accounting controls over PP&E.

BACKGROUND

Our prior financial statement audits, for FYs 1992 through 1998, identified significant errors in PP&E asset and related depreciation account balances as well as internal control problems. In response to our prior audits, VA and the Veterans Health Administration's (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.
- Worked with facilities to improve reporting on Clean-up Costs, Deferred Maintenance Costs, and Heritage Assets.

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.

VA's Financial System. The Financial Management System (FMS) is VA's core financial 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 incorporating the FMS Fixed Asset Package (FAP) for real property assets. Staff at each facility input the data for the existing property and

equipment and are responsible for keeping the records current and accurate. The FAP contains detailed data for each asset and computes depreciation for each item based on this data. In June 1996, facilities incorporated the Automated Engineering Management System/Medical Equipment Reporting System, which contains similar data on equipment.

Property, Plant, and Equipment. During FY 1998, VA redefined PP&E as either general or heritage assets. General assets are divided into two basic groups: (1) real property such as buildings, other structures, and land; and (2) nonexpendable equipment, including computer software. Heritage assets are unique because of their historical or natural significance; cultural, educational, or artistic importance; and/or significant architectural characteristics. Heritage assets are reported in physical units only.

Real Property Capitalization. Real property costing \$25,000 or more, and having a useful life of 2 or more years is to be capitalized.

Work-in-Process (WIP) Capitalization. Project costs related to buildings and structures under construction is to be accumulated in the WIP account and capitalized in the asset accounts when placed in service.

Equipment Capitalization. Nonexpendable equipment costing \$5,000 or more, and having a useful life of 2 or more years was to be capitalized. VA increased the capitalization threshold to \$25,000 for FY 2000.

Deferred Maintenance Costs. Deferred maintenance is defined as maintenance that was not performed when it should have been or was scheduled to be performed, but was put off or delayed for a future period.

Account Reconciliations. Monthly reconciliations of balances in the general ledger accounts with the balances in the subsidiary records are essential for ensuring the accuracy of the general ledger account balances.

Equipment Inventories. Facilities are required to perform physical inventories of nonexpendable equipment and reconcile the inventory counts to accountable records. VA procured bar-coding equipment for medical facilities staff to reduce the time for conducting inventories and increase accuracy.

SCOPE

As of September 30, 1999, VA had over 184,300 PP&E assets acquired at a cost of \$20.8 billion, including construction in progress, with accumulated depreciation totaling \$8.7 billion.

	Cost (\$ in Millions)	Accumulated Depreciation (\$ in Millions)	Net Book Value (\$ in Millions)
Land and Improvements	\$ 177	\$ 1	\$ 176
Buildings	13,219	5,232	7,987
Equipment	4,840	2,646	2,194
Other	1,633	865	768
Construction in Progress	<u>911</u>	<u>N/A</u>	<u>911</u>
Total	\$ 20,780	\$ 8,744	\$ 12,036

About 176,000 of the assets, valued at \$19.1 billion (96 percent of VA's total), were at VHA facilities. The rest of the PP&E assets were held by the Veterans Benefits Administration, National Cemetery Administration, and Central Office.

METHODOLOGY

We discussed PP&E accounting policies with appropriate VA Central Office staff, analyzed PP&E general ledger asset and depreciation account balances, and verified the data in a sample of 503 PP&E assets. Since VHA facilities had most of the PP&E assets, we sent questionnaires on internal control processes for equipment inventory, real property and equipment account reconciliation, and the WIP accounts to 22 medical facilities.

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

Analyses of Financial Information. We analyzed PP&E (a) general ledger account balances to identify irregular balances, and (b) asset information recorded in the FAP to identify inaccuracies.

Review of Fixed Asset Data. We reviewed the accuracy of data for a sample of 503 assets as of May 31, 1999, to assess the accuracy and reliability of PP&E account

information. We requested the facility provide documentation for each item verifying the acquisition value and whether it was on hand to assess the accuracy of asset accounts, and documentation on the date it was acquired (or, when applicable, placed in service) and its useful life to assess the accuracy of accumulated depreciation amounts.

Questionnaires. We sent 22 medical facilities [one in each Veterans Integrated Service Network (VISN)] questionnaires on equipment inventories, real property and equipment account reconciliations, and the WIP account. Where necessary, we followed up on questionnaire responses with facility staff to obtain additional information.

Facility Visits. We visited 14 medical facilities to review accounting procedures and evaluate internal accounting controls for PP&E. (See Appendix III for a list of facilities visited.) We reviewed procedures concerning account reconciliations and equipment inventories, and verified the accuracy of PP&E data recorded in the general ledger and the FAP. Six of the facility visits were after the end of FY 1999 as part of our substantive testing and to verify questionnaire responses.

The audit was conducted in accordance with generally accepted government auditing standards.

DETAILS OF AUDIT

A. Continuing Emphasis Is Needed to Further Improve the Accuracy of Property, Plant, and Equipment Information

Our analyses of the fixed asset general ledger account balances and the accuracy of fixed asset data for FY 1999 showed that significant numbers of errors still exist in VA PP&E records. While not material to the PP&E reported on VA's Consolidated Financial Statements, these errors if not corrected may materially affect station level cost information when VA fully implements Federal cost accounting requirements. The errors also create additional work. Many of the errors can be identified through analytical review of the general ledger accounts and the detail PP&E data in the Fixed Asset Program (FAP) data base. Additionally, many errors could be identified and corrected by ensuring that all stations do complete physical inventories of assets and reconciliations of general ledger and subsidiary property records.

Results of Audit Sample. We reviewed the accuracy of data for a sample of 503 assets in the FAP as of May 31, 1999. The sample consisted of 4 strata: all 98 assets that had an acquisition value of \$20 million and greater; 130 assets that had acquisition values of \$1 million up to \$20 million; 137 assets that had acquisition values of \$25,000 up to \$1 million; and 138 assets that had acquisition values of less than \$25,000.

We identified a total of 107 errors in 82 of the 503 assets reviewed: 25 assets had incorrect acquisition costs; 33 assets had incorrect receipt or placed in service dates; 30 assets had incorrect useful lives; and 19 assets could not be located or did not exist.

The following are examples of the data errors.

<u>Type of Error</u>	<u>Effect on Financial Statement</u>
<u>Acquisition Cost Error</u>	
Facility staff recorded the cost for an asset acquired in November 1991 with a 20-year depreciation period as \$3,487,071 instead of \$4,457,349.	<ul style="list-style-type: none"> • Building account understated \$970,278. • FY 1999 depreciation expense understated by \$46,842. • Prior year depreciation expense understated \$556,254. • Accumulated depreciation understated \$603,097. • The error had not been corrected by the end of FY 1999.

Facility staff recorded the cost for an asset put in service in January 1985 with a 20-year depreciation period as \$1,196,049 Instead of \$199,677.

- Building account overstated \$996,372.
- FY 1999 depreciation expense overstated \$26,990.
- Prior year depreciation expense overstated \$558,336.
- Accumulated depreciation overstated \$585,327.
- The error had not been corrected by the end of FY 1999.

Acquisition / Placed in Service Date Error

Facility staff began a 10-year depreciation period for a Magnetic Resonance Imaging system acquired at a cost of \$1,196,962 as of October 1995 instead of the correct date of March 1998.

- Prior year depreciation expense and accumulated depreciation were overstated by \$288,851.
- The error was corrected before the end of FY 1999.

Facility staff recorded September 1994 as the date placed in service instead of July 1992 for a replacement hospital with a cost of \$125,730,299 and a 40-year depreciation period.

- Prior year depreciation expense and accumulated depreciation were understated by \$7,082,631.
- The date was corrected after the end of FY 1999.

Facility staff transposed the actual receipt date from January 1973 to January 1937 for a building with a 40-year depreciation period and cost of \$33,603,239.

- Depreciation expense was overstated \$560,054.
- Prior year depreciation expense was overstated by \$10,851,046.
- Accumulated depreciation was overstated by \$11,411,100.
- The error had not been corrected by the end of FY 1999.

Useful Life Errors

Facility staff recorded a 20-year (instead of the correct 40-year) useful life for a building addition put into service in January 1992 at a cost of \$53,743,737.

- FY 1999 depreciation expense was overstated \$894,409.
- Prior year depreciation expense was overstated \$9,055,886.
- Accumulated depreciation was overstated \$9,950,295.
- The error was not corrected before the end of FY 1999.

Facility staff recorded a 40-year (instead of the correct 20-year) useful life for building improvements put into service October 1995 at a cost of \$27,146,182.

- FY 1999 depreciation expense would have been understated by \$667,704, prior year depreciation expense understated by \$2,921,206, and accumulated depreciation by \$3,588,910.
- The error was corrected before the end of FY 1999.

Asset Not Located or Verified

Facility staff could not locate a computer item acquired in February 1989 at a cost of \$917,873. They thought it may have been traded in on another item in 1992. The asset had an 8-year useful life.

- No net effect on the FY 1999 Financial Statement as the asset had been fully depreciated as of February 1997.

Facility staff could not verify \$325,922 in improvements to a sewer system that were capitalized for 20 years as of January 1993.

- Asset account was overstated \$325,922. FY 1999 depreciation expense overstated by \$10,851, prior year depreciation expenses overstated \$93,594, and accumulated depreciation overstated \$104,445.
- The asset remained on the records at the end of FY 1999.

Based on our contacts with the facilities, erroneous data was corrected on 24 of the 82 assets prior to the end of the fiscal year. As a result, the overall projected impact of the deficiencies as of the end of Fiscal Year 1999 would have been: (a) a net overstatement of \$201.2 million in the asset accounts; (b) a net overstatement of \$67.1 million in the

accumulated depreciation account; (c) a net overstatement of prior year depreciation expense by \$25.5 million; and, (d) a net overstatement of FY1999 depreciation expense by \$11 million.

VA and VHA CFO staff should continue working with facilities to ensure that fixed asset data are correctly recorded in the FAP. When incorrect data is not identified and corrected, there is a potential for significant errors in financial information used by management.

Periodic Analytical Review of General Ledger Accounts and Data in the FAP File Would Help Identify and Correct Errors.

We reviewed PP&E general ledger accounts and the FAP data base file as of June 30, 1999, to identify illogical general ledger account balances or asset information. Then we provided the results to Office of Financial Management and VHA CFO staff for followup. When we performed similar analysis as of September 30, 1999, we found significant improvement indicating that the analysis and actions taken were effective in identifying and correcting errors.

The results of our general ledger account analysis are summarized below:

- There were 16 asset accounts with credit balances totaling \$816,684 indicating an understatement of assets. Two of the 16 accounts, with balances of \$648,879 and \$21,789, were at one VBA facility. This is a significant reduction from the 42 accounts with credit balances totaling \$9.1 million as of June 30.
- There were five accumulated depreciation accounts with debit balances, the same number as FY 1998. These five accounts totaled \$748,119, indicating an understatement of accumulated depreciation. Two of the accounts, with balances of \$635,641 and \$16,484, were at one VHA facility. This is a significant reduction from 23 accounts with debit balances totaling \$3.6 million as of June 30.

Our analysis of the 184,300 asset records in the FAP file identified the following incomplete or illogical asset or depreciation data as of September 30, 1999, that could be identified and corrected by periodic analytical review of the file:

- As of the end of FY 1999, no depreciation had been calculated for 22 assets because the FAP file did not contain one or more of the data items necessary to calculate accumulated depreciation had not been entered into the FAP.

- ◆ Twelve assets did not have an acquisition cost (e.g., building modifications for a Magnetic Resonance Imaging (MRI) unit with a useful life of 25 years). As of February 2000, four assets had not been corrected or removed from the FAP.
- ◆ Nine assets did not have useful life data entered, (e.g., telephone site work with a cost of \$595,000 and an acquisition date of August 14, 1998). As of February 2000, four assets had not been corrected or removed from the FAP.
- ◆ One asset did not have either acquisition cost or useful life data (i.e., ADP equipment acquired in December 1996). Both items of data had been input as of February 2000.
- Other assets had all three data elements necessary to calculate depreciation, but no accumulated depreciation was recorded.
- Twenty-seven assets which were not fully depreciated despite the useful life having been exceeded (e.g., \$738,444 of a building's cost had not been depreciated even though it should have been fully depreciated as of February 25, 1997). As of February 2000, all but seven of the assets had been corrected.
- Eight assets in which accumulated depreciation exceeded the acquisition cost (e.g., an equipment item with an acquisition cost of \$3,916 had accumulated depreciation of \$293,116). As of February 2000, seven assets had been corrected.
- Six assets that had been fully depreciated even though they had not reached the end of their useful life (e.g., an equipment item acquired at a cost of \$89,923 should have been depreciated through January 1, 2013). As of February 2000, no changes had been made to any of these assets.
- Six assets had an acquisition date in the future (e.g., one item had an acquisition date of July 1, 7998). As of February 2000, all dates had been corrected or were then in the past.

The number and effect of these errors is relatively insignificant in the context of the total number of assets and value of account balances in VA. However, the errors can have a significant effect on station level account balances and costs. VA and VHA CFO staff should continue oversight of PP&E accounting activities to improve the accuracy of PP&E financial information. Specifically, they should (i) analyze PP&E general ledger account and FAP data to identify unusual account balances and other errors, and (ii) report any errors or unusual account balances to the appropriate Veterans Integrated Services Network or facility director so that corrective actions can be accomplished.

B. Increased Management Emphasis on Internal Controls Is Needed

VA's financial internal control structure is intended to 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. Internal controls, when not adequately maintained, lessen the ability to identify errors that lead to inaccurate and unreliable fixed asset financial information.

To assess the degree of compliance with internal controls, we sent questionnaires to 22 medical facilities (one from each VISN) to determine whether: (1) they completed required monthly reconciliations of general ledger asset account balances with subsidiary record balances during FY 1999; (2) costs related to completed projects in the WIP account were capitalized in a timely manner; and, (3) required equipment inventories for items over \$5,000 were performed.

Reconciliation of General Ledger and Subsidiary Records. We found that some facilities did not complete required monthly reconciliations of general ledger asset account balances with subsidiary record balances during FY 1999.

- **Equipment Accounts.** Two (9 percent) of the 22 facilities did not complete one or more required monthly equipment account reconciliations during FY 1999. Five (23 percent) of the 22 facilities did not complete the September 1999 reconciliations of equipment accounts in time for adjustments to have been included in the FY 1999 year-end trial balance.
- **Real Property Accounts.** Three (14 percent) of the 22 facilities did not complete one or more of their required monthly real property account reconciliations during FY 1999. One of the three facilities had not completed the end-of-year reconciliation timely.

For real property, improved coordination is needed between Engineering and Financial Management staffs. Engineering staff should notify Financial Management whenever a building is demolished or a renovation project entails demolition of portions of a building.

Completing monthly account reconciliations would identify variances and enable facility staff to make corrections before major problems occur. In our opinion, VA and VHA CFO staff should continue working with the facilities to ensure that monthly account reconciliations are completed as required, and proper adjustments are made.

Management of the Work-In-Process Accounts. Eight (36 percent) of the 22 facilities that received our questionnaires had not capitalized \$3.6 million of completed construction projects as of September 30, 1999. Additionally, more than \$1.1 million in the WIP account should have been expensed.

- Six projects totaling \$1,793,588 at one facility were completed and placed in use prior to September 30, 1999. However, Engineering Service had not notified Financial Management Service that the projects had been completed.
- Eight projects totaling \$872,745 at another facility had not been capitalized for FY 1999.

The conditions discussed above occurred primarily because of inadequate coordination between Engineering and Financial Management Services concerning completed projects. Engineering Service should work with Financial Management Service to establish a procedure for communicating information on completed projects, such as preparing memorandums or sending E-mail messages for capitalization purposes.

Physical Inventories of Nonexpendable Equipment. Equipment items were not always inventoried on time. In addition, most of the facilities did not use bar-coding equipment to inventory nonexpendable equipment.

Equipment Inventories Were Not Performed On Time. Sixteen (73 percent) of the 22 facilities did not complete from 1 to 165 required nonexpendable property physical inventories that should have been performed during FY 1999. The asset value of items that were not inventoried in FY 1999 totaled in excess of \$298 million, or about 26 percent of all equipment items at the 22 facilities.

The major reasons cited for delinquent equipment inventories were the failure of responsible services to complete the inventories (for various reasons) and inadequate follow-up action because of other priorities.

Bar-coding Systems Were Not Used to Inventory Equipment. Sixteen (73 percent) of the 22 facilities had bar-coded nonexpendable equipment. However, only five (23 percent) of the 22 facilities used the bar-coding system to conduct all of their equipment inventories during FY 1999. The reasons cited for not using the bar-coding system included (1) some stations had not completed the bar coding of equipment, and (2) equipment and software problems.

Timely and accurate inventories are essential to ensure that equipment is accounted for and adequately safeguarded, and missing items are detected timely. Greater use of bar-

coding would improve equipment identification, facilitate conducting the equipment inventories, and improve the accuracy of the inventories.

C. Continued Oversight Over Required Supplemental Stewardship Information (RSSI) Reporting Is Needed

Federal physical assets that are classified as stewardship PP&E differ from general PP&E in that their value may be indeterminable or that allocating cost has little meaning to the accounting period. However, VA demonstrates accountability for stewardship PP&E by reporting on its existence by categories and physical units, and on its condition by reference to deferred maintenance.

Reporting of Heritage Assets. Since March 1996, VA facilities have been required to appoint a Cultural Resource Management Officer (CRMO) for their facility and maintain a comprehensive inventory of VA heritage assets. While the focus of cultural resources management is on physical facilities and archeological remains, similar attention is to be given to artworks, historical documents, etc.

To improve the accuracy of VA Heritage Asset information, VA's Office of Financial Policy issued additional directions for facilities to verify inventories of Heritage Assets and provided guidance for determining if artwork should be included. To improve controls over reporting and record keeping, they had Veterans Integrated Service Network (VISN) Chief Financial Officers (CFOs) act as an intermediary control point responsible for collection of updated heritage assets inventory data. These efforts have improved the reporting as indicated by the increases in each category in the Required Supplementary Stewardship Information (RSSI) section of VA's Consolidated Financial Statements for FY 1999.

	<u>FY</u>	<u>FY</u>
	<u>1999</u>	<u>1998</u>
Art Collections	34	16
Buildings and Structures	1,878	1,655
Monuments/Historic Flag Poles	294	60
Other Non-Structure Items	19	0
Cemeteries	<u>154</u>	<u>91</u>
Total	2,379	1,822

While VA and VHA Chief Financial Officers have taken action to improve Heritage Asset reporting, further improvement can be made at the facility level by continuing to emphasize the need for identifying and reporting all Heritage Assets. Three of the 14 VHA facilities we visited had not appointed a Cultural Resource Management Officer by the end of FY 1999. In addition, despite 2 of the 14 stations providing documents

indicating they had collections, none had reported their artwork collections or had documentation supporting their determination that the artwork did not fall within the definition of heritage asset reporting. One facility had documentation of an art collection on loan to a local museum. The collection, consisting of five paintings, had been appraised at \$477,500 in 1991. Another facility had not reported and could not account for a collection previously documented as 14 works by 10 artists (including an etching by Picasso) appraised at \$43,550 in 1993.

Documenting and Reporting Deferred Maintenance. Deferred maintenance is maintenance not performed when it should have been or scheduled and delayed to a future period. Since it is VA policy to assure that medical equipment and critical facility equipment systems are maintained in a safe and effective manner, deferred maintenance does not apply to that portion of PP&E.

Deferred Maintenance as of September 30th	<u>1999</u>	<u>1998</u>
General PP&E	\$ 835.4	\$602.2
Heritage Assets	<u>24.1</u>	<u>20.8</u>
Total	\$ 859.5	\$ 623.0

We visited six facilities after the end of Fiscal Year 1999 and five had adequate procedures for ensuring proper accruals of deferred maintenance; one had not documented that Engineering staff had conducted an evaluation to determine whether or not deferred maintenance costs were necessary for three of five accounts. This was a significant improvement from the FY 1998 audit when we reported that only one of the seven facilities that we visited had implemented the accounting and reporting requirements for clean-up and deferred maintenance costs.

In our opinion, VHA management should continue to emphasize the need to develop procedures to identify and record deferred maintenance costs.

D. Conclusion - Increased Emphasis Is Needed in the Areas of Management Oversight and Internal Controls Implementation

We found that VA has made good progress in correcting account balances and improving internal controls over PP&E. 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 VA and VHA CFO staff to continue their efforts to provide additional written instructions and training to field staff, and to emphasize the importance of financial account reconciliations, analytical reviews of general ledger and FAP data, and conducting physical inventories. We believe continued emphasis is needed in the

following areas of management oversight and financial internal controls by VHA facilities.

VHA and VACO Actions

VHA CFO and VA Office of Finance staff need to continue:

- Providing management oversight of PP&E accounting activities.
- Reporting errors or irregularities noted during oversight reviews to the appropriate Veterans Integrated Services Network financial manager or activity director so that corrective actions can be accomplished.
- Providing guidance, instructions, and training to field staff.
- Analyzing national general ledger and FAP data to identify potential errors and irregularities.
- Emphasizing the criteria established requiring 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 asset was received or placed in service, useful life, and subsequent acquisition (addition, betterment, etc.).
- Providing management oversight over Heritage Assets.

VHA Facility Actions

VHA CFO staff should continue emphasizing to VHA facility staff to:

- Input fixed asset data (e.g., acquisition cost and date, and useful life) accurately into the FAP.
 - ◆ 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 Financial Management 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 project costs, as appropriate.
- Complete inventories for nonexpendable equipment on time by advising appropriate managers and employees to: (a) maintain a suspense file of EIL 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 both tracking equipment and conducting physical inventories of equipment items.
- Appoint Cultural Resource Management Officers and complete research on heritage assets data, including the RSSI category of artwork.

FACILITIES VISITED

VAMC Albuquerque, NM (501)
VAMC Ann Arbor, MI (506)
VA Central Alabama Health Care System (619)
VA Central Texas Health Care System (674)
VAMC Cincinnati, OH (539)
VA Connecticut Health Care System (689)
VAMC Durham, NC (558)
VA Greater Los Angeles Health Care System (691)
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