

Problems Related to Fixed Asset Management
Report No. 98-12, April 27, 1998

The purpose of this report is to advise agency management of problems related to fixed asset management that were identified during the Office of Inspector General's (OIG) examination of selected year-end purchase orders.

Background

The Railroad Retirement Board (RRB) is a federal agency in the executive branch of government. The RRB is funded by annual appropriations voted by Congress permitting the agency to incur obligations and to make payments out of the Treasury for specified purposes.

Annual appropriations are made for a specific fiscal year. If an agency fails to obligate its annual funds by the end of the fiscal year for which they were appropriated, they cease to be available for obligation and are said to have "expired" for obligation purposes. Expired appropriations remain available to make payments to liquidate liabilities arising from obligations made within the fiscal year for which the funds were appropriated.

The Anti-Deficiency Act (31 U.S.C. § 1341) prohibits agencies from spending more than Congress appropriates to them. Exceeding the amount of the annual appropriation carries administrative and penal sanctions.

In order to minimize the amount of expired funding while eliminating the risk of an Anti-Deficiency Act violation, federal managers often delay certain purchases until near the end of the fiscal year when few uncertainties remain concerning the agency's budgetary requirements. This results in heavy procurement activity during the month of September.

The Bureau of Supply and Service (BSS) is responsible for recording acquisitions and maintaining the RRB's accountable property record using the fixed asset subsystem within the Federal Financial System, a mainframe computer application. Accountable Property Officers in each of the agency's major organizational units are responsible for advising BSS of changes to the location or status of assets.

Objective, Scope and Methodology

The scope of this report is limited to advising agency management of problems identified during tests of year-end spending that were conducted incidental to other OIG oversight activity.

We selected six purchase orders for equipment which had been entered on the Federal Financial System (FFS) during September 1997. Four of these purchase orders were dated September 30, 1997.

We reviewed the files that supported the procurement, interviewed personnel in the Office of Programs and the Office of Administration and made a physical inspection of selected items of equipment.

The work was performed in accordance with generally accepted government auditing standards as applicable to the objectives.

Fieldwork was conducted on-site at RRB Headquarters during February - March 1998.

Results of Review

Our testing disclosed that the practice of reserving appropriated funds for spending at fiscal year-end tends to result in a backlog of work in departments responsible for processing acquisitions. In addition, we noted the fixed asset subsystem was not current and, as a result, inadequate to ensure that all assets can be located.

Prior audits have cited management for non-compliance with existing agency procedure which requires an annual reconciliation of the agency's accountable property record and a physical verification of assets. (See the Management Letter issued by KPMG Peat Marwick LLP in connection with the audit of the RRB's FY 1996 financial statements and the Letter to Management issued by the OIG in connection with the audit of the RRB's FY 1997 financial statements.) Also noted was the inadequacy of controls over the recording of asset dispositions.

Delays Associated with Purchases at Fiscal Year-end

Delays in processing-in and setup are associated with equipment acquired near fiscal year-end. Orders placed during a narrow window of opportunity tend to be received during a similarly narrow timeframe. As a result, the volume of work increases faster than can be handled by staff responsible for the receiving, recording and setup of new assets.

We reviewed purchase orders for 56 personal computers (56 monitors and 56 central processing units (CPUs)), 3 printers and a LAN server. All of this equipment was ordered during September 1997 and was received during the following November and December.

Of these 116 items, only the LAN server had been entered into the fixed asset subsystem as of February 24, 1998. BSS did not record the acquisitions promptly because bureau management gave priority to its other responsibilities.

In addition, two of the personal computers and the LAN server had not yet been placed in service. Installation of the new LAN server was pending completion of wiring and the physical re-configuration of floor space. Setup of the two personal computers had been delayed due to problems related to both hardware and software.

We also identified 10 personal computers that had been purchased at the end of the 1996 fiscal year but were not placed into service until September of the following fiscal year (approximately 12 months after purchase). This equipment was used to complete a LAN installation which was funded primarily with fiscal 1997 year-end funds.

The above information is presented for management's information only and we are making no recommendation for corrective action at this time.

Fixed Asset Subsystem is Not Accurate

The fixed asset subsystem does not provide an accurate record of the location of assets.

During the last several years, the Office of Programs has undergone a major reorganization that resulted in both the creation and elimination of organizational units within that office. In many cases, organizational changes were accompanied by physical relocation of personnel and equipment.

The Office of Programs did not notify BSS of changes in equipment location. As a result, the RRB's primary accountable property record is inadequate to locate equipment presently identified with the Office of Programs.

BSS has recently undertaken a project to improve the integrity of the accountable property record for assets in the Office of Programs. They expect to complete their initial work by May 1 at which time they will contact the Office of Programs for additional information concerning asset location.

The RRB has not fully implemented existing procedures requiring complete, agency-wide reconciliation of the accountable property record and a physical verification of all assets since 1994. These procedures require a 100% physical verification of assets each year which is extremely time and labor intensive. New procedures have been proposed but have not yet been adopted.

Agency management has been made aware of problems related to fixed asset management in the past.

Beginning in 1993, auditors performing the annual audit of the agency's financial statements have cited the RRB for having an internal control environment that "is focused on control objectives and techniques designed to meet the organizational responsibilities of each of the individual operating units, rather than designed to meet the overall objectives of the RRB." The situation described above is a by-product of that control environment. The Office of Programs did not provide for asset management responsibilities in the execution of the reorganization.

Prior recommendations of the financial statement audit calling for strict enforcement of existing fixed asset inventory procedures, which date from 1995, are still pending.

Management has previously been made aware of weaknesses in the overall control environment and specifically alerted to non-compliance with existing fixed asset management procedure. We consider the current finding to be evidence that the previous recommendations have not been implemented and we make no further recommendations at this time.