National Aeronautics and Space Administration

Headquarters
Washington, DC 20546-0001

September 11, 2007

Reply to Attn of:

Office of the Chief Financial Officer

TO: Directors, NASA Centers
Chief Financial Officers, NASA Centers

FROM: Chief Financial Officer (Acting)

SUBJECT: Enhanced Use Lease Financial Accounting Policy

The purpose of this memorandum is to: (1) Reiterate NASA's accounting policy governing Enhanced Use Lease (EUL) authority included in NASA Financial Management Requirements (FMR) Volume 16, Reimbursable Agreements and (2) Identify a methodology that will addresses the General Accounting Office (GAO) concerns expressed through GAO-07-306R, *Enhance Use Leasing Program Needs Additional Controls*.

Current Policy-*NASA Financial Management Requirements (FMR), Volume 16*

FMR Volume 16, Section 010202 E states that EUL authority is derived from 42 U.S.C. 2459j. This section gives the Administrator the authority to lease NASA real property to other Federal agencies and non-Federal entities and use the proceeds of the lease agreement to cover the costs to NASA in connection with the lease. In addition, amounts received in excess of costs associated with the lease shall be available for maintenance, capital revitalization, improvements of the real property assets of the Centers selected for this demonstration program, and shall remain available until expended. The statue limits the use of this authority to no more than two NASA Centers. The Ames Research Center (ARC) and Kennedy Space Center (KSC) are NASA's EUL demonstration sites.

Presently, NASA follows statutes that govern financial accounting and reporting for reimbursable work as follows:

- In accordance with FMR Volume 16, Chapter 1, Section 010202.A, EUL anticipated reimbursable authority is made available to NASA for spending following guidelines established in OMB Circular A-11 Preparation, Submission and Execution of Budget. The Circular requires an estimate of the amount in reimbursable work the agency expects to perform each fiscal year and the process for requesting the reimbursable spending authority for the monies collected from customers. As required in Part 4, I, Section 120, NASA

requests approval from OMB through an "Apportionment," which is a plan to spend resources approved in law. Upon receipt of OMB approval, EUL reimbursable authority is made available (allocated) for use by the two EUL demonstration Centers, ARC, and KSC. The allocation of reimbursable authority for use at these Centers is processed within NASA's core financial management system (SAP) by Headquarters' Chief of Funds Control and Distribution Branch through the Agency's designated Core Account Manager for Reimbursable authority.

- In accordance with FMR Volume 16, Chapter 1, Section 010201.B.3., Fees and Charges for Government Services and Things of Value, 31 U.S.C. 9701, NASA deposits collections associated with EUL authority within its existing operating appropriation accounts, as these receipts are available to NASA for spending. Amounts of EUL cash proceeds collected at ARC and KSC are deposited through the Treasury Department. These amounts are accounted for by the Center financial management personnel within NASA's core financial management system (SAP). There is a direct link between the collection and to the appropriation account approved to use reimbursable authority via Office of Management and Budget (OMB) apportionment.

- In accordance with FMR Volume 16, Chapter 2, Centers must follow outlined administrative financial requirements of all reimbursable agreements, including specific Business Rules (Section 020202), Billing and Collections (Section 020501), Financial Reporting (Section 0206).

GAO-07-0306R- ***Enhanced Use Leasing Program Needs Additional Controls***

FMR Volume 16 provides the required financial accounting business rules and controls that must be in place at ARC and KSC in support of EUL authority.

GAO issued the following specific recommendations regarding EUL accounting controls in its report dated March 1, 2007:

(1) Establish accounting controls and processes to ensure accountability, such as an

- Accounting system for tracking the value of in-kind consideration.

- Audit trail and documentation to readily support financial transactions.

(2) If NASA receives expanded EUL authority (to all NASA Centers), NASA needs to adopt mechanisms to keep the Congress fully informed of the Agency's activity under this authority which include:

- Identifying and quantifying the value of in-kind consideration arrangements and expenditures of EUL revenue in its annual EUL reports to the Congress.

- Reporting the availability and use of EUL funds in the Agency's operating plans.

Establishment of controls and processes to ensure accountability of those in-kind considerations is required in accordance with Federal Accounting Hierarchy as reflected through U.S. GAAP. To ensure adequate valuation and recognition of in-kind considerations under EUL authority, Accounting Principles Board (APB) Opinion 29, Accounting for Non-monetary Transactions, provides the necessary criteria that must be met in the application of accounting and financial reporting requirements for contributed material, supplies, facilities, and property. Currently ARC, the only Center with in-kind consideration, keeps track of its in-kind consideration by tenant and submits this information on an annual basis to NASA HQ (Facilities, Engineering, and Real Property Division). It is NASA's intent to report the value of in-kind consideration received as part of EUL leases in its future EUL annual reports to Congress.

In accordance with APB Opinion 29, contributed materials, supplies, facilities, and property, if significant in amount, should be recorded at their fair value, and provided the entity has a clearly measurable and objective basis for determining the value. If the values of contributed materials, supplies, facilities, and property cannot reasonably be determined, they should not be recorded as contributions.

OCFO is currently exploring the use of memorandum general ledger accounts to automate a process of tracking in-kind considerations, presently controlled as a manual accounting process. The estimated value of the total in-kind considerations received via ARC tenants is approximately $500,000, since the inception of this program five years ago, an average of $100,000 per year.

Regarding GAO's concern on Center's audit trail and documentation to readily support financial transactions, the Agency and Centers CFO organizations look forward to demonstrating the application of FMR Volume16, which included the financial business rules and process being followed to transact accounting events as they occur.

NASA intends to report on the availability of EUL funds in annual EUL reports to Congress. Additionally, NASA is considering the disclosure of EUL information as a component of its annual Performance and Accountability Report (PAR) as either supplemental financial information or as a separate appendix.

Regarding GAO's recommendation to achieve greater accounting transparency under the EUL authority going forward, NASA is preparing for implementation of a modified process to become operational at the beginning of FY 2008. The proposed modified process would involve the use of the EUL authority through an existing NASA no-year appropriation to process financial activity for construction of facilities (80X0115). The proposed modified approach will use an EUL specific internal pseudo-fund code designation to track the accounting activity for cash collections, spending plans and actual spending executed through the fiscal year. NASA will establish an accounting code structure specific to this activity enabling greater transparency while continuing to follow FMR Volume 16 stated financial management policy.

Finally, NASA intends to update the Interim Agency-wide Policy for EUL Agreements, issued on July 13, 2007, to reflect NASA's new process outlined above by the beginning of FY 2008.

Questions regarding this memorandum should be directed to Mr. Bruce Ward, Deputy Chief Financial Officer (Acting), at (202) 358-2312 or Ms. Leslie Hyland, Director of Financial Management, at (202) 358-4645.

Terry Bowie

Directors, NASA Centers

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