UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

GAO00451

DEC 9 1971

Dear Dr. Brown:

We reviewed the accounting system of the Bureau of the Census (Bureau), Department of Commerce, to ascertain whether the system in operation, as approved by the Comptroller General on May 4, 1966, continues to be an effective and efficient accounting system. Our review was made on a test basis primarily at Bureau headquarters in Suitland, Maryland.

We are pleased to advise that with the exception of the matters presented below and discussed more fully in the attachment, the accounting procedures and controls used by the Bureau generally comply with the departmental accounting principles and standards, and the standards of accounting established by the Comptroller General.

We are bringing these matters to your attention to enable you to initiate corrective measures. One matter involves the Government Overhead rate established by the Bureau which is not providing recovery of the full costs of furnishing special services to Bureau customers. The second matter discussed in the attachment concerns the method used to account for depreciation on mechanical assets. The Associate Director for Administration agreed to initiate corrective action on the latter point. However, as of November 30, 1971, corrective action had not been taken.

Our review did not include a determination of the usefulness of the Bureau's financial reports because the Bureau was conducting such a study in response to a request from the Office of Management and Budget.

We wish to acknowledge the courtesies and cooperation extended to our representatives during the review.

We shall appreciate your comments and advice as to any action taken or planned on the matters discussed in the attachment.

Copies of this letter with attachment are being sent to the Assistant Secretary for Administration, the Assistant Secretary for Economic Affairs, and the Director, Office of Audits.

Sincerely yours,

Donald C. Pullen

for Max A. Neuwirth
Associate Director

Attachment

The Honorable Dr. George Hay Brown
Director, Bureau of the Census

AGC 00204

OPPORTUNITY TO REVISE SOME ACCOUNTING PRACTICES AND RECOVER FULL COSTS OF SERVICES

The Bureau has an opportunity to recover full costs for services rendered customers by revising its methods of recording and allocating certain expenses to its reimbursable work. We found that the Bureau is not using correct accounting methods with respect to depreciation on its mechanical assets and is not allocating a proportionate share of either these depreciation expenses or its building space usage expenses to its reimbursable work. By erroneously depreciating its mechanical assets, the Bureau is not fully recognizing all its expenses. Furthermore, due to the Bureau's failure to allocate a proportionate share of this additional depreciation and space usage expenses to reimbursable work performed for non-Federal customers, we estimate that the Bureau is failing to recover nearly $100,000 a year.

USE OF BUILDING SPACE

The Office of Management and Budget Circular A-25 and Department of Commerce Administrative Order 203-5, dated September 7, 1961, contain guidelines for the recovery of costs of providing special services. These documents define full costs as including a proportionate share of the fair market value of the building space used in performing work for non-Federal customers.

We found that the Bureau's computation of the value of building space usage is significantly less than the fair market value of the building space usage. Thus, the Bureau is not allocating to its non-Federal customers a proportionate share of the fair market value of building space in accordance with Office of Management and Budget and Department of Commerce guidelines.

The Bureau established a Government Overhead rate of 5 percent in 1960 to recover space usage costs. The Government Overhead rate was intended to equal the aggregate of (1) the space use (which includes building costs, maintenance, and utilities) of the Bureau's permanent buildings at Suitland, Maryland; Pittsburg, Kansas; and the 12 regional offices (3.74 percent); (2) the Bureau's portion of the expense of the Office of the Secretary (0.5 percent); and (3) a portion of the overhead of certain other Government agencies (0.76 percent). During 1966, the 5 percent rate was split into Government Overhead (3.5 percent) and Space Rental and Maintenance

(1.5 percent). The split was made because the General Services Administration bills the Bureau for maintenance and utility costs of the Bureau's remaining buildings which are located in Jeffersonville, Indiana, and the space rental and maintenance rate was intended to equal the cost of maintenance and utilities of the buildings in Jeffersonville. The split of the 5 percent rate, however, reduced space usage rate from 3.74 percent to 2.24 percent.

We evaluated the Government Overhead rate related to the space usage of the Bureau's permanent buildings (2.24 percent). Bureau personnel were not able to provide us with the basis for this rate. Therefore, we made a computation using actual square footage of Bureau buildings and the space usage rates shown in the most recent Department of Commerce guidelines, Administrative Order 203-5, dated September 7, 1961. We believe that our method of computing the space usage rate as shown below is acceptable; however, other methods of computing the space usage rate may also be appropriate.

Building location	Current total space in square feet (1)	Annual unit cost of space usage per square foot (2)	Total annual space usage costs (1) x (2)
Suitland, Maryland			
Building 3	367,770	$4.75	$1,746,908
Building 4	102,387	4.75	486,338
Regional offices	59,046	various	271,441
Jeffersonville, Indiana	557,445	1.25[a]	696,806
Pittsburg, Kansas	36,823	4.75	174,909
	1,123,471		$3,376,402

[a]Building costs

$$\frac{\text{Total annual space usage costs for fiscal year 1970}}{\text{Average annual Bureau obligations for the period 1961-1970}} \quad \frac{\$\ 3{,}376{,}402}{\$59{,}203{,}900} = 5.7 \text{ percent}$$

On the basis of our evaluations, we estimate the present space usage rate is understated by 3.46 percent (5.7 minus 2.24). Had the 5.7 percent rate been used in fiscal year 1970, the Bureau would have recovered an estimated additional $88,000 from its non-Federal customers.

The Office of Management and Budget Circular A-25 and the Department of Commerce Administrative Order 203-5 also require that the cost of providing special services should be reviewed at least annually; however, we noted that the Government Overhead rate established at 5 percent in 1960 was initially based on 1959 Department guidelines. Bureau officials advised us that this rate was subsequently reviewed by the Bureau in 1961 using 1961 Department guidelines but that the changes in these guidelines did not require a change in the rate.

Bureau officials also advised us that there had been no review of the Government Overhead rate since 1961 because the rate was based in part on the 1961 Department guidelines that have not been revised since that date.

MECHANICAL AND NONMECHANICAL EQUIPMENT DEPRECIATION

The Bureau's mechanical equipment is depreciated over a 10-year life and the nonmechanical equipment is depreciated over a 20-year life. The depreciation expenses related to this equipment are allocated to Bureau organizational units and to all work projects based on a percentage of personal services costs.

During 1970, the Bureau recognized that its method of accumulating depreciation expense on its mechanical asset accounts were resulting in an understatement of asset book value. However, the Bureau did not realize that this problem was due, at least in part, to its erroneous writeoff procedures (as discussed on page 4), but rather its officials assumed only that the depreciation expense was too high, resulting in the overdepreciation of these assets. After performing an analysis of the account balances, the Bureau decreased the mechanical asset depreciation rates from 10 percent per year to rates averaging 3.8 percent. In effect, the new rates extended the useful life of these assets to an average of 26 years, even though in adjusting these rates, the Bureau did not determine the actual useful life of its mechanical assets. The Internal Revenue Service's guidance shows a 10-year useful life for this type of asset and we believe a 10-year useful life is reasonable until the actual useful life of the Bureau's property is determined.

The understated rates of depreciation has resulted in the Bureau's not recording and allocating to its customers the full amount of depreciation expense applicable to its mechanical equipment. We noted that the depreciation expense for mechanical equipment was $28,839 for the last month under the old rate based on a 10-year useful life. The expense for the first month under the new rates was only $11,582, a decline of $17,257. Projected over 12 months, depreciation expenses for mechanical assets will be understated by about $207,000. We estimate that of that amount the Bureau will not recover about $46,000 from other Federal Agencies and about $11,000 from non-Federal customers annually.

Our review showed that overstated accumulated depreciation balances were due to an erroneous writeoff of accumulated depreciation at time of asset disposal. This matter is discussed below.

Group method of depreciation

The Bureau depreciates its nonexpendable equipment by using a group method by type of asset. Generally accepted accounting principles provide that the group method of depreciating assets is an acceptable method. The group method of depreciation assumes that depreciation and related accumulated depreciation are not associated with any particular asset within the group. Therefore, the depreciation expense rate is applied against the gross cost of the asset account balance. Those assets which are used less than the average time will have, in effect, less than 100 percent depreciation recorded on them, and the assets lasting longer than the average will have more than 100 percent depreciation associated with them. However, on the average and under normal conditions, the assets taken as a group will be depreciated at 100 percent of cost within the average useful life period. Under the group method of depreciation, an individual asset will be considered to be depreciated at 100 percent of cost at the time of its disposal. Therefore, when an asset is disposed of, the cost of that asset should be removed from the asset account and the cost less salvage should be removed from the related accumulated depreciation account, and no loss or gain is recognized.

We found that the Bureau is not following the generally accepted procedure for adjusting accumulated depreciation at the time of asset disposal. We were informed by Bureau officials that the Bureau determines the amount to be deducted from accumulated depreciation by using the following formula:

$$\frac{\text{Accumulated depreciation for account}}{\text{Gross value of asset account}} \times \text{Cost of individual asset}$$

By using this formula, the accumulated depreciation balance is not reduced by the full cost of the asset as required by generally accepted accounting principles. Therefore, after an asset is retired, the associated accumulated depreciation account is overstated by the difference between the cost of the asset and the amount deducted from accumulated depreciation as determined by use of the above formula.

Bureau officials advised us that this policy for disposal of fixed assets has been in effect at least since November 1966. We estimated that during these 4 years the accumulated depreciation for mechanical assets has been overstated by approximately $460,000.

We found that the Bureau was using an appropriate depreciation rate for its nonmechanical assets; however, it was using the same procedure to write off its accumulated depreciation that it was using in connection with its mechanical assets. We estimate that during the same 4 years, the accumulated depreciation for nonmechanical assets has been overstated by about $250,000.

We brought these matters to the attention of appropriate Bureau officials on May 10, 1971. The Bureau's Associate Director for Administration agreed that there is a need to revise the Government Overhead rate and the mechanical equipment depreciation rates. In regard to the Government Overhead rate, he adivsed us that the Bureau would delay making a revision until current cost information and guidance is received from the Department of Commerce.

The Associate Director also informed us that the Bureau will evaluate the actual useful life of its mechanical equipment and that the depreciation rate will be revised accordingly. Furthermore, he adivsed us that the Bureau has revised its procedures for writing off accumulated depreciation so that this writeoff is now made in accordance with generally accepted accounting principles.

We believe the actions planned by the Bureau in connection with its mechanical assets are appropriate and will improve its financial management system and better assure recovery of these costs from its reimbursable customers. However, as of November 30, 1971, the Bureau had not revised its mechanical equipment depreciation rate.

RECOMMENDATIONS

We recommend that, upon receipt of the revised guidance from the Secretary of Commerce, the Director, Bureau of the Census require his staff to reevaluate its space usage rates with a view towards determining the most feasible method of accounting for and of recovering applicable costs. We recommend also that the Director require his staff to (1) determine the actual useful life of its mechanical equipment and to revise the depreciation rate accordingly and (2) establish procedures that will assure that these rates are reviewed annually in accordance with Office of Management and Budget Circular A-25.