Subject: PROPERTY

1-30-00 GENERAL

Public Law 84-863 (31 USC 66 c) which amended the Budgeting and Accounting Act of 1950 (PL 81 784) provides that each Federal agency shall account for its property transactions and holdings in terms of monetary values as an integral part of its accounting system. Applicable basic principles, standards, and related requirements are prescribed by the Comptroller General In Title 2, Chapter 2 of the General Accounting Office Policy and Procedures Manual. In this chapter, policies, standards and specific requirements for property accounting are promulgated for the guidance of agencies within the Department in accordance with the statutory and regulatory requirements cited.

Each agency in the Department shall systematically record, control, and report in monetary terms its investment in property. Departmental property falls into two classes, Real Property and Personal Property, the latter further classified as expendable and nonexpendable. Significant classifications of transactions and holdings shall be established in the accounts and reports so as to clearly disclose the nature and extent of the investment.

Coordinate Materiel and Real Property procedures will agree with common accounting principles set forth by the Department. Detailed property records shall serve as accountable records and support the balances in the general ledger accounts. Entries to both the general ledger control and subsidiary accounts and the detailed accountable property records shall be made from the same source documents. The documents will be controlled and annotated to ensure that both the property records and the fiscal control and subsidiary accounts are updated within two work days of receipt. Source documents shall contain sufficient data to determine whether the property is expendable or nonexpendable, capitalized or 0oncapitalized, stocked or nonstocked. They will disclose the unit acquisition cost or other value at which the property is to be recorded and also identify and classify the types of property.

Where property accounting operations are mechanized, the property accounting data will be recorded in machine readable form early in the process, preferably, if suitable equipment is available, as a by-product in the preparation of the initial property transaction document.

The accounts and property management records shall be maintained in a form which will provide data for effective property management and for cost data which management can use in its overall program evaluation, control, and planning functions.

1-30-10 EXPENDABLE PROPERTY

A. General

Expendable property consists of categories and specific items which are charged as an expense when received or issued, according to the accounting system maintained for the using activity.

Properties charged to expense are usual ly expendable items that are consumed or exhausted in use, but may include low value items of a durable nature, such as desk top items and other articles included in non-capital equipment object classifications. Other property included in this category may be converted in the process of construction, fabrication or manufacture and may lose its identity when incorporated into or made a part of equipment or fixed property.

B. General Ledger Accounts and Records

Items of property classified as expendable for property control and/or cost accounting purposes (HHS Materiel Management Manual 103.27.5003-1 (00), and acquired for and maintained in duly constituted warehouses or stockrooms, shall be controlled and accounted for as assets in Stores general ledger account 125 until issued for use or consumption. When issued, they will be charged to the appropriate accounting entity. Stores items delivered directly from vendor to user shall be treated as current expense and charged to the proper account net of time discount. In unusual circumstances where operating unit expenses may be seriously distorted by inclusion of a charge for items delivered directly, in a quantity intended for use beyond the current period, the costs properly chargeable to subsequent periods will be treated as deferred charges and recorded in general ledger account 134.9.

Separate ledger control accounts will be established and maintained for each warehouse and stockroom. Further subdivisions may be established in the accounts as are clearly justified by the need for the data furnished or by improvements in the exercise of control accountability. Subsidiary accounts, records, and other devices established to 'provide accounting data and control shall be maintained currently and accurately.

C. <u>Determining Cost of Issues</u>

Stores items, materials and supplies, issued for use shall be charged to using activities on the basis of cost. Acceptable methods of costing include:

1. Specific identification of items issued and costs recorded.

2. Cost determined on a first in, first out basis.

3. Computed average cost.

4. Standard cost adjusted from time to time to reflect changes in actual cost.

In practice the determination and recording of costs in the perpetual inventory records usually occurs prior to and apart from the payment of related invoices. To allocate time discounts by individual items and recompute unit costs is too time consuming for the sake of precisely allocating the small amount of such credits. The credits can be distributed periodically either separately or as a credit against handling charges.' Costs will, therefore, be recorded based upon the firm unit prices stipulated in the purchase documents. No adjustments will be made for time discounts in the unit costs of individual items.

The credits originating from time discounts shall be accumulated in an operating account established and clearly identified for this purpose. Periodically, the credits accumulated in this account will be distributed to the users and consumers of the supplies and materials. Adjustments in unit costs of items purchased from the GSA may be handled under the time discount procedure, if not significant. (Unit costs on private vendors' invoices should be consistent with those in the purchase document.)

Costs of handling, storage and issuance may be: (1) prorated by generally accepted methods as part of the unit cost of materials and supplies issued or (2) accounted for separately by object of expenditure as operating expenses for the supply function. If an agency accounts for and includes in its budgets, such service functions as part of a General Administration activity, these costs will be reported intact. If, however, these costs are usually prorated to operating activities for cost reports and are so reflected in the budget, they should be distributed at least as often as the cost reports are prepared.

D. Distribution of Charges to Using Activities

Charges for stores issued to the using activities shall be made reqularly and not less frequently than one each month. The method used in distributing charges, through the fiscal accounting office, shall be determined for each supply activity on the basis of its size, the volume and frequency of transactions, and the nature and extent of similar clerical operations with which the distribution of charges may be efficiently combined within the supply function. Possible alternatives are:

1. Pricing and routing of individual requisitions to the fiscal accounting office as orders are filled.

2. Furnishing fiscal accounting office with monthly reports of issuances for each activity, by manual compilation, by mechanized operations, or by computer printouts. The lattter two usually can be prepared as a by-product of updating perpetual inventories.

The extent to which clerical operations involving the summarization and distribution of charges and related activities may be more effectively or economically performed on mechanical equipment should be considered. It is important that costs of supplies issued be furnished the fiscal office regularly and timely.

E. Physical Inventories

Capable personnel not engaged directly in the supply activity will be assigned to conduct the inventory.

Physical inventories of supplies and materials maintained in warehouses and stockrooms shall be taken annually or more frequently as determined by the Property Management Officer. Determination will be based upon the types of storage maintained, their value, and the degree of internal control effected by stores' procedures and records. The results of previous inventor-ies also may be a determining factor in how frequently these inventories shall be taken. These factors must be considered in determining the methods and procedures to be used in taking inventory in each major area or segment of stores responsibility.

Sensitive stock items controlled by a perpetual inventory system will be inventoried each quarter of the year.

Detailed procedures, instructions, and the forms used will be devised by the agency's property management staffs. The procedures, instructions, and forms established will be manualized as part of the property management system. Detailed policies and procedures are specified for this purpose in the HHS Materiel Management Manual s 103-27.53. This material will be kept current and made readily available for the consistent guidance of all concerned.

F. Reconciliation and Adjustment

Perpetual inventory records of supplies and materials and the general ledger accounts will be reconciled each month. At least annually, the reconciliation will be based upon a physical inventory of the items in stock. Procedures are contained in HHS Materiel Management Manual s 103-27.5204.

As the general rule, adjustments will be made to correct clearly established errors in reporting or recording receipts and issuances (HHS MM s 103-27.5019) and agreed to by the accounting and property management staffs. Such adjustments shall be supported by a voucher properly cross-referenced to the documents which. were involved in the incorrect entries. Unexplained losses shall be fully documented and reported to a designated agency official (apart from property or accounting) or a duly constituted Board of Survey, for consideration and disposition (HHS MM 103-25.51). Entries adjusting the accounts and/or the stock record cards in these instances will be supported by a copy of the document evidencing approval of this action by the designated official or board.

1-30-20 NONEXPENDABLE PERSONAL PROPERTY

A. General

Nonexpendable property consists of categories and specific items, generally equipment, which are carried as capital assets of a program or activity until disposed of by transfer, sale or salvage. Accounting control shall be established and maintained as an integral part of the agency's accounting system. Policies and procedures shall:

1. Clearly state the criteria for capitalization of non-expendable personal property (HHS MM s 103-27.5007 (c) and GAO Accounting Standard P40.02).

2. Provide for current recording of all such acquisitions and disposals to the general ledger control accounts and subsidiary property management records.

3. Provide for subsidiary property management records that support the financial accounting records (HHS MM 103-275201 (d).

4. Provide for monthly reconciliation of the subsidiary property management records to the general ledger control accounts.

5. Provide for reconciliation and adjustment of general ledger control accounts to subsidiary property management records subsequent to the regularly scheduled physical inventories.

6. Include requirements for determination and periodic recording of depreciation.

B. Principles of Capitalization

Nonexpendable personal property is capitalized at cost (invoice price less discount) plus significant and identifiable transportation and installation charges, and related costs of obtaining the property. More specific policies are:

1. An item is complete in itself and is not consumed.

2. It does not lose its identity by reason of being incorporated into another item of property.

3. It has a useful life of more than two year without material impairment of its physical condition.

4. An item has a unit cost of $5,000 or more, including accessories. The exceptions to this rule are:

   - Weapons, regardless of cost, will always be capitalized.

   - Library books and other library resources, when acquired for "permanent collection" will always be capitalized regardless of cost.

Direct material and labor costs, together with a representative overhead factor, will determine the capitalized value of agency fabricated equipment.

Initial installation charges are considered as part of the value at which an item or group of items of personal property is capitalized. These include costs required to install, erect, or otherwise construct or assemble an item of personal property. Costs incident to the installation of equipment are not capitalized as a part of the cost when:

1. The costs are identifiable with an improvement to the building or structure housing the equipment and which will be capitalized as part of the real property costs.

2. The costs are of an indirect nature and consist of handling, moving or placing portable and plug-in type equipment in use.

3. The costs are directly identifiable to an.item of equipment which is costed to current operations.

When a trade-in is involved in a purchase, the capital cost of the acquisition will be the lesser of (1) the cash paid and/or liability incurred plus the net book value of the traded-in property or (2) the amount that the purchase would have been without the trade-in. The item traded-in will be removed from the records together with accumulated depreciation upon release to the seller.

The cost of an item acquired by donationo devise, forfeiture or confiscation shall be established according to its value to the agency, its condition and fair market value.

When an item is retired from the inventory for any reason, the capitalized amount shall be removed from the asset account with a corresponding entry to adjust the reserve account for the amount of the accumulated depreciation.

Items acquired by lease-purchase contract, that have the practical effect of installment purchasing, shall be established at the purchase price. in accordance with the terms of the contract, rental payments may be applied toward the purchase price. That portion to be capitalized whi-ch has been expensed shall be credited to current and prior years expense, as appropriate.

Any property acquired by foreclosure will be capitalized at the lesser of the appraised market or fair market value.

Property acquired from other agencies will be recorded as capital assets. That transferred with reimbursement will be recorded at the agreed upon price, Out no less than its estimated useful value. That transferred without reimbursement will be recorded at its depreciated value, from the transferring agency's records, plus all costs incurred in acquiring the item.

Property will be recorded net of trade and cash discounts whether or not the cash discount is taken. Any penalty for late payment will not be considered an increase in the value of the asset acquired, but will be recorded as an added administrative cost of operation.

As items are identified and segregated for trade-in, sale or other disposal, the gross capitali.zed value will be transferred from the In-Use general ledger accounts 137.1 and 140.1 to the Pending Disposal general ledger accounts 137.2 and 140.2.

Property purchased by installment contracts will be capital ized at the time it is received and accepted by the Government, rather than periodically as installment payments are made or when title passes. Capitalization is based upon purchase price plus any related costs which may include include site preparation, installation and similar costs whether included in the contract or incurred separately.

Property made available to a contractor by purchase or otherwise will be recorded in general ledger accounts 137.4 and 140.4 until disposed of by transfer, donation or sale, unless an exception is made by specific statute or regulation. Similarly, property made available to a grantee will be recorded in general ledger accounts 137.5 and 140.5. Only property acquired by grant funds may be transferred to a grantee.

A. <u>General Ledger Accounts and Records</u>

The chart of accounts provides five subordinate classifications to the general ledger control accounts "137 Equipment" and "140 Equipment Trust". Use of these and other sub accounts will be governed by the needs of each agency. Besides providing financial and management data, the sub accounts will facilitate reconcilia-tion to subsidiary property records and the periodic physical inventories.

In determining the need for subordinate classifications (or other intermediate control records) these factors will be considered:

1. The size and type of agency and components.

2. The nature and extent of asset transactions and holdings.

3. The activity or cost center levels at which depreciation costs are to be recognized as operating expense.

4. The system or methods and procedure in cffect for physical control and/or accountability for the assets involved.

Detailed records in support of the general ledger control and sub accounts will be maintained by the property management staff. As a minimum, subsidiary property records will be established for:

1. Each organizational segment established as an accountable area.

2. Each accounting entity for which costs are periodically compiled, if different from accountable area.

3. Each major grouping of property, such as, furniture and furnishings, and mechanical, technical, medical, scientific and electronic equipment, etc.

Equipment property records will contain the date of acquisition and the estimated useful life of the item. If these records are maintained on ADPE, print-outs or methods to items by life expectancy may be made available to assist in determining the amount to be charged to the depreciation expense account.

Additionally, property subsidiary records will be maintained to account for fixed equipment installed in leased real p,,roperty; property loaned or borrowed or under personal custody; and federally owned property held in custody by a grantee or contractor, to include the name of the custodian and his physical location.

D <u>Depreciation</u>

The procedures for determining and recording depreciation shall be simple. Under precision and detail in maintaining deprecia- tion accounting records should be avoided. Generally, an annual computation of depreciation with proportionate allocation of the annual amount to each intervening report period should serve to provide fair estimates of equipment depreciation chargeable to the reporting period. These proportionate allocations must be revised whenever unusually large purchases of equipment are made during a current year. Depreciation of unusually large cost items of equipment should begin as soon as they are put in use. The calculation of depreciation can be made quickly and simply if subsidiary property records are maintained on ADPE to furnish year of acquisition and life expectancy data. For the sake of simplicity, salvage or trade-in value will be recognized in developing formula for computing depreciation only for those classes of capital equipment in which firm patterns of significant residual values have been established.

The useful life estimates for capital equipment should be reviewed and revised periodically in accordance with actual experience. The Internal Revenue Service bulletin on depreciation may be used as a guide.

When equipment, including ADP software, is acquired or constructed for a particular research and development project, and no alternative future use is contemplated, the cost may be depreciated/amortized over the life of the specific projects.

Depreciation will be recorded each month in a cumulative control account in the general ledger, or annually for those agencies that do not require a more frequent determination of the costs of all resources consumed in performing services. If subordinate classifications (or other intermediate control records) are maintained for capital equipment, the amount of depreciation shall be recorded to the counterparts of such accounts or records. The debit part of the cumulative monthly depreciation entry is a charge to the Expense Control in the General Ledger and subsidiary accounts. Finer allocations of depreciation to budget activities or other cost breaks not directly aligned with accounting entities will be made only as required for periodic total cost reports for management.

E. Physical Inventories

As in the case of expendable materials, the inventorying of nonexpendable property is the responsibility of the Property Management Officer, except that inventorying of library books and other library resources are the responsibility of the Librarian. Detailed policies and procedures are contained in HHS Materiel Management Manual s.103-27.53. The physical inventory is necessary to verify the accuracy of the property management records and must be reconciled to the amounts recorded in the general ledger accounts. Capitalized nonexpendable property will be inventoried annually except that personal custody property, regardless of cost and ~hether or not capitalized, will be inventoried at least every three years.

F. Reconciliation and Adjustment

The subsidiary property records and the general ledger accounts will be reconciled each month (see MM s 103-27.5020(c) for use of Property Voucher Register). The subsidiary property records and the general ledger accounts will subsequently be reconciled to the results of the annual physical inventory. Differences will be investigated to determine the cause and to identify materiel and fiscal accounting procedures that require modification to preclude future error and loss. Accounting records musiC. lue brought into agreement with the physical inventory findings.

Differences which are determined to the errori in recording receipts or disposals will be fully documented. With the approval of designated property management and accounting officials, adjustment to the accounts will be made for such differences without Board of Survey action.

Shortages, determined to be other than errors in recording receipts or disposals, and damages will be documented with all known facts and be referred to a designated individual or Board of Survey for determination of responsibility. (HHS MM 103-25.51) After the determination is made a copy of the determination will be used to adjust the property management records and the fiscal control accounts. If an individual is held pecuniiarly liable, the fiscal office will set up an account receivable and initiate action to recover the amount of the loss. If pecuniary liability is not established, the loss will be written off by a charge against the appropriate invested capital account or special loss gain account.

G. Nonexpendable Personal Property Not Capitalized

Items of equipment acquired at less than $5,000 will be charged directly to the operating expense of the applicable activity, general ledger account 601, and identified as non-capitalized equipment by use of object class code 31.90.

In limiting the recording of item asset values to $5,000 and over, there should be no lessening of the agencies' responsibil-ity for proper control over the non-capitalized equipment. The property accounting system must maintain item accountability control over both capitalized ($5,000 and over) and non-capital-ized equipment costing from $300 to $5,000. Since a reconcilia-tion between property and financial records is not required for non-capitalized equipment, it is essential that administrative controls are established to ensure that property personnel have knowledge of receipt of all non-capitalized equipment as well as possession of all documents evidencing purchase, delivery, trans-fer or disposal. Methods of control on items costing less than $300, especially sensitive items, may include memorandum receipt files, safekeeping facilities, unique decals, hand receipts, etc.
When activities operating on a "fee for service" basis acquire a number of items that would substantially distort costs in the current accounting period, the cost may be recorded in general ledger account 134.9 as a deferred charge. Costs will then be amortized over a three to five year period of time.

Library books and other library resources, whose use will be limited to a year or less, will be recorded as expended non-capitalized property. Similar items purchased as reference material for individual offices will be recorded as administrative supplies.

Items of any value that are not capitalized because they tend to lose identify by reason of being incorporated into another item ol property will be recorded as expensed noncapitlized property or as a deferred charge. An example might be installed carpeting.

1-30-30 REAL PROPERTY

A. General

Real property consists of land, buildings and other structures including permanently attached fixtures, equipment and other appurtenances. The cost of such property will be recorded in the general ledger accounts and invested capital accounts when an agency of the Department has been assigned holding and accountability responsibility.

B. Principles of Capitalization

1. Land purchased by the Department shall be capitalized at the acquisition price, plus all costs incidental to the acquisition and to preparing the land for use.

2. Buildings and structures shall be capitalized on the basi of original cost plus the costs of additions, betterments, rehabilitation, or replacements costing $500 or more as defined in Section *17-10-40 Real Property Management Manual, and which signficiantly increase the usefulness, productivity, service life or capacity. Repair and maintenance costs necessary to keep the buildings and structures in operating condition shall be treated as current operating costs.

3. When major improvements are made by replacement of fixed equipment, (e.g., installation of a more efficient heating plant or hig ment will be tion of the cords.

4. The costs of non-structural improvements and alternations buildings and structures for which an agency does not have holding and accountability responsibility will be included in current operation expenses. For additions, improvements or betterments which affect the capacity or change the basic design of the property the cost shall be treated as an asset, classified as a long term deferred charge and amortized over the planned period of possession. Such costs that are to be recouped by increased charges for services rendered in subsequent accounting periods may be prorated proportionately.

5. Property transferred from another Government Agency, at no cost or at a cost less than original acquisition cost, will be capitalized at the original acquisition cost. Annual inventory reports on real property owned by the United States are stated on the basis of original acquisition cost. Expired costs represented by depreciation accumulated to the date of transfer will be assumed and recorded in the cumulative depreciation accounts.

6. Property acquired by donation or forfeiture, from outside the Government, will be recorded in a capital account at an amount which the Agency determines it would have been willing to pay for it, giving due consideration to the usefulness to the Agency, condition, and estimated market value.

7. Accrued costs for construction of real property are recorded in construction-in-process capital accounts on the basis of reported work performance under construction contracts. All significant elements of cost, whether direct or indirect, are accrued. Upon acceptance of property-from the contractor, the amount thus accrued is transferred to the appropriate real property account.

8. Additions, improvements and betterments to leasehold buildings and structures having a useful life of over one year will be accounted for as an asset and amortized over the period of possession or the life of the improvement, whichever is less.

C. General Ledger Accounts and Records

Accounts subsidiary to the general ledger control accounts, 145 Fixed Real Property or 146 Fixed Real Property - Trust, will be maintained to show investment in land separately from investment in buildings and other structures. As a minimum, separate control accounts will be maintained for each accountable officer. The comprehensive real property records maintained by the accountable officer will be subsidiary to the general ledger control accounts. Procedures will provide that controlled real property vouchers, Form HHS-88, which assemble the documents evidencing these transaction, will be used to support entries to both the real property records and the general ledger accounts (See HEW Real Property Management Manual, Chapter 17-10).

D. Depreciation

Depreciation of real property will be recorded in the accounts of all agencies of the Department at-least annually; however a monthly recording is preferably so that all significant costs of an agency can be included when reporting costs of performance to management officials, the Congress and the public.

The expense account and reporting level at which the related expense or charge will be distributed in the detailed accounts is determined by the needs and circumstances of each application.

Agencies that periodically prepared "total cost" reports for evaluation of comparable major installations or the costs of a major installation over an extended period, will require distribution of these costs to unfunded expense control accounts established at that level. Agencies, or segments thereof, engaged in activities, services and/or in furnishing goods and supplies on a reimbursable or charge basis are required to distribute depreciation charges at a level of detail appropriate to the proper determination and inclusion of those unfunded costs in charges established for the services or products furnished. Office of Management and Budget Circular A-25 provides that cost computations used to establish user charges and fees for government services and property, shall include depreciation of buildings and equipment.

The period selected to amortize real property costs shall be estimated with due regard to all available information with respect to physical life, technological, and other factors of consequence which have a bearing on the probable useful period of life of the property to the agency. The maximum period to be used is 100 years.
The computation of the annual charge for depreciation and maintenance of detailed records are the responsibility of the fiscal accounting office. This office will distribute lithe computed charges to the related general ledger accounts ,and expense accounts according to the proration period established by the agency.

The conversion of depreciation expense into units of cost useful in structuring reports for shorter time periods, or in obtaining cost per unit of space occupancy and such other forms required to compute charges for reimbursable services and property exchanges, is also a function of the fiscal accounting office.

E. <u>Inventory Real Property and Adjustment of Records</u>

A review of the real property records and reconciliation with the general ledger accounts will be made at least annually to the accuracy of the real property records before the annual real property report is prepared. Any adjustments required to update either the property records, accounts, or both will be documented on a Real Property Voucher (*See HHS Real Property !Management Manual, Chapter 17-10).

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* Chapter 17-10 to transferred to an appropriate part of the Facility Engineering and Construction (FEC) Manual.