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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE

143 FEDERAL OFFICE BUILDING, 30 FULTON STREET
SAN FRANCISCO, CALIFORNIA 94102

GAO 00365



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IN REPLY REFER TO:

39005

APR 2 1971

Dr. Hans Mark, Director
Ames Research Center
National Aeronautics and Space Administration
Moffett Field, California 94035

AEC 00899

Dear Dr. Mark:

We have completed our ~~audit for the settlement~~ of accounts of accountable officers at Ames Research Center. This examination was made in accordance with the Budget and Accounting Act of 1921 (31 U.S.C. 53) and the Accounting and Auditing Act of 1950 (31 U.S.C. 65(d) and 67(a)).

Our audit included a review of accounting procedures and related internal controls over the accounting for receipts and disbursements as related to the responsibilities of the certifying officers. Compliance with procedures was determined by making such tests of disbursements and collections of public funds as were considered necessary for various types of transactions.

During our audit we noted the following items which we believe are within your area of responsibility for corrective action:

NEED TO RECOGNIZE THE CAPITAL BUILD-UP
RESULTING FROM RENTAL PAYMENTS UNDER A
LEASE-PURCHASE AGREEMENT

On July 1, 1967, Ames Research Center renewed its agreement with IBM (through GSA contract GS-00S-67189) to lease certain ADP equipment worth \$1,479,250. This contract was written as a lease-purchase agreement, whereby a certain percentage of all rental payments was to be applied to the price of the equipment when and if the purchase option was exercised.

Ames exercised its option and purchased most of the equipment effective July 2, 1969. Our review of the contract files and accounting records showed however, that the amount capitalized in account 1563 (equipment) was the cash purchase price only (\$763,865), and excluded credits of \$715,385 from prior rental payments.

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We reviewed NASA Financial Management Manuals and found that FMM 9250-36 states in part that:

"The invoice cost of capital equipment acquired by purchase shall be recorded in the financial records when the equipment is received."
(underscoring supplied)

We were informed that NASA financial manuals did not contain any additional policies, directives or instructions which would specifically define the cost at which leased computer equipment, or any other personal property, would be recorded when a percentage of lease costs could be applied toward the purchase price.

In our opinion good accounting principles require that the accumulated purchase credits from prior lease payments should be included in the capitalization of equipment when the asset is subsequently purchased. As stated in the American Institute of Certified Public Accountant's Accounting Research Study No. 4:

"* * * To the extent then that leases give rise to property rights, those rights and related liabilities should be measured and incorporated in the balance sheet."

Officials from Ames and NASA Headquarters concurred with our opinion, and we understand that steps are now being taken to review present NASA directives and possibly revise them to clarify the cost at which leased equipment should be recorded when purchased. On February 12, 1971, Ames prepared a journal voucher to increase the equipment account by \$715,385, thereby reflecting the actual cost of the equipment.

OTHER ADMINISTRATIVE MATTERS

During our review of pay and travel, we noted several relatively minor administrative errors. Two errors which were of a more significant nature were:

1. use of an incorrect waiting period for within-grade increases leading to an overpayment to one employee of \$1,172, and
2. lack of control over outstanding travel advances which allowed sizeable amounts to remain uncollected for several months.

Dr. H. Mark

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The above observations were discussed in detail with Mr. Shawlee and other personnel in your Fiscal Division. At the completion of our review, corrective action had been taken or was in process.

In accordance with General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies Title 8, Chapter 3, the records of financial transactions through June 30, 1970, may be transferred to the Federal Records Center for storage in accordance with your agency's records management program.

We wish to thank you for the cooperation of your staff during our audit. If you have any questions regarding this review, please contact us.

Sincerely yours,



A. M. Clavelli
Regional Manager