



**U.S. Department of Commerce  
NOAA / BIS  
Fiscal Year 2009 Financial Statement Audit**

**Notification of Finding and Recommendation**

<b><u>Audit Location</u></b>	<u>NOAA – Personal Property Management Branch (PPMB)</u>
<b><u>Finding Number</u></b>	<u>2009-01</u>
<b><u>Prior Year Finding</u></b>	<u>Yes (2008-19)</u>
<b><u>Recovery Act funded?</u></b>	<u>No</u>
<b><u>Audit Area</u></b>	<u>Personal Property</u>
<b><u>Audit W/P reference</u></b>	<u>J-A-110</u>
<b><u>Date Issued – Draft</u></b>	<u>September 25, 2009</u>
<b><u>Date Issued - Final</u></b>	<u>September 29, 2009</u>

**Condition**

We identified one personal property asset deletion which was not processed in a timely manner by PPMB.

The National Weather Service (NWS) reported in May 2008 that an Advanced Weather Interactive Processing System (AWIPS) asset (CD0000910977) with an asset acquisition cost of \$3,393,040 had been excessed. NWS reported this to PPMB through the annual capitalized inventory certification on May 14, 2008, and a CD-509 form dated May 27, 2008.

PPMB did not remove this asset from Sunflower until the second quarter of fiscal year 2009, approximately one year later. The asset was identified and deleted as part of corrective actions taken by PPMB to clean up Sunflower records in response to prior year audit finding #2008-19.

**Criteria**

Statement of Federal Financial Accounting Standards (SFFAS) number 6, Accounting for Property, Plant, and Equipment, paragraph 38 states, *“In the period of disposal, retirement, or removal, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation and amortization. Any difference between the book value of PP&E and the amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.”*

**Cause**

PPMB failed to process the property adjustment forms submitted by Line Offices in a timely fashion. An excessed property inventory certification and CD-509 requesting removal for this asset was submitted by NWS in May 2008. PPMB failed to adequately follow-up with the Line

Office to obtain the information needed to accurately correct Sunflower for these assets, prior to the fiscal year 2008 year end.

**Effect**

Personal property equipment in Sunflower, and the general ledger, is overstated throughout fiscal year 2009 for this asset. The asset had been depreciated down to a salvage value of \$33,930 when it was disposed of, minimizing the overstatement. Failure to timely process asset deletions increases the risk of an overstatement of property balances in the general ledger.

**Recommendations**

We recommend that Personal Property Management Branch continue steps underway to ensure that all asset deletion requests submitted by Line Offices, including those identified during the annual property certification, are removed from Sunflower in a timely manner.

**Auditee Response:**

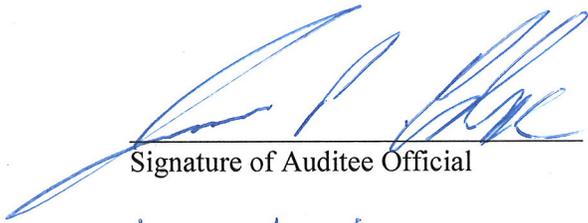


Management concurs with the Notification of Finding and Recommendation.



Management does not concur with the Notification of Finding and Recommendation.

Please indicate your response in the space provided above or as an attachment within one week from the date of this notification. Your written response will be considered when preparing the draft consolidated audit report.



Signature of Auditee Official

*Director Logistics*

Title of Auditee Official

*10-6-09*

Date Signed



**U.S. Department of Commerce  
NOAA / BIS  
Fiscal Year 2009 Financial Statement Audit**

**Notification of Finding and Recommendation**

<b>Audit Location</b>	NOAA – Personal Property Management Branch (PPMB)
<b>Finding Number</b>	2009-04
<b>Prior Year Finding</b>	Yes (2008-42)
<b>Recovery Act funded?</b>	No
<b>Audit Area</b>	Property – Personal / CWIP
<b>Audit W/P reference</b>	J-A-51, J-A-60, J-A-350
<b>Date Issued – Draft</b>	September 8, 2009
<b>Date Issued - Final</b>	October 8, 2009

**Condition**

Line Office, CWIP and PPMB personnel failed to ensure that completed personal property CWIP projects were transferred from CWIP to general PP&E in a timely manner, in accordance with federal accounting standards and NOAA internal policies and procedures.

We reviewed a sample of five personal property constructed additions recorded in the CBS general ledger in the first three fiscal quarters of fiscal year (FY) 2009. One of these five additions had not been recorded timely – defined as the same fiscal quarter as the acquisition date:

Asset #	Acquisition Cost	Acquisition Date	Fiscal Quarter Added to CBS
CD000152921	\$5,076,920	07/05/07	Q3, FY2009

The untimely capitalization of this completed asset was first reported by KPMG in October 2008, within NFR 2008-42. Therefore, the transfer of this asset from CWIP to general PP&E in the third quarter of 2009 represents closure of an open FY 2008 audit finding.

In addition, we reviewed a sample of 16 CWIP project codes, with significant CWIP balances as of June 30, 2009. Two of these 16 project codes related to personal property CWIP projects, that had not been transferred to completed PP&E in a timely manner:

Project Code	CWIP Balance, 06/30/09	Acquisition Date	Notes
C2LF1V1	\$1,892,404	05/28/05	<p>Finalization of the NF 37-6 to transfer the CWIP for this completed project to general PP&amp;E has been delayed due to the need to close out \$1,400 of undelivered orders for a related project code.</p> <p>In addition to this one project code, eight other project codes containing CWIP related to this project of approximately \$1 million also require capitalization as of 06/30/09.</p> <p>The untimely transfer of this completed CWIP project to general PP&amp;E was reported by KPMG in FY 2008, within NFR 2008-42. This audit finding therefore remains unresolved, ten months after NFR 2008-42 was issued and more than 4 years after the project was completed.</p>
B4P1BGR	\$456,596	01/10/05	<p>This CWIP balance relates to the development of the Grants Online internal-use-software asset, which has been operational since January 2005. \$456,596 of costs related to the development of this asset were not included in the capitalized balance at the time the asset was transferred to general PP&amp;E, and has remained in CWIP ever since.</p>

### Criteria

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment*, requires that:

- 34. PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in progress until it is placed in service, at which time the balance shall be transferred to general PP&E.

NOAA *CWIP Policies and Procedures* state that:

- Capital costs accumulated in the CWIP portion of the general ledger must be transferred from the CWIP account to the general PP&E asset accounts upon completion of the activity.
- Completed CWIP activities must be reported on the NF 37-6 in the calendar quarter in which they are delivered or placed into service (accepted, occupied, commissioned or operational).
- PP&E shall be recorded as CWIP until .. Personal Property is ready for its intended purpose and date placed into service. However, if circumstances dictate that the property is not placed into service immediately, nevertheless, if it has been delivered and is ready to be used, its CWIP status ends.
- NOTE – “Acceptance” means that NOAA has agreed that the activity is substantially completed according to specifications.

- The CWIP Activity Manager must ensure the NF 37-6 is completed and transferred immediately to the FO-FSB once a constructed asset is placed into service or delivered (accepted, occupied, commissioned or operational). If the CWIP Activity Manager requires time to close the CWIP contracts, a preliminary NF 37-6 should be completed and submitted to the FO-FSB for review and acceptance. A final NF 37-6 should be completed once all contracts are closed and finalized and any cost adjustment should be recorded.
- Section 3 also specifies the following CWIP responsibilities related to the timely transfer of completed assets from CWIP to General PP&E:

Position	Roles & Responsibility
Line Office CFOs and NOAA's CAO (Deputy CFO)	<ul style="list-style-type: none"> <li>• Ensure all staff adhere to the NOAA CWIP Policy and Procedures for all applicable CWIP activities</li> <li>• Review and certify all NF 37-6s for CWIP capitalization at the delivery or acceptance of a completed CWIP activity</li> </ul>
CWIP Project Manager	<ul style="list-style-type: none"> <li>• Immediately following acceptance and/or BOD of a CWIP activity, complete and distribute a BOD [<i>Beneficial Occupancy Date</i>] memorandum to the client and CWIP Activity Manager.</li> </ul>
CWIP Activity Manager	<ul style="list-style-type: none"> <li>• Has the <u>overall responsibility</u> for the financial and budgetary activities, as well as the responsibility for the accuracy of the valuation of the CWIP asset.</li> <li>• Is also responsible for ... Ensuring that the costs are properly reclassified as capitalized assets upon completion of the production / construction and are entered into the appropriate property management system.</li> <li>• Responsibilities include ... Ensur[ing] timely submission, approved by CFO or CAO (Deputy CAO), of NF 37-6 "Report of Property Constructed" to transfer costs of CWIP activities immediately once a constructed property item is placed into service to FO-FSB.</li> </ul>

**Cause**

Line Office, CWIP and PPMB personnel failed to ensure that an NF 37-6 was completed and finalized in a timely manner, once these assets were placed into service.

For CWIP Project Code B4P1BGR the delay in submitting a revised NF 37-6 to capitalize the remaining CWIP balance has been delayed by delays in locating all supporting invoices.

NOAA policies and procedures assign primary responsibility for the timely completion of NF 37-6 forms to CWIP activity managers. Internal controls are more effective when the assignment of responsibilities is accompanied by an effective monitoring mechanism, to ensure that personnel are performing their responsibilities in accordance with policies and procedures. Despite progress made by a CWIP working group set up in response to 2008 NFR #42, no effective oversight control yet exists within the Personal Property Management Branch (PPMB) to monitor the status of all open personal property CWIP projects, and to ensure that completed projects are capitalized timely.

### **Effect**

NOAA's June 30, 2009 CWIP is overstated, and PP&E understated, by \$3,339,978.

In addition, NOAA's FY 2009 depreciation expense is understated, and PP&E overstated, by an unknown amount for the depreciation that should have been recorded after each project was completed.

### **Recommendation**

We recommend that Personal Property Management Branch (PPMB) strengthen their monitoring of personal property CWIP projects, by maintaining a tracking log of:

- All open CWIP personal property project codes.
- Expected project completion date (updated regularly, at least quarterly, based on feedback from CWIP activity managers).
- Details of interaction between PPMB personnel and CWIP activity managers, including the dates of the most recent interaction and notes on the project status.
- The status of NF 37-6 forms, for projects nearing or at their completion date.

**Auditee Response:**

Management concurs with the Notification of Finding and Recommendation.

Management does not concur with the Notification of Finding and Recommendation.

Please indicate your response in the space provided above or as an attachment within one week from the date of this notification. Your written response will be considered when preparing the draft consolidated audit report.

*Jude McKen Murray for Jamie Cook*

Signature of Auditee Official

*Chief, PPMI*

Title of Auditee Official

*Oct. 15, 2009*

Date Signed



**U.S. Department of Commerce  
NOAA / BIS  
Fiscal Year 2009 Financial Statement Audit**

**Notification of Finding and Recommendation**

<b>Audit Location</b>	NOAA – Personal Property Management Division (PPMB)
<b>Finding Number</b>	<b>2009-05</b>
<b>Prior Year Finding</b>	Yes (2008-20)
<b>Recovery Act funded?</b>	No
<b>Audit Area</b>	Property – Personal
<b>Audit W/P reference</b>	J-A-130
<b>Date Issued – Draft</b>	October 6, 2009
<b>Date Issued - Final</b>	October 9, 2009

**Condition**

We identified weaknesses in the operation of the Unreconciled Payment Report (UPR) control, and as a result, errors in the recording of purchased personal property additions were not detected and corrected, timely.

The UPR is a key control in achieving the objective of the timely and accurate recording of personal property additions. The UPR report process is administered and overseen by PPMB, working with input from each Line Office. The UPR captures all payments made to capitalizable (31-1) and (31-2) object classification codes (OCCs), matches these payments to asset additions recorded in Sunflower, and provides an online report of payments that have not yet been matched. Payments to Constructed Work-In-Progress (CWIP) project codes, lease payments, and other payments that do not relate to capitalizable asset purchases are ‘suppressed’ by PPMB and do not appear on the unmatched report. Line Offices are then responsible for reviewing the UPR online, identifying additional payments that PPMB should suppress, and providing required asset purchase documentation for any assets not yet recorded in Sunflower. PPMB is responsible for monitoring the UPR “unmatched” report, following up with the Line Offices to obtain any missing documentation, and ensuring Sunflower is updated.

We identified three payments related to four capitalizable assets which were erroneously not included on the UPR report and therefore, they were not capitalized in a timely manner:

Asset #	Asset Acquisition Cost	Description of Issue
CD0001693307	\$1,230,960	<p>The majority of these assets' cost (\$2,200,000) was invoiced and paid in 2006. PPMB suppressed these payments from the UPR at the Line Office's request (NOS). These assets were not added to Sunflower until late June 2009, when the last invoice for \$375,800 was received. The accounting for these asset purchases was incorrect in two ways:</p> <ol style="list-style-type: none"> <li>1) Assets which have costs being incurred over a continuous amount of time should be recorded in a CWIP project code, so that costs can be allocated to the proper accounting period. These assets should have been placed in CWIP in 2006 and then capitalized when the final costs were added.</li> <li>2) After NOS made the erroneous decision to record these costs in a non-CWIP project code, these payments should not have been suppressed from the UPR until the assets had been capitalized. NOS should not have requested the suppression, and PPMB should not have approved and processed it.</li> </ol>
CD0001693308	\$1,344,840	
CD0001527018	\$306,980	<p>These assets were received in fiscal year 2008. They were not capitalized until late June 2009 after KPMG identified the error. These disbursements did not appear on the UPR because the Line Office (Office of Marine and Aviation Operations, OMAO) had requested they be suppressed. OMAO should not have requested suppression and PPMB should not have approved and processed it.</p>
CD0001527016	\$306,980	

During our current year audit testwork we also identified two purchased asset additions (CD0001281183 and CD0001646066) which were not capitalized within the same fiscal quarter as they were acquired. CD0001281183 (acquisition value \$2,103,257) was received in January 2009 but not capitalized until June 2009. CD0001646066 (acquisition value \$424,402) was received in November 2008 but not capitalized until March 2009.

### Criteria

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment*, requires that:

- 34. PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in progress until it is placed in service, at which time the balance shall be transferred to general PP&E.

NOAA *CWIP Policies and Procedures* state that:

- The determining factor of whether an activity will require processing as CWIP depends on whether or not the property is expected to be capitalized
- Capital costs accumulated in the CWIP portion of the general ledger must be transferred from the CWIP account to the general PP&E asset accounts upon completion of the activity.
- PP&E shall be recorded as CWIP until .. Personal Property is ready for its intended purpose and date placed into service. However, if circumstances dictate that the property is not placed into service immediately, nevertheless, if it has been delivered and is ready to be used, its CWIP status ends.
- NOTE – “Acceptance” means that NOAA has agreed that the activity is substantially completed according to specifications.

The U.S. Department of Commerce *Personal Property Management Manual* states that:

- 3.702 Policy: All transactions affecting personal property accounts and records be recorded on appropriate documents and posted in a timely manner
- Section 1.2 specifies the following personal property responsibilities:

Position	Roles and Responsibility
Property Management Officer (PMO)	Providing administration and maintenance of an effective property accountability and control system within the accountable area for which they have been designated Property Management Officer.
Property Accountability Officer (PAO)	Ensuring that additions, transfers, and deletions are entered into PPMS in a timely manner (PCs should not be given this function)
Property Custodian	Initiating or processing documents affective the accountability or custody of personal property.

### **Cause**

The UPR report control should have identified the cash disbursements related to these assets as being unmatched until they were capitalized. The line offices incorrectly told PPMB to suppress the cash disbursements on the UPR report related to these 4 assets (CD0001693307, CD0001693308, CD0001527018, CD0001527016) causing the payments to no longer appear on the UPR report. This control failure contributed to the untimely capitalization of these assets.

Additionally, the line office did not identify assets CD0001693307 and CD0001693308 as CWIP projects, although costs were being incurred over multiple fiscal years.

PPMB did not capitalize the two purchased additions (CD0001281183 and CD0001646066) in the same fiscal quarter because the related line offices (NOS and NESDIS respectively) did not submit the required documentation to PPMB in a timely fashion.

### **Effect**

NOAA's June 30, 2009 PP&E was understated by \$3,189,760. In addition, prior year costs were overstated, since these disbursements were recorded as expense instead of being capitalized.

Since audit testwork was performed on a sample basis only, it is likely that the true amount of the misstatement is higher.

### **Recommendations**

We recommend that PPMB:

- 1 Continue to remind Line / Staff Offices through training, procedures memos, and other communication, of the need to use correct OCC coding, reconcile payments appearing on the UPR, and submit purchased additions paperwork in a timely manner.
- 2 Take more pro-active steps and enforcement actions to research payments that appear on the UPR, obtain information and missing paperwork from Line/Staff Offices, suppress mis-coded payments, research and determine the appropriateness of all payments that line offices request to be suppressed , and record capitalized purchases in Sunflower in a timely manner.

**Auditee Response:**

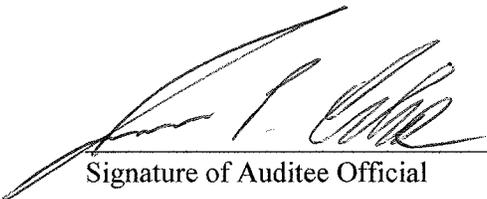


Management concurs with the Notification of Finding and Recommendation.



Management does not concur with the Notification of Finding and Recommendation.

Please indicate your response in the space provided above or as an attachment within one week from the date of this notification. Your written response will be considered when preparing the draft consolidated audit report.



Signature of Auditee Official

*DIRECTOR OF LOGISTICS*  
Title of Auditee Official

*10-13-09*  
Date Signed