



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Subject: **ACTION:** Report on Real Property,
U. S. Coast Guard
FE-1999-051

Date: January 27, 1999

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

Reply To
Attn Of: Meche:x61496

To: Chief of Staff
U. S. Coast Guard

This report presents the results of our audit on Coast Guard Real Property (land, buildings, and other structures). Our objective was to determine whether the Coast Guard's real property assets were properly accounted for and accurately valued. This audit was performed in conjunction with our Chief Financial Officer Act responsibilities to opine on the Department of Transportation's consolidated financial statements for Fiscal Year (FY) 1998.

RESULTS-IN-BRIEF

During the past 2 years, the Coast Guard made progress in accounting for, and valuing of, its real property. Coast Guard refined its property system to record estimated historical cost for older assets based on a model calculation, and actual historical cost for real property transactions since October 1, 1994.

As of September 30, 1998, the Coast Guard presented \$1.6 billion as the value for its real property, excluding land. We found this amount did not represent fair and reasonable value because the Coast Guard (1) used inaccurate data to compute current value, historical cost, and depreciation, and (2) did not provide adequate documentation to support the value of current acquisitions. This occurred because the Coast Guard had not established an effective quality control process to ensure that reliable and accurate data were used. Based on our sample results, we estimate the value of Coast Guard's real property to be between \$650 and \$820 million, excluding land. These deficiencies, if not fixed, could impact our audit opinion on the Department's FY 1999 financial statements. The Coast Guard Chief Financial Officer agreed and implemented corrective actions.

BACKGROUND

The Statement of Federal Financial Accounting Standards Number 6 states that property, plant and equipment should be recorded at historical cost. If historical cost information has not been maintained, estimates are required. Estimates shall be based on (1) cost of similar assets at the time of acquisition, or (2) current cost of similar assets adjusted for inflation since the time of acquisition. Using an acceptable model is one technique for estimating historical cost when actual cost is not available.

A prior OIG financial statement audit report¹ disclosed that Coast Guard did not retain documentation to support the value of its real property, or maintain accurate property records. Much of the property was old, and records supporting historical cost either did not exist or were difficult to locate.

SCOPE AND METHODOLOGY

As of September 30, 1998, Coast Guard real property records included about 14,000 line items of real property valued at \$1.6 billion. This amount did not include about \$80 million in land owned by the Coast Guard because the Coast Guard contractor had not completed its work of documenting and recording land. We statistically selected 221 line items of real property with a recorded value of \$357 million. We requested that Coast Guard provide actual cost documentation for 31 sample items acquired after October 1, 1994. We also requested blueprint drawings for all sample items. We made site visits to validate existence, year constructed and size measurements for 157 of the sample items. We compared actual measurements by the OIG and Coast Guard to the blueprint drawings and to the measurements in the Coast Guard's database.

For the 64 sample items at locations we did not visit, we asked Coast Guard to provide pictures, blueprints and certifications of measurements. We reviewed the actual cost documentation provided for our sample items. We did not audit the work/construction-in-process account because the Coast Guard's system to capture these costs will not be available for audit until the end of FY 1999. We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. We performed the work, from October through December 1998, at the selected locations and at Coast Guard Headquarters in Washington, D.C.

¹ Department of Transportation FY 1996 Consolidated Financial Statements, Report Number AD-OT-7-004, issued April 10, 1997.

ANALYSES AND RECOMMENDATIONS

Because property records were not always available, the Department's Chief Financial Officer issued a policy statement on December 2, 1996, allowing the Coast Guard to use alternative procedures to estimate historical cost for items acquired prior to October 1, 1994. The Coast Guard elected to use the Department of Defense Tri-service model to calculate plant replacement value (current value). The OIG agreed that Coast Guard can use this model to determine current value. The current value is calculated based on size, cost per unit of measure, geographic cost index, and an inflation factor. The current value is then adjusted to the year constructed to estimate historical cost. Depreciation is then calculated based on the established useful life of the property. The Coast Guard developed an acceptable process for computing depreciation.

For property acquired after October 1, 1994, the Coast Guard was required to maintain actual cost documentation. To assist in this task, Coast Guard hired a contractor to review construction files and obtain cost documents.

Results

We found values for 167 of the 221 sample items were not accurate. Therefore, we are unable to opine on the value of the Coast Guard's real property in the FY 1998 financial statements. Following is a discussion of deficiencies we identified. Some sample items had more than one deficiency.

- For 151 items, the current value generated from the model was not adjusted to reflect historical cost. Coast Guard adjusted all pre-1995 building and structure replacement values to historical cost. However, most of these data were input incorrectly into the database by the contractor, causing historical cost to be overstated. For example, at the Reserve Training Center Yorktown, Coast Guard reported the current cost of Steuben Hall at \$5.5 million. The current cost of \$5.5 million should have been adjusted to an estimated historical cost of \$1.3 million since the building was constructed in 1969.
- For 15 items, the Coast Guard used an incorrect acquisition date. For 51 additional items, Coast Guard used the date of transfer from another government agency to calculate the current value. Federal accounting standards provide that property transferred from other agencies shall be valued at historical cost, less accumulated depreciation. For example, in July 1972, the Navy transferred to the Coast Guard an aviation hangar in Kodiak, Alaska. This hangar was constructed in 1943. Coast Guard incorrectly used the transfer date of 1972 instead of the construction date of 1943 to compute

depreciation and the resultant net value of \$7.5 million for the hangar. Based on a 40-year service life, the hangar is fully depreciated. Therefore, Coast Guard overstated its value by \$7.5 million.

- For 30 items, the Coast Guard recorded the wrong size for its buildings and structures. The actual measurements, agreed to by the OIG and Coast Guard, differed by more than 15 percent from the size in the database. For example, the square footage for a building at Group Key West was 18,207 instead of the recorded 30,000. Therefore, this item was overstated by \$2.2 million.
- Based on the Department's policy, 31 items required actual cost documentation. For 11 of the 31 items, Coast Guard either did not provide support, or the documentation provided was summary accounting data without supporting documents. For 14 items, the cost documentation did not agree with the amount reported. We accepted the values for six items.
- Coast Guard included values for 10 items that did not exist. For example, a duplex housing unit in Kodiak, Alaska, was demolished in June 1997, but it still was listed in the database with a value of \$100,000.

During our site visits, we also identified five real property items that existed, but were not reported as of September 30, 1998. To illustrate, at Station Bodega Bay, floating docks with an estimated cost of \$575,000 were placed in service during the summer of 1998, but were not reported.

Recommendations

We recommend the Chief of Staff establish a quality control process to ensure that:

1. Current real property values calculated by the model are adjusted to estimated historical cost for all properties.
2. Construction dates and property size are validated before being used to calculate estimate historical cost.
3. All properties acquired after October 1, 1994, are supported by contract and invoice records, and the documentation is available for audit confirmation.
4. Property custodians validate existence of all reported real property, and provide timely information to remove disposed properties from property records.

MANAGEMENT COMMENTS

We discussed this report with the Coast Guard Chief Financial Officer on January 6, 1999. He agreed with our recommendations and immediately implemented corrective actions to resolve the findings. Actions included adjusting current values in property records to reflect estimated historical cost, validating construction dates, and accumulating documentation to support actual cost for properties acquired after October 1, 1994.

ACTION REQUIRED

Please provide written comments, within 30 days, identifying specific actions taken on each of the recommendations.

We appreciate the courtesies and cooperation of Coast Guard representatives. If you have questions, please call me at (202) 366-1496, or Harry Fitzkee at (410) 962-3612.

-#-