

MEMORANDUM OF AGREEMENT  
SUPPORT FOR RECORDED BOOK COST OF GENERAL PROPERTY, PLANT,  
AND EQUIPMENT ASSETS  
U.S. ARMY CORPS OF ENGINEERS, CIVIL WORKS

**Purpose.** To develop alternate methods to estimate and support the acquisition costs and capitalized improvements for real and personal property assets with remaining useful lives and administrative costs associated with land. In addition, to develop procedures for ensuring that the construction-in-progress costs that will be assigned to the assets in the future are supported.

**Auditing Guidance.** The American Institute of Certified Public Accountants Statement of Auditing Standard (SAS) Number 31, "Evidential Matter," requires that sufficient, competent evidential matter be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. The auditor's work consists of obtaining and evaluating evidential matter concerning the assertions in financial statements. Assertions are representations by management. Management assertions regarding the valuation of assets address whether the assets have been included in the financial statements at appropriate amounts.

**Accounting Guidance.** Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," defines general property, plant, and equipment (PP&E) as any PP&E used in providing goods or services. Major categories of PP&E generally include land, land rights, buildings, other structures, construction-in-progress, capital leases, and equipment. The accounting standard requires that all general PP&E be recorded at cost. Costs should include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For general PP&E in existence before October 1, 1998 (the effective date of SFFAS No. 6), the standard allows for the use of cost estimates, if the historical cost information necessary to comply with the standard had not been maintained. In accordance with the standard, estimates shall be based on:

- cost of similar assets at the time of acquisition or
- current cost of similar assets discounted for inflation since the time of the acquisition.

DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 4, chapter 6, "Property, Plant and Equipment," August 2000, states that the dollar value assigned to an asset shall be supported by appropriate documentation. Documentation (original documents and/or hard and electronic copies of original documentation) should

be maintained in a readily available location, during the applicable retention period, to permit the validation of information pertaining to the asset, such as the acquisition cost, the acquisition date, and cost of improvements. Supporting documentation may include, but not be limited to, purchase invoices, sales and procurement contracts, Engineer Form 3013, "Work Order/Completion Report," construction contracts, work orders, and other such documentation generated independently of the entity in possession of the property. A combination of these documents is often required to validate information pertaining to the asset. Supporting documentation for land may include, but not be limited to, offers to sell, purchases, deeds, and condemnation files.

**Record Retention Requirements.** DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 9, "Financial Records Retention," August 2000, states that all financial records, both paper and electronic, documenting the acquisition of DoD PP&E shall be maintained for at least the minimum period specified in the applicable General Records Schedule (GRS) issued by the National Archives and Records Administration (NARA).

**NARA Requirements for Real Property Records.** The NARA GRS No. 3, item 1 requires that records, other than abstract or certificates of title, relating to real property acquired after December 31, 1920, be retained until 10 years after unconditional sale or release of the government of conditions, restrictions, mortgages, or other liens. Records related to real property acquired prior to January 1, 1921, are not covered by the GRS and must be scheduled by submission of a SF 115 to NARA.

**NARA Requirements for Personal Property Records.** NARA GRS No. 3, item 3 requires that the routine procurement files (including contract, receipt, inspection, and payment) related to transactions (including construction contracts) other than real property that exceed \$2,000 be retained until 6 years and 3 months after final payment. Files pertaining to transactions, including construction contracts, at or below \$2,000 should be retained until 3 years after final payment.

**Army Guidance.** The Army record retention guidance is inconsistent. The Deputy Chief of Staff, Army G-4, recognizing the problem with conflicting guidance, revised Army Regulation 710-2, "Supply Policy Below the National Level," February 25, 2004, to require that source documentation for capital assets be kept by the property book office for the life of the asset. All other asset documentation is to be kept for 6 years. Engineer Regulation 37-1-29, "Financial Management of Capital Investments," November 30, 2002, requires that all capitalized asset files be maintained for 10 years after the disposal of the asset. However, Engineer Form 3013 and supporting documentation are to be maintained and disposed in accordance with Army Regulation 25-400-2, "The Army Records Information Management System (ARIMS)." The Director, U.S. Army Records Management and Declassification Agency develops ARIMS policy and procedures and administers the ARIMS program for the Deputy Chief of Staff, Army G-1. The U.S. Army Records Management and Declassification Agency's retention and disposal policy for property management refers to Army Regulation 710-2. Chapter 16 (draft),

Engineer Regulation 405-1-12, "Real Estate Handbook," states that all capitalized asset files will be retained for 6 years and 3 months after the disposal of the asset.

**Record Retention Agreement.** For real property placed in service after FY 1998, the U.S. Army Corps of Engineers (USACE) agrees to maintain all the documentation (original documents and/or hard and electronic copies of original documentation) in a readily available location for the life of the assets in accordance with NARA record retention requirements. For administrative costs associated with land acquired after FY 1998, USACE agrees that the districts must retain documentation supporting those costs in accordance with SFFAS No. 6, the DoD Financial Management Regulation, and NARA requirements. For personal property acquired after September 30, 2002, USACE agrees that the districts must follow SFFAS No. 6, the DoD Financial Management Regulation, and the NARA requirements for personal property records along with their own implementing policy.

## **PART I. REAL PROPERTY**

**Background.** The USACE uses several types of buildings and structures to perform its mission, such as dams, bridges, reservoirs, and locks. As of September 30, 2003, USACE reported that the acquisition value (book cost) of its general PP&E totaled \$44.3 billion. The major asset classes were buildings and other structures, \$31.1 billion; land, \$8.1 billion; construction-in-progress, \$3.8 billion; and equipment, \$1.2 billion. The DoD Financial Management Regulation requires that the owner maintain supporting documentation for assets in a readily available location during the applicable retention period. This permits the validation of information pertaining to the asset, including acquisition cost, acquisition date, and cost of improvements.

**The Problem.** The lack of documentation to substantiate the book cost of a significant portion of USACE real property assets and the administrative costs associated with land, is a major audit impediment to determining whether USACE, Civil Works, general PP&E is fairly stated. The primary reason for the unsupported costs was that USACE district offices did not maintain documentation long enough because of the conflicting guidance. In addition, for the real property amount reported on the financial statements, USACE did not have accurate subsidiary ledger information on the quantity, type, and value of buildings and other structures to support those costs.

To compensate for the lack of supporting documentation and subsidiary ledger information, USACE issued specific guidance on how the districts should estimate the acquisition cost of real property. USACE district work groups allocated the capitalized project costs, by feature of work, to each item in the real property inventory using available real estate, financial, and operations data. To the extent possible, costs associated with each feature of work were to be allocated to the individual items of real property that related to the feature. If appropriate data were not available or real estate costs did not agree with the accounting records, the work group was to use the cost data provided by the finance and accounting office and estimate the original acquisition or

construction cost of each item of real property. After assigning costs of all real property items in accordance with the accounting records, the Chairman of the Real Property Work Group or representatives of the district's Real Estate and Resource Management offices were responsible for signing an attestation statement. The attestation indicated that costs assigned to the individual items were based on actual real estate records, where available, and/or an estimated cost based on project cost/general ledger records in the Corps of Engineers Management Information System (COEMIS). Cost estimates assigned to the individual items were based on the professional judgment of the work group using the total costs reflected in each feature of work.

USACE developed procedures to ensure that the ledgers remained in balance and that the inventory data were entered into the Real Estate Management Information System (REMIS). At that time, USACE used REMIS as the subsidiary ledger. Beginning in December 1993, USACE began converting financial accounting records from COEMIS to the Corps of Engineers Financial Management System (CEFMS). USACE district offices completed the conversion of general ledger and detailed subsidiary information from COEMIS to CEFMS at different times. The last district office converted to CEFMS in March 1998. Unlike COEMIS, CEFMS accounted financially for individual real property assets by property identification code. At the time of conversion, USACE used the information from the REMIS and the COEMIS/CEFMS conversion spreadsheets to establish values for individual property identification codes and populate the general ledgers in CEFMS.

**Agreement.** All parties acknowledge that the dollar value assigned to an asset will be supported by appropriate documentation. SFFAS No. 6 and the DoD Financial Management Regulation allow the use of alternate methods to estimate and support the acquisition costs for real property assets with remaining useful lives for transactions occurring before October 1, 1998. This Memorandum of Agreement documents an agreement between the Office of the Inspector General of the Department of Defense (OIG DoD), the principal auditor for USACE, and USACE, in coordination with the General Accounting Office and the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The agreement is an alternate method to estimate and support the acquisition costs for real property with remaining useful lives, administrative costs associated with land, and procedures for ensuring that the construction-in-progress costs that will be assigned to assets in the future are supported.

USACE agrees that SAS Number 31, "Evidential Matter," requires that the auditor consider the nature, competence, and sufficiency of evidential matter presented by management. Evidential matter supporting the financial statements consists of underlying accounting data and corroborating information available to the auditor. For evidential matter to be competent, it must be both valid and relevant. For evidential matter to be sufficient and competent, the auditor must obtain information that forms a reasonable basis for an opinion.

USACE also agrees to disclose in the notes to its Civil Works financial statements that assets put in service prior to CEFMS did not have adequate external support thus

alternate agreed upon procedures were used. USACE will include the total number of asset (to include cost) put in service before deployment of CEFMS.

**Buildings and Other Structures.** The OIG DoD agrees that the use of COEMIS/CEFMS conversion spreadsheets could be used to support the book cost of the real property (buildings and other structures) in existence before USACE converted the asset to CEFMS. Consequently, the baseline date for each asset will vary depending upon when it was converted to CEFMS. Each spreadsheet must be accompanied by an attestation statement from USACE Real Estate and Resource Management personnel that indicates that costs assigned to the individual items were based on actual real estate records, where available, and/or an estimated cost based on project cost/general ledger records in the COEMIS. In lieu of original supporting documentation indicating the acquisition date, the conversion spreadsheet or other documentation supporting the spreadsheet could be used to support the placed-in-service date established in CEFMS. USACE based the conversion procedures on the premise that the accounting records in COEMIS reflected the actual cost of the projects and would eventually serve as the basis for assigning the cost of the project to the individual property identification codes. Consequently, when the USACE completes its work on obtaining conversion spreadsheets with attestation statements for each project, the OIG DoD plans to perform other analytical procedures that would be used to determine the reasonableness of the COEMIS cost information associated with converted projects and the costs assigned to high-dollar-value assets.

For those projects for which a conversion spreadsheet is available, but an attestation statement is not provided to the auditors, USACE will obtain and provide a written statement from Real Estate and Resource Management personnel in the responsible district offices. These district personnel will attest that the costs assigned to the individual items were based on actual real estate records, where available, and/or an estimated cost based on project cost/general ledger records in the COEMIS. USACE will also furnish an attestation statement as to the reasonableness of the placed-in-service date if the conversion spreadsheet or other documentation supporting the spreadsheet does not indicate an acquisition date. If the original COEMIS/CEFMS spreadsheets are not available, USACE will re-create the spreadsheets using the same information and methodology used to create the originals. USACE will then annotate on the spreadsheets "non-original" and attest to the information and the methodology used to re-create them. If it is impossible to re-create a new spreadsheet, then USACE agrees to obtain appraisals and/or engineering estimates for missing conversion spreadsheets. A written statement describing the estimating methodology should accompany the appraisals and/or estimates and be attested to by responsible Real Estate and Resource Management personnel. USACE will clearly identify the methods/basis used to compute the estimated cost for any asset for which the conversion spreadsheet is missing. If any costs cannot be supported with documentation, USACE agrees to either reduce the book cost of the building or other structure by the amount of the unsupported costs or track the unsupported amounts by property identification code. When USACE completes the work related to the unsupported book cost, the OIG DoD agrees to consider the risk associated with relying on the unsupported amounts in auditing the financial statements.

USACE agrees that acquisition costs initially recorded in CEFMS, capitalized improvements made to existing assets since the conversion spreadsheet was prepared, and increases in acquisition costs from those recorded on the COEMIS/CEFMS conversion spreadsheets will be supported by independent source documents as prescribed in Engineer Regulation 405-1-12, chapter 16. In instances where the required documentation cannot be obtained, USACE agrees to obtain appraisals and/or engineering estimates as detailed in the DoD FMR, volume 4, chapter 6, with a written attestation. If any costs remain that cannot be supported with documentation or by an appraisal or engineering estimate, USACE will either reduce the book cost of the building or other structure by the amount of the unsupported costs or track the unsupported amounts by property identification code.

Because the OIG DoD will review only the COEMIS/CEFMS conversion spreadsheets for 43 sampled projects, USACE agrees to determine the availability of COEMIS/CEFMS conversion spreadsheets and written attestation statements for the assets in the projects not sampled. USACE agrees to reconcile differences between what was recorded in COEMIS at the time of conversion and what was distributed to the individual property identification codes on the conversion spreadsheets for entry into CEFMS. For changes made to existing assets since the development of the conversion sheet and new assets placed in service since the conversion, USACE agrees to ensure that sufficient source documentation exists in files maintained by the respective districts to substantiate the book cost recorded in CEFMS. Source documentation, such as an appraisal, or a written attestation statement should support the acquisition cost of revolving fund real property assets. USACE agrees to maintain all the documentation (original documents and/or hard and electronic copies of original documentation) in a readily available location, for the life of the assets.

**Construction-in-Progress.** USACE agrees to establish and implement procedures by November 15, 2004, that require that COEMIS costs that are associated with assets still in construction-in-progress be supported before associated assets are placed in service. In the new procedures, the Engineer Form 3013 for each transferred asset will indicate the dollar value of the capitalized costs originating in COEMIS for which sufficient source documentation does not exist. The Engineer Form 3013 will also identify the costs that originated in CEFMS that are supported by original documentation. USACE will obtain and provide a written statement from responsible USACE district personnel attesting that the costs assigned to the individual property identification codes were based on actual costs, where available, and/or an estimated cost based on project cost/general ledger records in COEMIS. USACE will attach the written statement with the supporting documentation, such as the CEFMS cost detail ledger as of the date of the conversion, to the Engineer Form 3013. The written statement, supporting documentation, or the Engineer Form 3013 will describe the types of goods or services that are associated with the capitalized costs for which sufficient source documentation does not otherwise exist. If any costs cannot be supported using this methodology, the book cost of the building or other structure will be reduced by the amount of the unsupported costs.

**Administrative Costs Associated With Land.** Reportable land costs are composed of the cost to acquire land tracts and all costs necessary to bring a tract of land to a form suitable for its intended use. This includes the administrative costs. Administrative costs associated with land on the FY 2003 Civil Works Balance Sheet represent approximately 70 percent of the \$8.1 billion recorded value for land. As with other real property, supporting documentation is not available for most of these administrative costs. To identify the administrative cost component, USACE agrees to separately identify total land tract costs and total administrative costs for each property identification code per district by May 2004.

From each of the districts, USACE will request the FYs 1994 to 1998 conversion data, the associated COEMIS/CEFMS conversion spreadsheets, and the signed attestation statements for all projects. The attestation statements indicate that costs assigned to the individual items were based on actual real estate records, where available, and/or an estimated cost based on project cost/general ledger records in COEMIS. For missing FYs 1994 to 1998 conversion spreadsheets or attestation statements, USACE will re-create the spreadsheets using the same information and methodology used to create the original spreadsheets. USACE will then annotate on the spreadsheets "non-original" and attest to the information and the methodology used to re-create them. If USACE cannot reconstruct the conversion spreadsheets, USACE will write off the recorded amounts or provide valid estimates. For administrative costs associated with land acquired after its conversion to CEFMS, USACE agrees that the districts must retain documentation supporting those costs in accordance with SFFAS No. 6, the DoD Financial Management Regulation, and NARA requirements.

The OIG DoD agrees to accept the conversion spreadsheets with signed attestation statements as alternative documentation that will approximate actual costs for the pre-CEFMS unsupported administrative costs of land. The baseline date will vary for each item depending upon when it was converted to CEFMS. Because the COEMIS or conversion data is alternative documentation, USACE agrees to select a judgmental sample of the available conversion spreadsheets from a minimum of one project each at five Power Marketing Administration districts and five non-Power Marketing Administration districts. USACE engineers will then validate the accuracy of the conversion data used to estimate project cost on the selected projects. USACE will provide the engineer-validated estimates to the IG DoD auditors. USACE also agrees to disclose all unsupported administrative costs (those costs not supported by actual real estate records or estimates) in the financial statement notes.

USACE agrees to reconcile differences between what was recorded in COEMIS at the time of conversion and what was distributed to the individual items on the conversion spreadsheets for entry into CEFMS. For changes made to existing items since the development of the conversion sheet and new items placed in service since the conversion, USACE agrees to ensure that sufficient source documentation exists in files maintained by the respective districts to substantiate the administrative costs recorded in CEFMS. USACE agrees to maintain all the documentation (original documents and/or

hard and electronic copies of original documentation) in a readily available location, for the life of the items.

## **PART II. PERSONAL PROPERTY**

**Background.** USACE uses several different types of equipment assets to perform its mission such as forklifts, trucks, cranes, barges, and boats. The equipment portion of PP&E generally includes assets with an acquisition value of \$25,000 or more. It does not include land, buildings and structures, and construction-in-progress. The net book value of equipment in the USACE principal statements in FY 2002 was \$650.8 million. The DoD Financial Management Regulation requires that supporting documentation for the assets be maintained by the owner in a readily available location during the applicable retention period. This permits the validation of information pertaining to the asset, including acquisition cost, acquisition date, and cost of improvements.

**Problem.** USACE did not maintain adequate documentation to support all of the values recorded in CEFMS for a significant number of items of equipment reviewed. This occurred because USACE had not developed the controls necessary to ensure personnel adhered to existing policies and procedures for retaining documentation and valuing assets in the absence of historical data. The valuation problem resulted in the audit conclusion that USACE could not adequately support about \$47.5 million of the \$650.8 million disclosed on the FY 2002 financial statements as the value of equipment.

**Agreement.** For personal property assets acquired as of September 30, 2002, USACE agrees, when original supporting documentation for personal property assets is no longer available, that the asset costs need to be determined and documented using acceptable methods of estimating costs. Acceptable procedures for valuing assets for which historical cost documentation is no longer available include:

- appropriation or other Congressional information,
- Plant Replacement and Improvement Program documentation, if it can be used or adjusted to estimate the value of the assets at the time it was placed in service.
- estimated cost based on the cost of similar assets at the time of original acquisition, and
- current cost of similar assets, discounted for inflation since the time of acquisition.

USACE agrees to document the estimate on the USACE Internal Equipment Valuation (in Lieu of Supporting Documentation) form and have it certified by responsible personnel. For personal property acquired after September 30, 2002, USACE agrees that the districts must retain documentation supporting those costs in accordance with SFFAS No. 6, the DoD Financial Management Regulation, and NARA requirements.

This Memorandum of Agreement, once agreed to by all parties, will represent the official baseline for supporting the book cost of individual USACE, Civil Works, general PP&E. The official baseline dates are not rolling baselines; therefore, alternative valuation methodologies for real and personal property will not be accepted for any transactions that occur after the asset's baseline period. The undersigned agree that this memorandum expresses our understanding of the actions that the OIG DoD and USACE agree to take.



Paul J. Granetto, CPA

Assistant Inspector General, Defense Financial Auditing Service  
Office of the Inspector General of the Department of Defense



Stephen Coakley

Director, Resource Management  
U.S. Army Corps of Engineers