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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION



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The Honorable Henry B. Turner
Assistant Secretary for Administration
Department of Commerce

Dear Mr. Turner:

On December 9, 1971, we issued a report to the Director, Bureau of the Census, Department of Commerce, on the results of our review of the Bureau's accounting system. In that report we recommended that the Bureau revise its mechanical equipment depreciation rates so that it could recover from its customers the full costs of furnishing special services to them.

In recent discussions with Department of Commerce and Social and Economic Statistics Administration (SESA) officials, we learned that our recommendation for revising the Bureau's mechanical equipment depreciation rates has not been implemented. As a result, the Bureau may not be recovering full costs from its customers. The details of this matter are presented below.

Background

In 1970 the Bureau recognized that its method of accumulating depreciation expense on its mechanical asset accounts was resulting in the overdepreciation of these assets and in an understatement of asset book value. Without estimating the useful life of its mechanical assets, the Bureau decreased its mechanical asset depreciation from a rate of 10 percent to rates averaging 3.8 percent a year. In effect, the new rates extended the expected useful life of these assets to an average of 26 years which, in our opinion, is unreasonable.

We concluded in our 1971 report that the understatement of the mechanical asset book value was due, at least in part, to an incorrect method used by the Bureau in adjusting accumulated depreciation balances at the time of asset disposal. We recommended that the Director require the Bureau's staff to determine the actual useful life of the Bureau's mechanical equipment and to revise the depreciation rates accordingly.

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In May 1971, the Bureau's Associate Director for Administration agreed with our conclusion that the Bureau had used an incorrect method to adjust its accumulated depreciation balances at the time of asset disposal. Corrective action was taken by the Bureau relative to this matter.

The Associate Director agreed also that the Bureau's revised mechanical equipment depreciation rates were in error. He stated that these rates would be corrected by determining the actual useful life of the assets through examination of Bureau records. According to the Chief of the Bureau's Finance Branch, preliminary estimates showed that the average mechanical equipment depreciation rates should be about 6.3 percent a year instead of the 3.8 percent rate in use.

In November 1971, the Chief of the Finance Branch advised us that he had been informed that the Office of the Secretary of Commerce was preparing a schedule showing the appropriate lengths of time to replace assets. Finance Branch officials indicated that, in view of this action, the Bureau had not studied the actual useful life of its mechanical equipment as it had planned to do, and was continuing to charge depreciation for mechanical equipment at rates averaging 3.8 percent.

In a letter dated January 13, 1972 (transmitted to us by the Assistant Secretary of Commerce's letter of January 26, 1972), the Director of the Bureau of the Census, in responding to the recommendation in our report, commented that the Department was in the process of formulating guidelines for the replacement of assets. He added that, upon receipt of these guidelines, the replacement age specified by the Department for mechanical assets would be used as a basis for revising depreciation rates.

Current status

In June 1974, Department of Commerce and SESA officials informed us that guidelines for the replacement of assets have not been issued by the Department and that, consequently, the Bureau has not revised its mechanical equipment depreciation rates. As a result, the Bureau may not be recovering full costs from its customers who use the Bureau's mechanical assets. The Bureau's customers include many non-Federal customers. Consequently, increased mechanical equipment depreciation rates would result in increased revenue to the Government.

Because the additional costs that the Bureau might recover from its customers could be significant, we believe the Bureau should prepare estimates of the useful life of its mechanical assets and

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use these estimates to revise the depreciation rates for these assets. We believe this method of computing depreciation would result in more realistic depreciation rates than by using replacement ages to be specified in the proposed Department of Commerce guidelines.

We have discussed this matter with the Chief of SESA's Finance Division. He agreed to determine, as originally planned, the actual useful life of the Bureau's mechanical assets, by reviewing disposition records and inventory listings, and to revise the depreciation rates for these assets accordingly.

Recommendation

We recommend that you direct the Department's Office of Audits to review and evaluate the effectiveness of actions taken by the Bureau in revising its depreciation rates for mechanical assets, including evaluation of (1) the method used by the Bureau in estimating the useful life of these assets, (2) the adequacy of revised depreciation rates based on the expected life of the assets, and (3) the adequacy of revised user charges reflecting the revised depreciation rates.

We shall appreciate your comments relative to any actions taken or planned by you on this matter. Also, we shall appreciate your providing us with information on the estimated additional amounts which will be recovered annually by the Bureau from (1) other Government agencies and (2) non-Federal customers as a result of increased user charges reflecting the revised depreciation rates.

Copies of this letter are being sent to the Administrator, SESA, and to the Director, Bureau of the Census.

Sincerely yours,



John Landicho
Associate Director



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WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
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The Honorable Edward D. Failor
Administrator, Social and Economic Statistics
Administration
Department of Commerce

Dear Mr. Failor:

Enclosed for your information is a copy of our letter to the Assistant Secretary for Administration, Department of Commerce, on the need for the Bureau of the Census to revise its depreciation rates for mechanical assets and related user charges to customers.

A copy of this letter also is being sent to the Director, Bureau of the Census.

Sincerely yours,

A handwritten signature in cursive script that reads "John Landicho".

John Landicho
Associate Director

Enclosure

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
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The Honorable Vincent R. Barabba
Director, Bureau of the Census
Department of Commerce

Dear Mr. Barabba:

Enclosed for your information is a copy of our letter to the Assistant Secretary for Administration, Department of Commerce, on the need for the Bureau of the Census to revise its depreciation rates for mechanical assets and related user charges to customers.

A copy of this letter also is being sent to the Administrator, Social and Economic Statistics Administration.

Sincerely yours,

A handwritten signature in cursive script that reads "John Landicho".

John Landicho
Associate Director

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