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**REPORTING AND ASSURANCE GUIDE FOR  
STEWARDSHIP LAND AND HERITAGE ASSETS**

**Prepared by  
The Stewardship Guidance Work Group**

**Commissioned by  
The Accounting and Auditing Policy Committee  
of The Federal Accounting Standards Advisory Board**

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## ABOUT THE ACCOUNTING AND AUDITING POLICY COMMITTEE

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Office of Management and Budget (OMB), the General Accounting Office (GAO), and the Department of the Treasury as a new body to research Federal accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee sponsored by the Federal Accounting Standards Advisory Board (FASAB). The mission of the FASAB is to establish Federal accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of Federal financial information.

The AAPC addresses issues that arise in implementation which are not specifically or fully discussed in FASAB standards and interpretations of FASAB standards. The mission of the AAPC is to assist the Federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues within the framework of existing authoritative literature.

In a project commissioned by the AAPC, a multi-agency workgroup has drafted this guide to assist Federal entities in implementing new standards for reporting and examining information on stewardship land and heritage assets. It is expected that the implementation guide will eventually be published by the FASAB.

The AAPC and the work group are aware of the FASAB's decision to eliminate the required supplementary stewardship information (RSSI) reporting category and designate information that is now reported as RSSI as (a) "basic information" to the financial statements, (b) required supplementary information (RSI), or (c) other information. The AAPC and the work group will be closely monitoring the work of the FASAB in the re-categorization of RSSI items. The guidance will be revised as needed based on those decisions of the FASAB as they relate to the reporting of stewardship land and heritage assets.

The AAPC seeks comments on this draft stewardship guidance. Your comments should be sent to:

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Comments may be sent by email, fax, or mail. Responses should be received by December 21, 2001.

If you have specific questions or concerns on the content of the document, please contact Bill Wright of the U.S. General Accounting Office at 303-572-7377 or [wrightwf@gao.gov](mailto:wrightwf@gao.gov).

## EXECUTIVE SUMMARY

This guide is intended to assist federal entities and their auditors in reporting and examining information on stewardship land and heritage assets in accordance with new accounting standards and evolving audit requirements. This guide supplements relevant federal accounting standards and audit requirements, but is not a substitute for and does not take the precedence over the accounting standards and audit requirements.

Federal entities are required to report descriptive, non-financial information on stewardship land and heritage assets as required supplementary stewardship information (RSSI) in their financial reports, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 8, *Supplementary Stewardship Reporting*, as amended.<sup>1</sup> For fiscal year 2001, auditors are required to perform certain limited procedures on reported stewardship land and heritage asset information, in accordance with OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Under these procedures, the auditor provides no assurance on the information because it is not subject to examination or review.

For future fiscal years, it is anticipated that auditors will provide examination-level assurance (i.e., positive assurance) on stewardship land and heritage asset information.<sup>2</sup> This guide assumes that the information to be examined on stewardship land and heritage assets will appear in a separate presentation that is distinct from the principal financial statements; (i.e., not part of, but in addition to the principal financial statements) as described in SFFAS No. 8.

However, FASAB decided at its June, 2001 meeting to eliminate the RSSI category and is planning to issue exposure drafts to reclassify individual items of stewardship information that is now reported as RSSI as either (a) “basic information” to the financial statements, or (b) required supplementary information (RSI).<sup>3</sup> If information on stewardship land and heritage assets is designated as basic information, this guide’s assumption of *a separate and distinct presentation that is not part of the principal financial statements* might no longer be valid, and some of the guide, particularly in areas related to materiality considerations, might not be relevant.

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<sup>1</sup> FASAB designated the RSSI reporting category to highlight the unique nature of stewardship reporting. There are three main components of RSSI: Stewardship Property, Plant and Equipment (PP&E), Stewardship Investments, and Stewardship Responsibilities. Stewardship PP&E consists of three subcomponents: Stewardship Land, Heritage Assets, and National Defense PP&E.

<sup>2</sup> In this guide, the term “examination-level assurance” would be provided by (1) an “audit” as defined by section 508.01 of the Codification of Statements on Auditing Standards (AU), or (2) an “examination” as defined by section 100.51 of the Codification of Statements on Standards for Attestation Engagements (AT). It has not been determined whether examination-level assurance on stewardship land and heritage assets will be provided under the AU or AT standards.

<sup>3</sup> “Basic information,” as FASAB uses the term, comprises the basic financial statements and the associated notes that are an integral part of the statements. RSI is addressed in section 558 of the Codification of Auditing Standards (AU).

This guide focuses specifically on stewardship land and heritage assets (SL and HA). It does not address other types of PP&E or any other categories of RSSI. Definitions for the terms used in this guide are provided in the Glossary in Appendix V.

An underpinning premise of this guide is that, as stewards, federal entities are managing and safeguarding their SL and HA properly, in accordance with pertinent laws, regulations, and administrative rules. The guide is written to provide clarification on meeting reporting standards and future examination-level assurance requirements. It is not intended to prescribe or correct stewardship management practices.

This guide is organized into four sections that address asset identification and categorization, materiality considerations, condition reporting, and auditor's assurance.

- Section I on *Identification, Categorization, and Measurement* discusses issues related to identifying stewardship land and heritage assets and describes how the standards allow entities "maximum flexibility" in determining the format and level of detail to be presented in their stewardship reports. It also explores factors affecting the level of detail such as the preparers' selection of categories for reporting and choice of physical units within categories.
- Section II on *Determining Materiality* describes the conceptual framework for materiality that is common to preparers and the auditors, and compares and contrasts their respective roles and activities in applying the materiality concept to stewardship land and heritage assets. It also includes decision tools to support qualitative materiality judgments about stewardship land and heritage assets.
- Section III on *Measuring and Reporting Condition* lays out a comprehensive approach for meeting condition reporting requirements for stewardship land and heritage assets. It provides tools for identifying criteria to measure condition, discusses sources of information to support reporting, and suggests methods of reporting.
- Section IV on *Auditor's Assurance* describes procedures to be performed for fiscal year 2001 and examination procedures that may be required for future fiscal years. It includes a model examination program, an internal control questionnaire, and suggested interview questions for management on key issues.

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## ACRONYMS

AAPC	Accounting and Auditing Policy Committee
AICPA	American Institute of Certified Public Accountants
AT	Codification of Statements on Standards for Attestation Engagements
AU	Codification of Statements on Auditing Standards
BLM	Bureau of Land Management
DOD	Department of Defense
DOI	Department of the Interior
FAM	U.S. General Accounting Office Financial Audit Manual
FASB	Financial Accounting Standards Board
FASAB	Federal Accounting Standards Advisory Board
FWS	U.S. Fish and Wildlife Service
GAO	U.S. General Accounting Office
NPS	National Park Service
OMB	Office of Management and Budget
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SL and HA	Stewardship Land and Heritage Assets

## SECTION I. IDENTIFICATION, CATEGORIZATION, AND MEASUREMENT

In order to report information on stewardship land and heritage assets (SL and HA) in accordance with SFFAS No. 8, entities need to identify, categorize, and account for their SL and HA. Together with SFFAS No. 6, Accounting for Property, Plant, and Equipment, SFFAS No. 8 established broadly-defined categories of stewardship property, plant, and equipment and generally described the nature of items to be included therein.

SFFAS No. 8 provides considerable latitude on how to present information on SL and HA in the stewardship report. Appendix B of SFFAS No. 8 illustrates sample report formats that entities might refer to when reporting on SL and HA. It should be emphasized that Appendix B was only intended as a guideline, since FASAB provided entities with "maximum flexibility" when applying the stewardship standards, according to the Basis for Conclusions to SFFAS No. 8, paragraph 124.

For example, paragraph 22 states that "Stewardship information may be presented in varying formats..." Additionally, paragraph 34 explains that "specific guidance on the format in which items addressed in this Statement will be reported will be prescribed by OMB." In turn, OMB Bulletin 97-01, Form and Content of Agency Financial Statements, page 74, states:

"Organizations reporting on stewardship information should become familiar with the categories being measured and review the suggested formats in SFFAS No. 8. Because of the unique character of this information, agencies are encouraged to experiment with various narratives, tables and schedules to satisfy the intent of Supplementary Stewardship Reporting."

For stewardship land, SFFAS No. 8 *requires* that certain minimum information be included in the stewardship report. In contrast, for heritage assets, the standard only *suggests* "examples of information that should be considered for presentation" with the explanation that "The determination of the most relevant information to be presented should be made by the preparer..." The different treatment for the two categories is deliberate.<sup>4</sup> The lack of specific requirements for heritage asset information is intended to encourage creativity in reporting the variety of heritage assets held by federal entities.

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<sup>4</sup> Although the treatment differs, the minimum information *required* for stewardship land is essentially the same as the information *suggested* for heritage assets. Reporting requirements for stewardship land include acquisitions, withdrawals, and ending balances expressed in physical units by major categories of use, according to SFFAS No. 8, paragraph 81. Corresponding examples of suggested reporting for heritage assets in paragraph 50 include "The number of physical units added and withdrawn from the heritage asset records during the year and the end-of-year number of physical units for each type of heritage asset."

## IDENTIFICATION

One of the primary issues entities face in implementing SFFAS No. 6 is determining whether a piece of land is stewardship land or general PP&E land, and whether an asset is a heritage asset, a multi-use heritage asset, or general PP&E. These determinations are fundamental to accounting for and reporting SL and HA because, with the exception of multi-use heritage assets, (1) SL and HA must be removed from the statement of financial position and (2) costs associated with SL and HA must be recognized in the statement of net cost for the period in which the costs are incurred. Also, as required by SFFAS No. 8, non-financial information on SL and HA (including multi-use heritage assets) must be reported in the stewardship report. SFFAS No. 8 was intended to provide broad guidance, while allowing each entity flexibility in determining what constitutes the individual SL and HA for the entity, according to the Basis for Conclusions, paragraph 123.

### Stewardship Land

To correctly classify land, one must first determine whether the land meets the criteria for general PP&E land. If it is not general PP&E land, it is stewardship land. SFFAS No. 6, paragraph 21 states that stewardship land is "land not included in general PP&E."

General PP&E land is defined as "Land and land rights owned by the federal government that are acquired for or in connection with items of general PP&E."<sup>5</sup> Conversely, stewardship land is defined as "Land and land rights owned by the federal government that are *not* (emphasis added) acquired for or in connection with items of general PP&E."

While these definitions seem precise, they are not the sole criteria for determining whether federal land is general PP&E land or stewardship land. The definitions are incomplete for purposes of classifying land because they deal only with the first of two pertinent criteria in the standards. The definitions do not encompass the crucial second criterion contained in SFFAS No. 6, paragraph 68 regarding identifiable cost:

"...General PP&E may be built on existing federal lands. In this case, the cost of the land would often not be identifiable. In these instances, general PP&E shall include only land or land rights with an *identifiable cost* (emphasis added) that was specifically acquired for or in connection with construction of general PP&E."

This portion of the standard ultimately focuses on whether the land in question has an identifiable cost. If federal land does not have an identifiable cost, it is stewardship land,

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<sup>5</sup> The phrase "acquired for or in connection with" is defined as including "land acquired with the intent to construct general PP&E and the land acquired in combination with general PP&E, including not only land used as the foundation, but also adjacent land considered to be the general PP&E's common grounds," according to SFFAS No. 6, footnote 55 and SFFAS No. 8, footnote 22. See the Glossary in Appendix V for the definition of general PP&E.

regardless of whether or not it is "acquired for or in connection with items of general PP&E." Therefore, the way to determine whether federal land is general PP&E, in accordance with the standards, is to ask the following two questions:

1. Does the land have an identifiable cost?
2. If so, was the land acquired for or in connection with general PP&E?

Both conditions must be met in order to classify federal land as general PP&E. If either condition is not met, the land is stewardship land.

To illustrate, when establishing military bases, testing grounds, or firing ranges, the Department of Defense (DOD) may have received transfers of federal land that was originally part of large territories of "public domain" land that the Nation acquired between 1781 and 1867. When acquired by transfer from another federal entity, public domain land does not have an identifiable cost. Therefore, it is stewardship land, regardless of how DOD uses it. Conversely, land which DOD purchased with an identifiable cost for or in connection with construction of general PP&E should be included in general PP&E.

In its stewardship report for FY 2000, DOD classified 16.8 million acres of its land as stewardship land. In order to classify DOD's land, specific identification and differentiation is necessary between (1) federal land received by transfer that originated as public domain land, and (2) land that was purchased for or in connection with construction of general PP&E. The former is stewardship land, and the latter is general PP&E land. DOD's Financial Management Regulation, Volume 6B, Chapter 11, section 1104, issued in December 1998, reflects these distinctions<sup>6</sup>:

"Stewardship Land is land other than that acquired for or in connection with General PP&E and, typically, does not have an identifiable cost. Land that was previously public domain land or land that was donated to the DOD shall be reported as Stewardship Land. Therefore, many of DOD's military bases, installations, and ranges are located on Stewardship Land. A military base or installation predominantly comprised of Stewardship Land may also include general PP&E land, when such land was subsequently purchased, such as from individuals, local communities, or a State. Such amounts of general PP&E land shall not be reported in the Supplementary Stewardship Report; rather, the cost of such land should be reported on the balance sheet."

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<sup>6</sup> This section was revised in October 2000, and may be revised again. However, the essence of the policy has not changed, according to responsible DOD officials. Although superceded, the December 1998 version is cited here because it provided a detailed explanation of the policy when it was first introduced, compared to later versions. For example, the October 2000 regulation stated that "Without exception, all land provided to DoD from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of use. Therefore, public domain or no cost land used in a General PP&E context shall be reported as Stewardship Land and not reported as General PP&E."

The criteria explained above also apply to situations where land management entities, such as the Bureau of Land Management (BLM), the National Park Service (NPS), or the U.S. Fish and Wildlife Service (FWS) acquire land. For example, if the FWS purchases land for \$300,000 that is to be added to a wildlife refuge as wildlife habitat, the first step is to determine whether the land is general PP&E land by asking the two questions cited above.

In the example, the land has an identifiable cost, but it was not acquired for or in connection with general PP&E. Therefore, it does not meet both tests that must be met for land to be general PP&E land. Therefore, the land is stewardship land and the \$300,000 purchase price would be expensed in the year of acquisition, in accordance with SFFAS No. 6, paragraph 69, which describes accounting requirements for the costs of stewardship land.

### Heritage Assets

Heritage Assets are property, plant, and equipment that have historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. Heritage assets are generally expected to be preserved. One example of evidence that a particular asset is heritage in nature is that it is listed on the National Register of Historic Places, according to SFFAS No. 6, paragraph 58.

When a heritage asset serves two purposes--a heritage function and government operations--the asset should be considered a multi-use heritage asset if the predominant use of the asset is in general government operations, according to SFFAS No. 16, *Amendments to Accounting for Property, Plant, and Equipment: Measurement and Reporting for Multi-Use Heritage Assets*, paragraph 6. The glossary in Appendix C to SFFAS No. 16 defines multi-use heritage assets as follows:

“Heritage assets whose predominant use is general government operations.”

Although accounted for as general PP&E,<sup>7</sup> multi-use heritage assets should also be included in the descriptive information in the stewardship report, with cross references directing the reader from the balance sheet to the stewardship report, and vice-versa. This “dual reporting” for the same multi-use heritage assets in both the principal financial statements (in dollars) and the stewardship report (in physical units) is specifically provided for in paragraph 9 of SFFAS No. 16 and in the related Basis For Conclusions, paragraphs 27 and 28, and is not considered to be duplicative.

Entities should consider the predominant use (not the incidental use) of a heritage asset in determining the appropriate accounting treatment. An example of incidental office use would be administrative offices and shop space in the Jefferson Memorial. In this case, both uses are incidental and the Jefferson Memorial should be treated as a heritage asset,

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<sup>7</sup> The costs of acquisition, betterment, or reconstruction of multi-use heritage assets are to be capitalized as general PP&E and depreciated, in accordance with SFFAS No. 16, paragraph 6.

as explained in paragraph 29 of the Basis For Conclusions to SFFAS No.16. An example of a multi-use heritage asset would be the main Treasury Building, where the predominant use is agency operations, but which is listed on the National Register of Historic Places.

## CATEGORIZATION

SFFAS No. 8 emphasizes reporting on asset categories, rather than individual assets. Paragraph 35 states that supplementary stewardship reporting should be at the major program or category level, and individual assets need not be reported unless significant. Paragraph 81 requires that entities report the number of physical units of stewardship land by "categories of major use." Similarly, paragraph 50 suggests that entities provide a description of "each major category" of heritage assets as well as the number of physical units in each category.

Assets identified as SL and HA should be included in the stewardship report, consistent with the completeness assertion.<sup>8</sup> Accordingly, entities should designate asset reporting categories that allow inclusion and aggregation of their SL and HA. Moreover, entities should determine the appropriate level of detail for their categorization scheme. Related groups of assets that do not warrant classification and presentation in separate categories should be aggregated.

The determination of which SL and HA warrant presentation in separate categories is related to whether they are material. As described in the section on *Determining Materiality*, the preparer's consideration of materiality for SL and HA focuses on meaningful levels of aggregation for the stewardship report. Thus, the preparer's materiality determinations for SL and HA help to answer the following question: What categories should be broken out and reported separately?

SFFAS No. 6 and SFFAS No. 8 established broad categories of SL and HA. However, entities may wish to report levels of detail beyond the categories in the Standards. It is helpful if entities designate asset categories and subcategories that reflect how the entity views the assets for management purposes. Doing so increases the likelihood that information about the categories will be readily available from existing management systems.

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<sup>8</sup> According to AU 326.03, assertions are representations by management that are embodied in financial report components. Assertions can be either explicit or implicit and can be classified according to the following five broad categories: existence and occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure." Inherent to management's stewardship reporting of asset categories and quantities, the completeness assertion implicitly says: All SL and HA that should be presented in the supplementary stewardship report are so included. See the subsection below on *Completeness, Materiality, and Meaningful Aggregation*.

For example, in their stewardship reports for FY 2000, component agencies of the Department of the Interior designated their stewardship land categories primarily in terms of physical characteristics, management units, or legislative mandates:

- The BLM reported the following categories of land based on physical characteristics: Rangeland, Forestlands and Woodlands, Riparian Areas and Wetlands, and Aquatic Areas;
- The FWS reported its categories of land by management unit such as National Wildlife Refuges and National Fish Hatcheries; and
- The NPS reported the following categories of land according to the legislative mandates that created them: National Parks, National Monuments, National Battlefields, National Seashores, etc.

To facilitate consolidated reporting, DOD's Financial Management Regulation, dated October 2000, designates stewardship land categories based on the predominant use of the land, and provides guidance for the following "predominant use categories":

- "Mission. Stewardship Land used as military bases, installations, training ranges, or other military mission related functions shall be reported as mission."
- "Parks and Historic Sites. This category includes battlefields, cemeteries, and memorials. These sites should also be reported as Heritage Assets. Other land included as Heritage Assets should also be reported here."
- "Wildlife Preserves. Stewardship Land on a DoD installation which is designated a Wildlife Preserve."

The information that is appropriate for reporting SL and HA can vary from one entity to another, or from component agency to the consolidated entity. The amount and level of detail of the information presented depends, in part, on the mission of the entity and the materiality of the assets in question.<sup>9</sup> For example, the extensive and detailed categories and subcategories reported by the Department of the Interior, which has a stewardship mission, might be more extensive than is appropriate for the Department of Defense, which does not. Further, information that is appropriate for a component agency might not be appropriate for a consolidated entity.

Finally, the stewardship land and heritage asset categories overlap because they are defined in ways that result in certain assets, such as national parks, being reported in both categories.<sup>10</sup> However, such reporting is not duplicative because the type of information reported for each category is different. For example, while Rocky Mountain National

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<sup>9</sup> See Section 3 on *Determining Materiality* for discussions in the subsections on (a) *Completeness, Materiality, and Meaningful Aggregation* and (b) *Qualitative Considerations*.

<sup>10</sup> DOD's Draft Financial Management Regulation, dated October 2000, acknowledges the

Park counts as one item in the total *number of national parks*, its land area is included in the total *acres of stewardship land*. For details, see SFFAS No. 8, paragraphs 45, 125, and 126.

## PHYSICAL UNITS

SFFAS No. 8, paragraphs 46 and 75, state that categories of SL and HA shall be quantified in physical units, rather than in monetary terms. However, the Standard does not define the term "physical units" or specify which physical units should be used to quantify the variety of SL and HA categories and subcategories held by federal entities.

The selection of the physical unit for quantifying a category is left up to entities. While the standard does not specify it, it is logical that entities should select physical units that are based on how they actually manage the assets. Accordingly, quantities should be measured in a manner consistent with data available from existing management systems. Selecting a physical unit that is used in existing systems helps ensure that reported information reflects how the entity actually manages the assets.

In practice, physical units may be reported as (a) items to be counted such as monuments or museum collections, or (b) units of measure such as acres or miles. For example, in the Department of the Interior's stewardship report for FY 1999, the historic structures category is quantified with an item count of historic structures. Also, the report included a variety of units of measure such as *acres* of rangeland, *miles* of National Wild and Scenic Rivers, and *linear feet* of archival documents.

Defining physical units as individual items to be counted is not necessary. Particularly for collection-type heritage assets, it may be appropriate to define the physical unit as a collection, or a group of assets located at one facility, and then count the number of collections or facilities.

For example, in its stewardship report for FY 2000, BLM did not report an estimate for the number of its individual museum objects, as it did for FY 1996 (approximately 24 million items). Instead, BLM described the types of objects in its collections and reported that the collections were located in 190 non-Federal facilities (such as museums and universities) and three federal facilities. BLM changed the unit of measure from individual "objects" to "facilities" because it manages the collections by facility. Therefore, reporting in terms of facilities was considered more meaningful than reporting an estimate of the number of individual objects. See Figure 8, *Excerpt from BLM Stewardship Report for Fiscal Year 2000*.

On the other hand, in its Stewardship report for FY 2000 the NPS chose to report the number of individual items in its museum collections (35 million objects and specimens and 40 million archival documents) because it had a museum collection inventory program that provided this information. So, while the level of detail

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potential overlap between categories as follows: "Some Stewardship Land may have a dual identity, as both Stewardship Land and as a Heritage Asset (i.e., a battlefield or cemetery)..."

reported by NPS and BLM was different, each entity measured their asset quantities in a manner consistent with how they manage.

As mentioned above, entities have considerable latitude when designating categories and determining a meaningful level of aggregation for reporting. For example, should a museum report that it has seven *dinosaur skeletons*, 7,000 *dinosaur bones*, or simply provide a *descriptive narrative summary without quantities*? Ultimately, the answer is influenced by materiality considerations, which is discussed in Section 2 on *Determining Materiality*.

Curators may be required to count the number of individual items in a museum collection for control purposes. But due to materiality considerations, entities may choose to report a higher level of aggregation such as the number of collections or facilities in which individual items are located. Although item counts may not be needed to support entity-wide stewardship reporting, this does not mean that item counts made for management control and safeguarding purposes at specific locations should be discontinued.

This discussion highlights the need for preparers and auditors to differentiate between (a) detailed records that may be needed for management control and safeguarding purposes, and (b) presentations that are material for stewardship reporting. Many entities have stewardship responsibilities and control systems that can be traced to public laws or administrative rules. As good stewards, they may track individual assets and asset categories for control purposes that do not warrant separate presentation in their stewardship reports.

## SECTION 2. DETERMINING MATERIALITY

In the interest of meaningful and cost effective information, preparers and auditors of SL and HA information need to understand and apply the concept of materiality in order to decide what is material and what is not. SFFAS No. 8, paragraph 41, states “The provisions of this statement need not be applied to immaterial items.” Key issues are (1) how should materiality be applied to SL and HA that are not reported in dollars, and (2) what is the appropriate level of detail for reporting and auditing SL and HA information?

The preparer's and the auditor's consideration of materiality is a matter of professional judgment and is influenced by their perception of (1) the information necessary to demonstrate accountability for SL and HA, and (2) the needs of a reasonable person who will rely on the principal financial statements and the stewardship report. This approach incorporates two fundamental values of federal financial reporting: accountability and decision usefulness. However, while they operate from the same theoretical framework, the preparer's and the auditor's roles in applying the materiality concept differ.

In formulating the stewardship report, the preparer should identify meaningful levels of aggregation by determining whether assets are material enough to warrant classification and presentation in separate categories. In examining SL and HA, the auditor should assess risk, plan tests, evaluate any omissions or misstatements, and express an opinion in light of his or her judgments about materiality.

Materiality has both quantitative and qualitative characteristics. Traditional materiality judgments about financial information are primarily quantitative and focused on dollar amounts. However, the fact that SL and HA are not reported in dollars requires special attention to qualitative factors such as the nature of the assets and the circumstances in which the materiality judgment is made.

The preparer's and the auditor's materiality judgments for SL and HA are concerned with thresholds. FASB's Statement of Financial Accounting Concepts No. 2, paragraph 126 asks, "Is an item, an error, or an omission large enough, considering its nature and the attendant circumstances, to pass over the threshold of what separates material from immaterial items?"

### ACCOUNTABILITY AND DECISION USEFULNESS

Traditional definitions of materiality for financial information center on “decision usefulness,” a concept which relates to the needs of a reasonable person who relies on reported information to make decisions. The focus on decision usefulness originated from the primary objective of financial reporting for business enterprises established by FASB: “Financial reporting should provide information that is useful to present and potential investors and creditors and other users making rational investment, credit, and similar decisions.”<sup>11</sup>

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<sup>11</sup> Source: FASB's Statement of Financial Concepts No. 1: *Objectives of Financial Reporting by*

However, the users of SL and HA information and their needs are not well understood because we are in the infancy of stewardship reporting. These needs will likely evolve and be more clearly identified as the information is made available and attracts users who rely on it for making decisions.<sup>12</sup> In the meantime, attempting to make materiality determinations about SL and HA information based solely on user needs (i.e., decision usefulness) is an uncertain approach.

A different approach to determining materiality is one based on *accountability*, the primary value of federal financial reporting from which decision usefulness flows, according to SFFAC No. 1. As the standard-setting body for the federal government, FASAB stated that there are *two* values that provide the foundation for governmental financial reporting: “accountability” and its corollary, “decision usefulness.” FASAB explained that “Because a democratic government should be accountable for its integrity, performance, and stewardship, it follows that the government must provide information useful to assess that accountability.”<sup>13</sup>

Under an “accountability approach” to materiality, preparer’s and auditors use their professional judgment to decide, on behalf of users, what information is needed to demonstrate accountability over SL and HA in keeping with federal accounting concepts and standards. Materiality is then evaluated in relation to the information considered necessary for accountability.

In essence, the accountability approach to materiality considers the information needed to answer the question, “What did the government do with the SL and HA entrusted to it.”<sup>14</sup> Thus, the accountability approach provides the advantage that materiality determinations can be made in circumstances where the decision usefulness of information is not yet apparent.

Ideally, the accountability and decision usefulness approaches should be balanced so that materiality determinations for SL and HA draw upon both approaches to the extent possible. Under the resulting “balanced approach,” the materiality of any omissions or misstatements are scrutinized in relation to (1) the information needed to demonstrate accountability, and (2) decision usefulness, once users’ decision-making needs are known.

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*Business Enterprises*, paragraph 34.

<sup>12</sup> For a summary of the users of federal financial reports and their stewardship information needs, as originally identified in SFFAC No. 1 and SFFAS No. 6, see the following subsection on *Operative Definitions*.

<sup>13</sup> Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, *Objectives of Federal Financial Reporting*, paragraphs 71 and 72.

<sup>14</sup> SFFAC No. 1, paragraph 105, states “The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. ...Providing this information to the public, the news media, and elected officials is an essential part of accountability in government.”

## OPERATIVE DEFINITIONS

SFFAS No. 8, paragraph 41 provides the following definition of materiality:

**“The determination of whether an item is material depends upon the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.”**

This definition of materiality is authoritative for supplementary stewardship reporting under SFFAS No. 8. However, to understand and apply the definition as it relates to SL and HA, it is helpful to develop a working understanding of the term “reasonable person.” For purposes of this guide, “reasonable person” is defined as:

**A reader of financial reports who uses SL and HA information to contribute to an understanding of an entity’s mission, operations, and financial condition.<sup>15</sup>**

As such, a reader may belong to any of the four groups of “users of federal financial reports” described in SFFAC No. 1, paragraphs 75 through 87: citizens, Congress, federal executives, and program managers.<sup>16</sup> As described in the subsection on *Accountability and Decision Usefulness*, the users of SL and HA information and their decision making needs will likely evolve and be more clearly identified as this new information is made available.

Although each user group may have specific information needs which are not yet fully understood, the accountability approach to materiality affirms that the stewardship report should provide readers with an understanding of the nature and scope of the assets entrusted to federal entities and the physical condition and/or the security of those assets. Because the government must demonstrate that it is being an appropriate steward, as a minimum readers should be able to refer to the stewardship report for answers to the following questions:

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<sup>15</sup> This definition is based SFFAS No. 8, paragraph 1 which states that information about stewardship resources “...is important to an understanding of the operations and financial condition of the Federal Government at the date of the financial statements.” FASAB introduced the concept of “financial condition” in SFFAC No. 1. Financial condition is a broader and more forward-looking concept than “financial position.” The concept of financial *position* is that of a point-in-time snapshot of an entity’s economic resources and the claims upon those resources. However, financial *condition* allows an assessment of an entity on the basis of additional data that could include financial and nonfinancial information. Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures.

<sup>16</sup> In this guide, the terms “reader,” “user,” and “reasonable person” are used interchangeably and are considered synonymous with the definition of reasonable person.

“What and where are the important assets?”

“Is the government effectively managing and safeguarding its assets?”<sup>17</sup>

Accordingly, an item is material if omitting or misstating it would change a reader’s conclusions regarding these essential questions. Citizens want assurances that the SL and HA entrusted to the government are protected and used for the purposes intended.<sup>18</sup> Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, protected those resources and used them well.

## MEASUREMENT ISSUES

In the traditional financial reporting context, quantitative measures of materiality are used as a simple and convenient way to assess materiality, with a focus on users who evaluate an entity’s financial performance in order to make investment and credit decisions. Accordingly, auditors have arrived at reasonable gauges of materiality in terms of dollars reported in the basic financial statements.<sup>19</sup>

However, for SL and HA, there is no unifying theme upon which to base quantitative measures of materiality, such as net income. And, for heritage assets in particular, there is no common unit of measure, such as dollars, that can be used to evaluate the impact of omissions and misstatements among SL and HA categories.<sup>20</sup> For example, a preparer might report quantities for six separate categories of heritage assets such as 10,000 museum objects, 6,000 linear feet of archival documents, 4,000 cubic feet archeological artifacts, 2,500 paleontological items, 1,000 pieces of artwork, and 500 geological specimens.

These diverse categories with their different measures seem to have as much in common as apples, oranges, and bananas. To avoid comparability problems, an auditor might consider the quantity reported for each category to be a *separate representation* by management which stands on its own *to be examined separately*. Accordingly, the representation for a particular category might be expected to be accurate to within some range, such as a percentage of the quantity reported in that category. However, setting a materiality threshold for each category by using this “separate representation method” could be inefficient, perhaps resulting in inordinate audit resources being devoted to

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<sup>17</sup> Source: Basis for Conclusions to SFFAS No. 6, paragraph 125.

<sup>18</sup> “Citizens” includes individual citizens as well as the general news media and more specialized users such as trade journals; public interest and advocacy groups; state and local legislators and executives; and analysts from corporations, academe, and elsewhere, according to SFFAC No. 1, paragraph 76.

<sup>19</sup> While both preparers and auditors deal with measurement issues related to materiality, this section focuses on the auditor’s perspective.

<sup>20</sup> Unlike heritage assets, stewardship land categories are quantified with a common unit of measure, (i.e., acres).

examining categories and evaluating omissions and misstatements that are relatively insignificant.

In contrast, a more efficient and preferable method would be for the auditor to take a *collective view* that aggregates all six reported categories into a “fruit basket” of heritage assets. Then, even though the basket consists of different “fruits,” the auditor could use professional judgment to plan his work and evaluate any omissions or misstatements *in relation to the entire basket*. Also, the auditor could consider whether, in aggregate, the six reported categories “in the basket” represent a materially complete presentation of the heritage assets for which the entity should be accountable.<sup>21</sup> Accordingly, the auditor’s conclusions relate to the fairness of the presentation for heritage assets *taken as a whole*.

Obviously, the auditor’s conclusions about heritage assets do not apply to other types of assets, such as stewardship land. Under the collective view method, information reported on stewardship land categories would be aggregated into its own “basket” and the auditor would draw separate conclusions about fairness of the presentation of stewardship land *taken as a whole*.

Although stewardship land is quantified with a common unit of measure, an entity’s stewardship land may include diverse categories that are not easily comparable on an acre for acre basis. Different parcels of stewardship land may have significantly different *qualitative* characteristics that should be considered, in addition to acreage, when making materiality judgments. Considering only the quantitative measure of acreage when assessing materiality for multiple categories of stewardship land may fail to take into account significant, relevant qualitative factors.

The “collective view method” is useful for stewardship land and heritage assets because it augments (a) traditional materiality judgments that are primarily quantitative, with (b) *subjective, qualitative judgments of the relative importance of a variety of asset categories*. The subsection on *Qualitative Considerations* provides additional guidance and decision tools for making materiality judgments involving SL and HA.<sup>22</sup>

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<sup>21</sup> The words “materially complete” reflect the intent that the completeness assertion should not be taken to extremes by the auditor (or the preparer). See the subsection on *Completeness, Materiality, and Meaningful Aggregation*.

<sup>22</sup> The auditor’s job is challenging because (a) SFFAS No. 8 intentionally allows considerable latitude on how to present information on SL and HA, and (b) related materiality judgments require special attention to qualitative factors. Providing examination-level assurance would be made easier if management were to provide a well-crafted, written representation that explains the criteria it used to develop the information presented on SL and HA. Such a representation would include a clear statement of the qualitative materiality considerations involved in formulating the presentation. For example, on what basis did management determine that (a) the presentation is materially complete, (b) meaningful levels of aggregation are reported, and (c) an appropriate level of detail is provided?

Precedents for the “collective view method” can be found in both the Codification Statements on Auditing Standards (AU) and Statements on Standards For Attestation Engagements (AU). For financial statement audits, materiality is evaluated in light of a collective view of the financial statements. For example, according to AU 312.03, the phrase “presents fairly, in all material respects” indicates the auditor’s belief that the financial statements *taken as a whole* are not materially misstated. AU 312.05 states that “When reaching a conclusion as to whether the effect of misstatements, individually or in the aggregate, is material, the auditor ordinarily should consider their nature and amount in relation to the nature and amount of items in the financial statements under audit.”

A collective view can also be taken on attest engagements. As defined by AT 100.01: "An attest engagement is one in which a practitioner is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party." Footnote 3 to AT 100.01 defines an assertion as follows: "An assertion is any declaration, *or set of related declarations taken as whole* (emphasis added), by a party responsible for it." In this context, the collective view of stewardship land information is one “set of related declarations taken as a whole” and the collective view of heritage asset information is another “set of related declarations taken as a whole.”

Additional precedent for the collective view method appears in AT 100.50 which describes reaching conclusions about assertions in the plural, not the singular: "The practitioner should consider the concept of materiality in applying this standard. In expressing a conclusion on the conformity of a presentation of **assertions** (emphasis added) with established or stated criteria, the auditor should consider the omission or a misstatement of an individual assertion to be material if the magnitude of the omission or misstatement--individually or when aggregated with other omissions and misstatements--is such that a reasonable person relying on the presentation of the **assertions** (emphasis added) would be influenced by the inclusion or the correction of the individual assertion. The relative, rather than the absolute, size of an omission or misstatement determines whether it is material in a given situation."

Since both the AU and the AT standards require the auditor to consider the relative size of omissions or misstatements, the question arises, "Relative to what?" Under the collective view method, the logical answer is "Relative to all of management's representations about either (1) stewardship land taken as a whole, or (2) heritage assets taken as a whole.

The collective view method does not attempt to evaluate the materiality of stewardship land or heritage assets in relation to the dollar amounts reported in the basic financial statements. This guide is based on the assumption that the information to be examined on SL and HA will be appear in a separate presentation that is distinct from the principal financial statements; (i.e., not part of, but in addition to the principal financial statements).

## COMPLETENESS, MATERIALITY, AND MEANINGFUL AGGREGATION

SFFAS No. 8 requires that entities demonstrate accountability for their SL and HA. As discussed in the subsection on *Categorization*, the standard emphasizes reporting on major categories in physical units. Inherent in such reporting is the completeness assertion.

The intent is that the preparer should *do what is reasonable* to report the entity's SL and HA, and the auditor should satisfy himself that the presentation is *materially complete*. The preparer's and the auditor's viewpoints on materiality should be high enough to avoid burdensome reporting of unnecessary detail and overauditing.

To do so, preparers and auditors must differentiate between (a) detailed records that may be needed for management control and safeguarding purposes, and (b) presentations that are material for stewardship reporting. Entities may track individual assets and asset categories for control purposes that do not warrant separate presentation in their stewardship reports. Moreover, preparers need not report de minimis items (trifles), and auditors should avoid looking at materiality so strictly that *any* omission is automatically considered material.

Given that the entity's SL and HA should be reported in accordance with the completeness assertion, the preparer's consideration of materiality is *not* a screening exercise to determine which assets should be excluded from the stewardship report. Rather, the preparers' consideration of materiality focuses on identifying *meaningful levels of aggregation* for reporting; i.e., determining which SL and HA warrant classification and presentation in separate categories.

In order to meet the reporting objectives of SFFAS No. 8, consistent with the completeness assertion, and with a focus on meaningful aggregation, preparers should analyze the entity's SL and HA and apply the following treatments:

- For related assets that are considered material, establish separate categories and disclose the number of physical units in each category.
- For assets not warranting separate categories, include in a narrative summary describing those assets, but do not report physical units.<sup>23</sup>

Auditors should perform their own analysis of the relative importance of the entity's SL and HA and should not assume that a preparer's analysis and presentation are correct. Based on their analysis, auditors should apply the following treatments, in keeping with the "collective view method" discussed in the preceding section:

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<sup>23</sup> In aggregate, the assets included in this narrative summary may be material, but no additional presentation is required.

- For assets that should be reported in separate categories with physical units, take a collective view that aggregates the assets in all categories and addresses their relative importance in order to assess risk, plan tests, and evaluate any omissions or misstatements.
- For assets that should be included in the descriptive narrative summary read for reasonableness.

The section on *Qualitative Considerations* provides additional guidance and decision tools to assist both preparers and auditors in making materiality judgments involving SL and HA. In particular, the flowchart in Figure 2 depicts the logic for determining the treatments to be applied by preparers and auditors.

The aggregation of SL and HA into meaningful (material) categories is analagous to a company whose financial statements report separate dollar amounts for various types of PP&E such as buildings, equipment, construction in progress, etc. The idea here is that reporting only one large, undifferentiated amount for PP&E might not meet the decision-making needs of users of the balance sheet. That is, it is probable that the judgement of a reasonable person relying on the company's PP&E information would be changed or influenced by the presentation of the additional details.

Similarly, a manufacturing company might report its inventory with separate dollar amounts for raw materials, work-in-progress, and finished goods. This breakdown provides a meaningful level of aggregation for the reader who wants to know where the manufacturing process stands in terms of incurring costs and adding value in order to convert inventory into cash through the earnings cycle.

Just as the categories for reporting inventory relate to the earnings processes of a manufacturing company, the categories for reporting SL and HA should relate to the stewardship processes and responsibilities of the government entity. This can be accomplished, in part, by including an analysis of the entity's mission as part of the determination of which asset categories are material and warrant separate classification and presentation. Other factors to be considered are whether the asset categories are considered "important to the nation" and whether they are "visible, vulnerable, or controversial." See the Focus Questions in Figure 1, below.

As mentioned in the subsection on *Categorization*, "The amount and level of detail of the information presented depends, in part, on the mission of the entity." Also, the Basis for Conclusions section to SFFAS No. 8, paragraph 124 states, "...entities should make the determination of how best to apply the stewardship standards based on a thorough analysis of their individual entity, including its mission, financial practices, and the impact of its mission and operation on financial report users and on the nation."

## QUALITATIVE CONSIDERATIONS

To help ensure that significant, relevant factors are considered when making materiality determinations for SL and HA reporting categories, preparers should consider the focus questions and related subquestions presented in Figure 1, below. These questions highlight the nature of the assets and the surrounding circumstances, and may help preparers decide whether presentation in a separate category with physical units is needed to demonstrate accountability. Auditors should also refer to these questions when applying the “collective view method” for assessing risk, planning tests, evaluating any omissions or misstatements, and expressing an opinion.

The focus questions and subquestions illustrate that subjective, professional judgment is inherent to materiality considerations for SL and HA. FASB’s Statement of Financial Accounting Concepts No. 2, paragraph 131, states that “...materiality judgments can properly be made only by those who have all the facts. ...no general standards of materiality can be formulated to take into account all the considerations that enter into an experienced human judgment.”

The questions are *not* intended as criteria for excluding assets from the stewardship report. SFFAS No. 8 clearly requires that an entity’s SL and HA should be reported, and the completeness assertion is inherent in such reporting. To that end, answering the questions helps preparers to identify *meaningful levels of aggregation* for reporting. Based on their answers, preparers can follow the corresponding flowchart in Figure 2 for an indication of the appropriate reporting treatment. Similarly, answering the questions helps auditors to independently assess the relative importance of the entity’s SL and HA, and they can then follow the flowchart for an indication of the appropriate audit treatment.

Most of the questions below refer to SL and HA in the plural, to emphasize reporting on asset categories. A “yes” answer to *one or more* of the main focus questions suggests that the assets are material and should be disclosed in a separate category that will be subject to examination. In contrast, a “no” answer to *all three* of the main focus questions suggests that the assets need not be disclosed in a separate category, and instead, should be included in a narrative summary that will be read for reasonableness.

As indicated by the flowchart in Figure 2, the subquestions should be considered first to help determine the answer to the related main focus question. A “yes” or “no” answer to a single subquestion does not automatically mean that the related main focus question should be answered yes or no. When evaluating the answers, certain subquestions may be given greater or lesser weight than others.

**Figure 1. Focus Questions and Subquestions for Considering Materiality for Stewardship Land and Heritage Assets**

Focus Question 1. *Are the assets important to the mission of the entity?*

- a. Given the entity's responsibilities, would a reader expect to find information on the assets in the stewardship report?
- b. Does the entity have significant operations, programs or activities related to the management of the assets, such as museum property management, realty management, etc.?
- c. Is safeguarding the assets central to the mission of the entity?
- d. Is reporting the assets important to a reader's understanding of the entity's operations?
- e. Are the assets significant to the entity's history or culture?

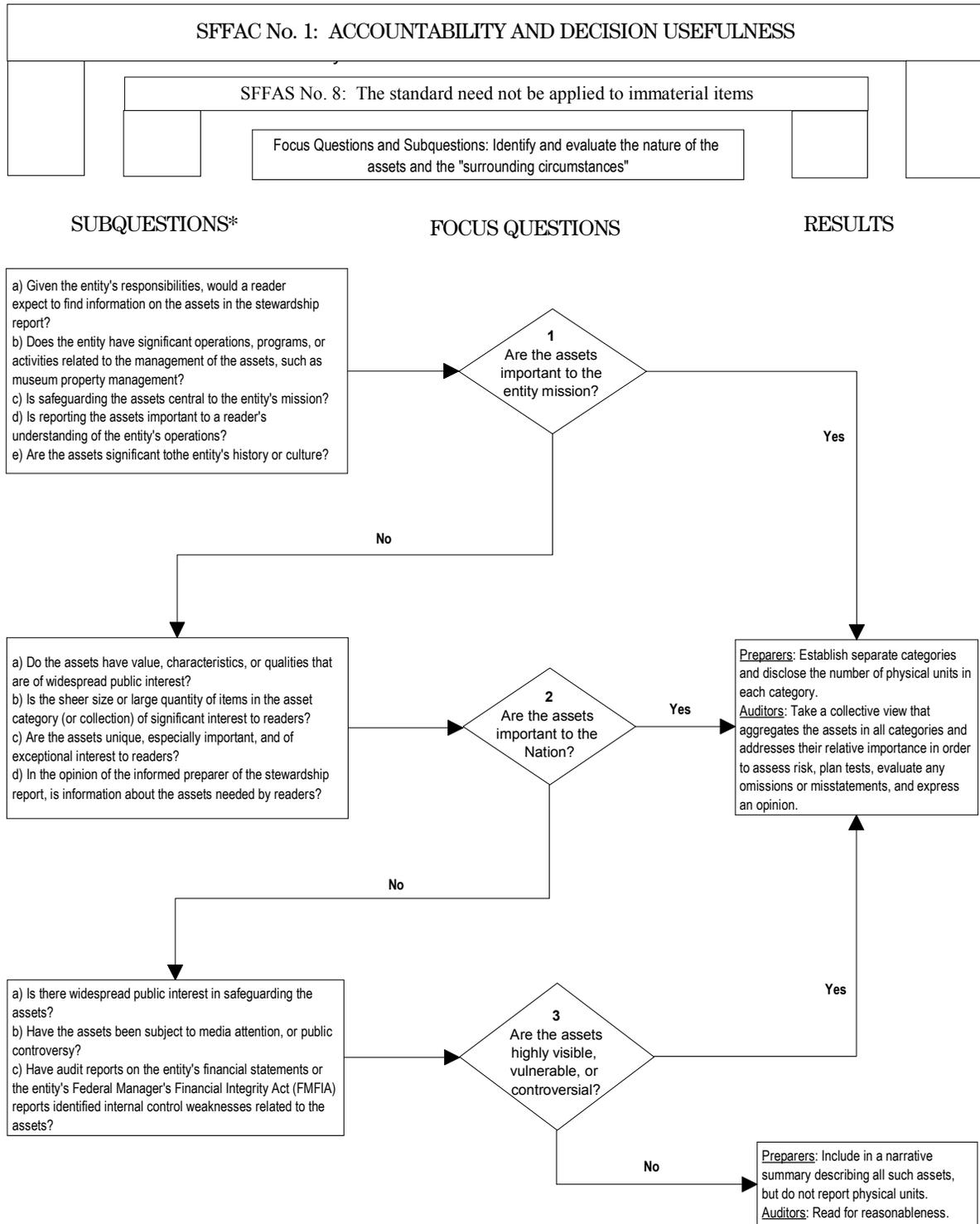
Focus Question 2. *Are the assets important to the nation?*

- a. Do the assets have value, characteristics, or qualities that are of widespread public interest?
- b. Is the sheer size or large quantity of items in the asset category (or collection) of significant interest to readers?
- c. Are the assets unique, especially important, and of exceptional interest to readers?
- d. In the opinion of the informed preparer of the stewardship report, is information about the assets needed by readers?

Focus Question 3. *Are the assets highly visible, vulnerable, or controversial?*

- a. Is there widespread public interest in safeguarding the assets?
- b. Have the assets been subject to media attention or public controversy?
- c. Have audit reports on the entity's financial statements or the entity's Federal Manager's Financial Integrity Act (FMFIA) reports identified internal control weaknesses related to the assets?

Figure 2. Flowchart for Considering Materiality for Stewardship Land and Heritage Assets



\* Answer these subquestions first to help determine the answer to the related focus question.

### SECTION 3. MEASURING AND REPORTING CONDITION

SFFAS No. 8 and SFFAS No. 6 contain standards for reporting on the condition of SL and HA. As amended, SFFAS No. 8 requires that the condition of SL and HA be reported in the stewardship report, unless condition is already reported in deferred maintenance information included elsewhere in the report, in which case a reference to the information will suffice.<sup>24</sup> Deferred maintenance reporting is discussed further at the end of this section.

The determination of the most relevant information to be presented on the condition of SL and HA should be made by the preparer. SFFAS No. 8 and SFFAS No. 6 allow broad latitude on how to measure and report condition and suggest a variety of formats for doing so. The flexibility allowed when reporting condition is consistent with the overall philosophy for stewardship reporting that is expressed in OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended, page 74: "Because of the unique character of this information, agencies are encouraged to experiment with various narratives, tables and schedules to satisfy the intent of stewardship reporting."

In order to be consistent with reporting guidance in SFFAS No. 8, condition should generally be reported for asset categories, rather than for individual assets. Paragraph 35 states that supplementary stewardship reporting should be at the major program or category level, and individual assets generally need not be reported.

The term "condition" is defined in the glossary for Statements of Federal Financial Accounting Concepts and Standards as follows:

**"The physical state of an asset."**

This definition, which applies to general PP&E and stewardship PP&E, is accompanied by the following explanatory text:

"The condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Evaluating an asset's condition requires knowledge of the asset, its performance capacity and its actual ability to perform, and expectation of its continued performance. The condition of a long-lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors..."

#### TRADITIONAL MEASURES ARE NOT ALWAYS THE MOST MEANINGFUL

The unique nature and specialized use of SL and HA does not always lend well to traditional measures of physical condition such as "good," "fair," and "poor." These

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<sup>24</sup> SFFAS No. 14: *Amendments to Deferred Maintenance Reporting, April 1999.*

measures are usually applied to items of general PP&E that break, wear out, or become obsolete while in service. For example, it would be absurd to report that the Liberty Bell is in poor condition because it is cracked and cannot be rung.

Similar attempts to rate the physical condition of museum collections as good, fair, or poor would seem to be inappropriate because museum collections are managed from the standpoint of preservation, with great attention given to stabilizing objects in the condition in which they are received and preventing further deterioration. In contrast, however, providing written assurance that museum collections are "safeguarded" per the definition in this guide (i.e., adequately protected, properly managed, and not materially degraded while under government care) is a more conceptually appealing way to report on their condition.

For certain asset categories, traditional condition measures may be useful if they are specifically defined in relation to the assets being measured. For example, the National Park Service (NPS) used the terms "good," "fair," and "poor" to rank the condition of historic and prehistoric structures in its FY 2000 stewardship report. However, NPS developed special definitions for these terms that are specific to historic and prehistoric structures. In this way, the traditional measures (good, fair, and poor) were made pertinent to the assets being measured. See Figure 7, *NPS Condition Definitions for Historic and Prehistoric Structures*.

Traditional condition measures typically compare the current condition of an operating asset (such as a piece of equipment) against its original condition. As such, traditional condition measures provide some indication of where an asset stands in terms of its useful life. However, unlike items of general PP&E whose utility is expended over time in order to produce goods or services, SL and HA are generally thought of as having unlimited or indeterminate useful life.

For example, if stewardship land is properly managed, preserved, and protected, its usefulness need not decline over time. This concept is evident in the mission of the Bureau of Land Management (BLM) which is to "...sustain the health, diversity, and productivity of the public lands for the use and enjoyment of present and future generations." Similarly, the mission of the NPS is "...dedicated to conserving unimpaired the natural and cultural resources and values of the National Park System for the enjoyment, education, and inspiration of this and future generations."

Similar to stewardship lands, heritage assets are thought of as having unlimited useful life. For example, "Heritage assets are generally expected to be preserved indefinitely," according to SFFAS No. 8, paragraph 44. Also, the Basis for Conclusions section to SFFAS No. 6, paragraph 133, states "It is expected that they (heritage assets) will be maintained in reasonable repair and that there will be no diminution of their usefulness over time." However, these expectations should be tempered with the recognition that all physical things, including heritage assets, will ultimately deteriorate. For example, in the restoration of the historic flag, "Old Glory," the painstakingly careful work to remove the flag from an old linen backing has potential to cause some damage to the flag itself.

Moreover, many of the flag's woolen threads are already cracked as a result of flapping in the wind, age, and exposure to light. The goal of safeguarding heritage assets is to preserve them for as long as possible, and to manage their condition in accordance with their intended use so as not to unduly hasten their deterioration.

## CRITERIA FOR MEASURING CONDITION

The measurement of condition may focus on any aspect(s) of the assets that are deemed important by management. The appropriate criteria for measuring condition depends on factors such as the nature of the assets, the purpose for which they are managed, their intended use, etc. However, the criteria that are used should be explained in suitable detail in the stewardship report to provide the reader with context for the discussion on condition. If called upon to do so, the auditor can then test whether management's representations about condition are warranted, within the context of those criteria.

For example, the Bureau of Land Management's FY 2000 stewardship report included several categories and subcategories of stewardship land and ranked their general condition in a variety of ways. The condition of rangelands was rated according to the degree of similarity of present vegetation to the potential natural plant community. The condition of riparian areas and wetlands was expressed as percentages properly functioning, functioning but at risk, nonfunctional, or unknown. Forested lands were described as "healthy" or "needing restoration." For all three methods, the BLM explained the criteria for measurement and linked them to relevant technical and land management features.

### Entity Mandates Can Provide Criteria

Entities manage their SL and HA for specific purposes and it is meaningful if condition is measured in light of those purposes. Analysis of an entity's mission, statutes, policies, budgets, appropriations, or other mandates may provide indicators of appropriate criteria for measuring the condition of its SL and HA. The focus questions in Figure 3 help to identify mandates related to how an entity manages its SL and HA, and thereby, identify how readers of its financial report might expect to see condition measured. Drawing upon these sources, specific criteria can be formulated that provide the basis for management's assertions about condition.

**Figure 3. Focus Questions on Sources of Criteria for Reporting Condition**

1. Does the entity mission provide criteria for measuring condition?
2. Do laws and regulations prescribe purposes or goals for managing that indicate criteria for measuring condition?
3. Does entity practice, philosophy, or policy indicate criteria for measuring condition?
4. Do technically developed standards or norms related to the assets provide criteria for measuring condition?
5. Does entity budget or appropriation language indicate criteria for measuring condition?

Analysis of entity mandates is most useful for entities whose missions focus on preserving and protecting SL and HA, such as the U.S. Fish and Wildlife Service (FWS) or the Library on Congress. For example, the mission statement of the FWS indicates criteria for measuring the condition of land in the National Wildlife Refuge System and the National Fish Hatcheries System. The FWS' mission is to "conserve protect, and enhance fish and wildlife and their habitats for the continuing benefit of the American people." Accordingly, the ability of FWS land to provide integrated habitat and life support for permanent resident populations and for migratory populations is a criterion that can be derived to evaluate its condition. Based in part on this criterion, FWS reported in its stewardship report for FY 2000 that the condition of its lands as a whole is "sufficient to support the mission of the Service." For additional examples, see Figure 5, *Examples of Criteria Derived from Various Mandates, Related Representations, and Procedures for Auditors*

Some entities with significant SL and HA do not have missions that focus on stewardship for those assets. For example, the Department of Defense holds approximately 17 million acres of stewardship land, yet it is not a land management entity. Rather, DOD's mission is "...to provide the military forces needed to deter war and protect the security of our country." DOD's stewardship land is used for mission-essential purposes (military bases, installations, and training ranges). Therefore, it would be reasonable for DOD to measure the condition of its stewardship land in light of those purposes. This approach is consistent with the guidance at the beginning of this section that the appropriate criteria for measuring condition depends on factors such as the nature of the assets, the purpose for which they are managed, and their intended use."

### Safeguarding of Assets Is an Important Criterion

One of the most meaningful criteria for measuring the condition of SL and HA originates from the fact that the Federal Government has been entrusted with, and made accountable for, SL and HA that are held for the long-term benefit of the Nation. Consequently, SL and HA should be safeguarded. Furthermore, it can be argued that due to their unique nature and intended use, the most important information about the condition of certain categories of SL and HA is whether or not they are safeguarded. For purposes of this guide, the term "safeguarded," when used to describe the condition of SL and HA, is defined as:

**"Protected against waste, loss, and misuse; managed consistent with their intended use in accordance with federal laws and regulations; and not materially degraded while under government care."**

The Basis for Conclusions to SFFAS No. 6 highlights the importance of safeguarding SL and HA and lends credence to using the preceding definition for "safeguarded" as criteria for measuring and reporting their condition. Paragraph 125 states that the government "...must demonstrate that it is being an appropriate steward for these assets..." and must be able to answer basic questions such as "Is the government effectively managing and safeguarding its assets?" Moreover, paragraph 126 suggests that supplementary stewardship reporting should answer this question.

The assertion that SL and HA are safeguarded is a significant statement that infers management controls are operating effectively. Entities making this assertion should have a credible basis for doing so, since auditors may be required to perform procedures to assess management's representations about condition.

### SOURCES OF CONDITION INFORMATION

An entity may assess condition as part of its normal management role and existing systems may provide information to support condition reporting. This information may come from condition assessment surveys, annual or perpetual inventories, technical studies, budget requests, etc. An entity without such formal systems for gathering, analyzing, or reporting information on the condition of its assets should seek out information from knowledgeable staff who manage the assets. Information gathering techniques that are likely to be carried out in the normal course of managing the assets, or that can be implemented with reasonable effort and cost might include inspections, observations, inquiries, and data calls. The focus questions in Figure 4 help to identify potential sources of condition information.

**Figure 4. Focus Questions on Information Sources for Reporting Condition**

1. Is assessing condition done as part of the normal management role?
2. Is condition information (other than basic information about safeguarding) needed to manage the assets?
3. Do existing systems provide condition information?
4. If existing systems do not provide needed condition information, can it be obtained from knowledgeable staff who manage the assets?

An underpinning premise of this guide is that, as stewards, federal entities are managing their SL and HA properly, in accordance with pertinent laws, regulations, and administrative rules. Entities are not expected to produce information, solely for condition reporting, beyond that which is normally needed to properly manage the assets.

This guide does not set standards for safeguarding and controlling SL and HA, or prescribe what information is needed to manage them properly. Rather, the guide suggests approaches for reporting on the condition of SL and HA, depending on the amount of information entities may have available. Those approaches are comprehensive reporting, remedial reporting, and exception reporting, each of which is described below. The relationship between the three approaches is illustrated in Figure 5, based on the answers to the preceding focus questions.

#### Comprehensive Reporting

When assessing condition is part of the normal management role and information for measuring condition is available from formal systems or knowledgeable employees, management should provide "comprehensive reporting" on the condition of its SL and HA. For purposes of this guide, comprehensive reporting is defined as

**"Providing descriptive information on the relative condition of items within asset categories, based on measurable criteria established by management."**

An example of comprehensive reporting appears in a discussion of historic and prehistoric structures in the NPS' stewardship report for FY 2000, which was mentioned previously. NPS operates a database--the List of Classified Structures (LCS)--to capture information about such structures in the National Park System. As of the end of FY 2000, NPS had updated data for 25,507 structures, including condition assessments for each structure. While recording these assessments, NPS staff used traditional condition measures (good, fair, and poor), the meaning of which were specifically defined in

relation to historic and prehistoric structures in the LCS User's Manual. (See Figure 7, *NPS Condition Definitions for Historic and Prehistoric Structures*). As a result, NPS was able to report:<sup>25</sup>

“The condition of historic and prehistoric structures...is continually threatened by weather, structural deterioration, erosion, and vandalism. Of the 24,255 structures in the FY 1999 GPRA baseline, 44.2 percent in good condition, 40 percent are in fair condition, 12.1 percent are in poor condition, and 3.7 percent were in unknown condition or were removed from the LCS... The National Park Service takes such actions as maintenance, repair, rehabilitation, and/or changes the use of structures to mitigate adverse effects so as to preserve and protect the structures for interpretation and continued use.”

To support comprehensive reporting, preparers should document the procedures, systems, and flow of information used to measure and evaluate the reported condition of SL and HA. Preparers should also retain source documents for facts, figures, and assertions made about condition and make them readily available for use by management or auditors.

It may be useful to readers to describe whether the condition of SL and HA is improving or deteriorating. Once criteria for measurement are established and baseline data are available, it should be possible to present trend information on condition.

### Remedial Reporting

If an entity does not have condition information needed to manage its SL and HA, this fact should be disclosed through “remedial reporting” that includes an explanation of what is being done to get the information. For purposes of this guide, “remedial reporting” is defined as

#### **“Disclosing the status of efforts to gather needed condition information.”**

For example, in its stewardship report for FY 2000, the FWS reported on the condition of its cultural resources (significant sites associated with the Nation's prehistory and history), as follows:

“The physical condition of cultural resources managed by the Service varies tremendously, depending on location, maintenance, use, and type of resource. While no comprehensive assessment is available, the Service is developing guidance and criteria to begin collecting information.”

Remedial reporting is considered a temporary measure until such time as adequate condition information is obtained to support comprehensive reporting.

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<sup>25</sup> The condition report in NPS' stewardship report would be enhanced if it was accompanied by the condition definitions established in the LCS User's Manual. As stated previously, the criteria used for measuring condition should be explained in the stewardship report.

### Exception Reporting

For some asset categories, comprehensive reporting or remedial reporting is not appropriate because condition information (other than basic information about safeguarding) is not needed to manage the assets. For example, BLM's FY 2000 stewardship report included 22 million acres of relatively barren land categorized as "Other Habitat" for which condition is not assessed such as mountain tops, glaciers, sand dunes, playas, and hot-dry deserts. BLM reported that these lands generally do not provide forage in sufficient amounts to sustain wildlife or grazing animals. In this case, the nature of the assets, their intended use, and the purpose for which they are managed did not necessitate condition assessments.

For such categories, assessing condition is not part of the normal management role and existing systems do not provide information for measuring condition. However, management may occasionally receive information from employees who, during the performance of their regular duties, observe and report problems related to the condition of the assets, or by others, such as members of the public who report problems.

When comprehensive or remedial reporting is not appropriate, management should use any information available, such as employees' observations of problems, to report those assets that are not in acceptable condition on an exception basis. The condition of the assets is presumed to be acceptable (the norm) until information to the contrary comes to management's attention (the exception).

In order to implement exception reporting, management must define what is "acceptable condition" and include this definition in the stewardship Report. The definition of acceptable condition thereby becomes the criteria for measuring and reporting condition on an exception basis. Accordingly, for purposes of this guide "exception reporting" is defined as:

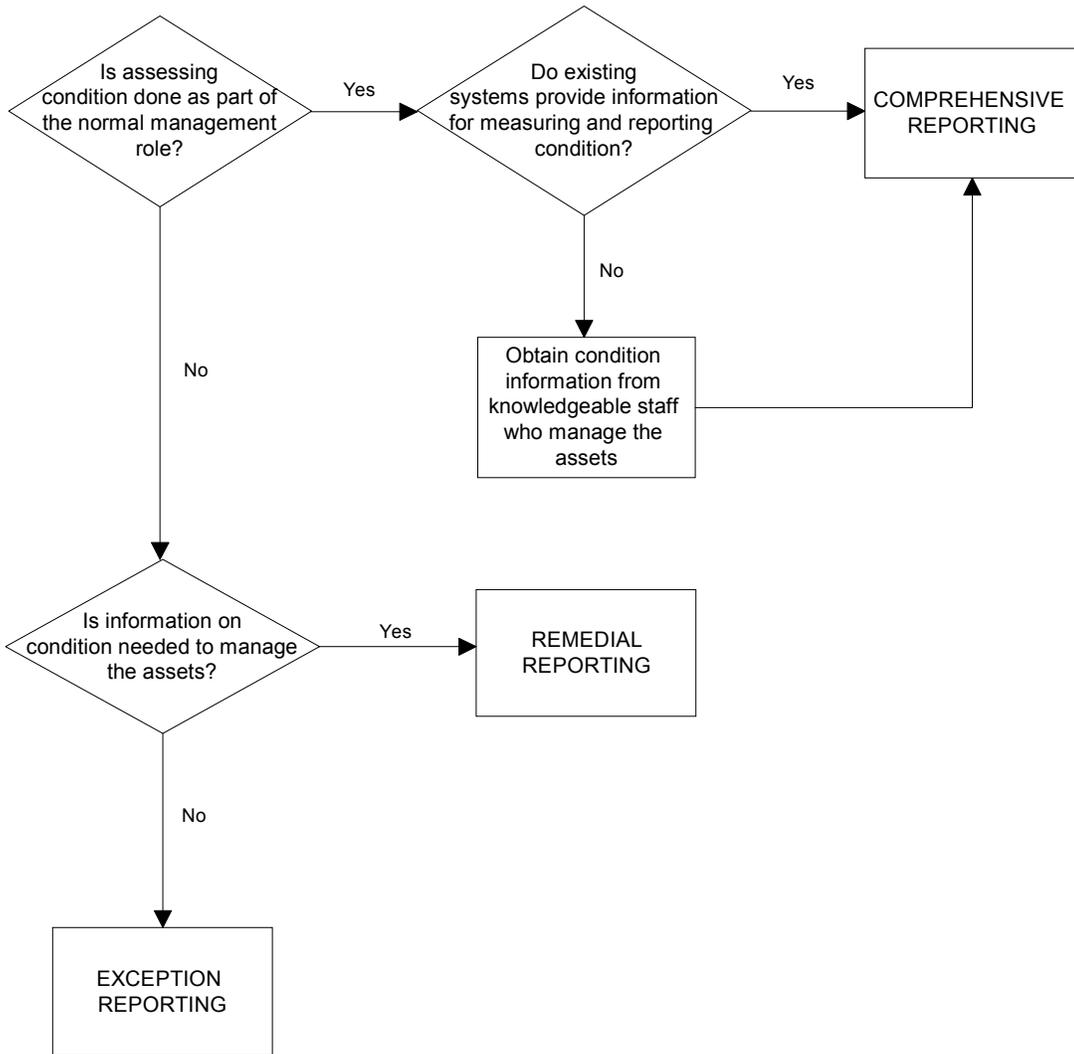
**"Providing condition information about only those assets that do not meet management's definition of acceptable condition."** Note: Operative to this definition is the presumption that all other assets are in acceptable condition, until there is information to the contrary.

Generally, for asset categories subject to exception reporting, a reasonable definition of acceptable condition would be "safeguarded," meaning that the assets are protected against waste, loss, and misuse; they are managed consistent with their intended use in accordance with laws and regulations; and they have not materially degraded while under the government's care. (See the subsection, *Safeguarding of Assets is an Important Criterion*).

BLM used a similar definition for safeguarded when reporting the condition of its museum collections in its stewardship Report for FY 2000. BLM opted for exception reporting because it does not normally collect information on condition to manage its museum collections. See Figure 8, *Excerpt From BLM Stewardship Report for FY 2000*.

The NPS holds certain congressionally-designated lands that, by definition, are in excellent condition (i.e., suitable) for special management purposes, such as National Wilderness Areas. As discussed previously, safeguarding such lands is a primary stewardship responsibility that is reflected in the NPS' mission statement. However, periodically inspecting the condition of wilderness areas is not part of the NPS' management approach because the NPS' safeguarding efforts preserve them in their natural condition. In this case, exception reporting on whether wilderness areas are safeguarded is appropriate and would be useful in understanding their condition and assessing NPS' stewardship over them.

Figure 5. Relationship of Condition Reporting Approaches



## OTHER ISSUES

### Interpretation of Land Definition Affects Reporting

SFFAS No. 6, paragraphs 66 and 68 state that "Land is defined as the solid part of the surface of the earth. Excluded from the definition of land are materials beneath the surface (i.e., depletable resources such as mineral deposits and petroleum), the space above the surface (i.e., renewable resources such as timber), and the outer-continental shelf resources. The materials excluded from the definition of land will be addressed in separate accounting and reporting standards related to them."

A literal interpretation of this definition might mean that entities should focus their condition reporting for land exclusively on the solid, inanimate surface of the ground. Arguably, discussions related to water, vegetation, and wildlife would not be included because water is not solid, vegetation occurs above the surface of the land, and wildlife is animate, not inanimate. However, such a stringent application of the definition of land serves no useful purpose and would likely render condition reports on land meaningless to most readers.

In contrast, BLM's discussion of the condition of wetlands and riparian areas in its FY 2000 stewardship report, which is richly informative, begins with the statement that "The condition of riparian-wetland areas is determined by the interaction of geology, soil, water, and vegetation." While this is somewhat of a scientific perspective, it seems likely that most readers of BLM's report would share the same holistic view of the land, emphasizing the organic or functional relationships between parts and wholes. When looking at public land and contemplating its condition, typical readers would probably see more than just the rocks, soil, and geological features. Rather, they would consider the land and its living environment, taken as a whole.

Additionally, literal application of the definition for land would run counter to the principle cited above that entities manage their SL and HA for specific purposes and it is meaningful if condition is measured in light of those purposes. For the most part, federal land management entities have few management objectives relating to the hard surface of the land, and few readers would expect to see condition reports focusing exclusively on rocks and soil. Therefore, to make stewardship reports as meaningful as possible to readers, federal entities are encouraged to measure and report on the condition of stewardship land in the broadest sense, taking into consideration the land and its living environment including aquatic, wetland, and riparian habitats.

### Deferred Maintenance Reporting May Include Condition Information

Deferred maintenance reporting focuses on the cost of returning fixed assets to acceptable condition when maintenance has been postponed or delayed. SFFAS No. 6 and SFFAS No. 8, as amended, specify that deferred maintenance information is to be reported as Required Supplementary Information (RSI). Deferred maintenance reporting, which may

include condition information, applies to all four categories of PP&E (general PP&E, national defense PP&E, stewardship land, and heritage assets).

As amended, SFFAS No. 8 requires that the condition of SL and HA be reported in the stewardship report, unless condition is already reported in deferred maintenance information included elsewhere in the financial report, in which case a reference to the information will suffice. This approach avoids duplication when deferred maintenance reporting (if any) includes condition information.

Depending on the method used to measure deferred maintenance under SFFAS No. 6, the deferred maintenance reporting may, or may not, include information describing the condition of SL and HA. SFFAS No. 6, paragraph 80 states that the amount reported for deferred maintenance may be measured using condition assessment surveys, life-cycle costing forecasts, or similar methods. The condition assessment survey method includes reporting on the condition of the assets, whereas the life cycle costing forecast method (which focuses on dollar amounts) does not. If the deferred maintenance information does not include condition information, or is not applicable, SFFAS No. 8 still requires an entity to report on the condition of its SL and HA in the stewardship report.

**Figure 6. Examples of Criteria Derived from Various Mandates, Related Representations, and Procedures for Auditors**

Source or Indicator of Criteria	Derived Criteria	Management Representations About Condition for FY 2000 (paraphrased)	Procedures for Auditor's Assurance	
			General Approach	Sample Steps (not all-inclusive)
BLM's mission is to "...sustain the health, diversity, and productivity of the public land for the use and enjoyment of present and future generations."	The potential natural plant community is the benchmark against which the health of rangeland is evaluated.	The percentage of BLM's rangeland in relation to the natural plant community is categorized as follows: 5% is potential natural community (excellent), 30% is late seral (good), 36% is mid seral (fair), 12% is early seral (poor), and 17% is unclassified.	Inquire with management about the process used to develop criteria for measuring condition and the written representations about condition.	Examine documentation supporting categorization of acreage. Recalculate percentages
FWS' mission is to "conserve, protect, and enhance fish and wildlife and their habitats for the continuing benefit of the American people."	The ability of FWS land to provide integrated habitat and life support for permanent resident populations and for migratory populations is a criterion that can be derived to evaluate the condition of land.	While some individual units can be improved, the condition of FWS lands as a whole is sufficient to support the mission of the Service.	Reperform steps taken by management to test the accuracy of the representations. (For example, check	Examine documentation showing that most FWS lands provide the desired habitats.
SFFAS No. 6 states that "Heritage assets are generally expected to be preserved indefinitely" and "It is expected that they will be maintained in reasonable repair and that there will be no diminution of their usefulness over time."	Acceptable condition for BLM museum collections is defined as "safeguarded" which means that collections are in secure locations, managed consistent with their intended uses, and their condition has not materially degraded.	The condition of museum collections in three federal facilities is acceptable (safeguarded) and in 190 non-federal facilities is unknown.	reasonableness of criteria, and trace key facts and figures to and from supporting documentation). Conclude as to the reliability of management's representations about condition.	For sample of facilities (1) perform physical inspection, and/or (2) examine documentation supporting the representation that collections are safeguarded
An NPS checklist for managing museums contains professional standards for environment, security, fire protection, housekeeping, and planning for museum collections.	Status of museum exhibits and storage is assessed against professional standards for preservation and protection.	64 percent of park museum collections meet these professional standards.		For selected locations categorized as meeting standards, apply check list to test that standards are met.
The Library of Congress' security plan includes physical security standards and defines the threat to the library's collections.	Library collections should be safeguarded. A low risk environment for the collections must be maintained, including zero tolerance for theft and mutilation.	Throughout the year, the Library continued to implement the security plan and significant controls have been implemented.		Review security plan, related controls, and documentation showing that controls are implemented. Test selected controls.

**Figure 7. NPS Condition Definitions for Historic and Prehistoric Structures**

The National Park Service defines a historic or prehistoric structure a “a constructed work... consciously created to serve some human activity.” Structures are usually immovable, although some have been relocated and others are mobile by design. They include buildings and monuments, dams, millraces and canals, nautical vessels, bridges, tunnels and roads, railroad locomotives, rolling stock and track, stockades and fences, defensive works, temple mounds and kivas, ruins of all structural types that still have integrity as structures, and outdoor sculpture.”

Source: National Park Service 2000 Accountability Report – Stewardship and Heritage Assets section.

**GOOD**: The structure and significant features are intact, structurally sound, and performing their intended purpose. The structure and significant features need no repair or rehabilitation, but only routine or preventative maintenance.

**FAIR**: The structure is in fair condition if either of the following conditions is present:

- a) There are early signs of wear, or deterioration though the structure and its features are generally sound and performing their intended purpose; or
- b) There is failure of a significant feature of the structure.

**POOR**: The structure is in poor condition if any of the following conditions is present:

- a) The significant features are no longer performing their intended purpose; or
- b) Significant features are missing; or
- c) Deterioration or damage affects more than 25% of the structure; or
- d) The structure or significant features show signs of imminent failure or breakdown.

**UNKNOWN**: Not enough information is available to make an evaluation.

For prehistoric and historic ruined structures, the assignment of condition should be based on the goal of maintaining the character, material, and stability of the structure as acquired, excavated, or existing.

Source: NPS List of Classified Structures User’s Manual, Appendix F, page F-1

**Figure 8. Excerpt From BLM Stewardship Report For Fiscal Year 2000**

## Number of Facilities and Condition Of Museum Collections

Table 8 summarizes the number of facilities holding collections from BLM public lands and the condition of these heritage assets.

Location	Number of Facilities	Condition
Federal Facilities	3	Acceptable--Safeguarded
Non-Federal Facilities	190	Unknown

BLM's museum collections and their associated records under the stewardship of BLM are stored in professional facilities whose mission is to preserve them. Generally, museums and facilities preserve museum objects in a manner that is appropriate to the nature of the materials; protects them from breakage and possible deterioration from diverse temperature and relative humidities, visible light, ultraviolet radiation, dust, soot, gases, mold, fungus, insects, rodents and general neglect; that preserves data that may be studied in future analyses; and that protects collections from fire and theft.

Detailed information on condition is not normally collected by the BLM to manage museum collections because doing so is considered prohibitively expensive and is not part of general professional methodology.

The condition of BLM's museum collections in federal facilities is presumed to be acceptable unless there is proof of the contrary (e.g., breakage, noted deterioration, etc). Acceptable condition is defined as "safeguarded," which means the following:

- collections are in secure locations,
- collections are managed consistent with their intended uses (some of the most common, but not the only, uses include research, exhibit, interpretation, and education); and
- their condition has not been materially degraded, i.e., the condition of the individual specimens in the collection is similar to when they were originally deposited in the facility.

This definition is predicated on that fact that all museum objects will ultimately deteriorate over time with use. The goal of safeguarding museum objects is to preserve them for as long as possible and to manage their condition during their intended use so as not to unduly hasten their deterioration.

Although the BLM believes that museum collections in non-federal facilities are being properly safeguarded, their actual condition is unknown. Archaeological, historical, and paleontological materials have been removed from public land for over 200 years. Most of these objects have been placed in non-federal facilities for curation. As previously noted, the BLM has located 190 of these facilities across the United States and Canada.

## SECTION 4. AUDITOR'S ASSURANCE

Federal entities are required to report descriptive, non-financial information on SL and HA as RSSI in their financial reports, in accordance with SFFAS No. 8. For fiscal year 2001, auditors are required to perform certain limited procedures on reported SL and HA information and report any instances where required information is omitted or departs materially from prescribed guidelines. However, any such omissions or departures do not affect the audit opinion on the fairness of the presentation of an entity's principal financial statements.

For future fiscal years, auditors may be required to provide examination-level assurance (i.e., positive assurance) on SL and HA information reported by federal entities. In June 2001, FASAB decided to eliminate the RSSI category and has directed its staff to investigate the feasibility of designating information on SL and HA as "basic" information to the financial statements, with the expectation that it would be subject to examination-level assurance from auditors. In FASAB parlance, "basic" information comprises the financial statements and the associated notes that are regarded as an integral part of the statements. FASAB's preliminary deliberations indicate that required information on the *condition* of SL and HA probably will not be designated as basic, nor is condition information expected to be subject to examination-level assurance from auditors.

FASAB does not establish auditing standards for the federal government. However, the Board is considering the audit implications of designating information as basic because auditors' procedures and reporting are greatly dependent upon the designation of the information in question. Pending FASAB action, it is expected that OMB and GAO will collaborate to establish requirements for providing the appropriate level of auditors' assurance on SL and HA information.

The auditor's procedural and reporting requirements for fiscal year 2001 are summarized in the paragraph below. In contrast, the rest of the guidance focuses on performing an examination of SL and HA, as may be required in future years.

### FISCAL YEAR 2001 REQUIREMENTS FOR AUDITORS

For fiscal year 2001, OMB requires that the auditor perform procedures contained in AU Section 558, "Required Supplementary Information," of the *Codification of Statements on Auditing Standards* on SL and HA. These procedures do not provide examination level assurance. The auditor must also perform internal control and compliance work in OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, paragraphs 6.e. and 6.g.. The results of the auditor's work on SL and HA are to be reported according to AU Section 551.15. Since the information on SL and HA is not audited, the auditor should disclaim an opinion on it. However, the auditor's report should be expanded to include an explanatory paragraph, in accordance with AU 558.08, if certain circumstances exist. (For details, see Appendix I, *OMB-Required Procedures and Reporting for Stewardship PP&E Information for Fiscal year 2001*).

## FUTURE EXAMINATION PROCEDURES

In the future, with the exception of condition information, auditors may be required to examine the descriptive, non-financial information reported by entities on SL and HA. The following guidance and related appendices describe procedures that an auditor could perform in planning such an examination, evaluating related internal controls, and performing substantive tests. Guidance on the auditor's report is not included because it is not clear whether the auditor's examination-level assurance on SL and HA information would be provided under (a) *Statements on Auditing Standards*, or (b) *Statements on Standards for Attestation Engagements*.

Regardless of whether the auditing standards or the attestation standards are determined to be applicable, the procedures for examining SL and HA would be essentially the same. However, the structure of the auditor's report could vary significantly, depending on which standards are to be applied.

### Planning

The auditor should obtain an understanding of the reporting entity that is sufficient to plan and perform an examination of SL and HA information in accordance with applicable examination standards and requirements. The auditor performs planning to determine an effective and efficient way to obtain the evidential matter necessary to provide examination level assurance on the SL and HA information. The *Model Examination Program for Stewardship Land and Heritage Assets* in Appendix II contains suggested procedures for the planning phase of the work.

In accordance with OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, paragraph 6.g., the auditor should identify laws and regulations for which non-compliance could have a direct and material effect on reported SL and HA information and plan tests of compliance with any such laws and regulations.

Before applying the concept of materiality in an engagement to examine SL and HA information, the auditor should review the section on *Determining Materiality*. That section describes the conceptual framework for materiality that is common to preparers and auditors, and compares and contrasts their respective roles and activities in applying the materiality concept to SL and HA. It also includes decision tools to support qualitative materiality judgments about SL and HA. As such, the section on *Determining Materiality* contains important guidance for auditors to consider when assessing risk, planning the scope of the examination, designing tests, evaluating any omissions or misstatements, and expressing an opinion on SL and HA.

### Evaluating Controls

In accordance with OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, paragraph 6.e., the auditor should obtain an understanding of the internal controls over SL and HA and assess the level of control risk relevant to the assertions

embodied in information reported on SL and HA. For those internal controls that have been properly designed and placed in operation, the auditor shall perform sufficient tests to support a low level of assessed control risk. The controls to be assessed include those related to safeguarding SL and HA from unauthorized acquisition, use, or disposition.

The Basis for Conclusions to SFFAS No. 6, paragraph 125 highlights the need to evaluate controls over the safeguarding of SL and HA. In describing the government's need to demonstrate that it is being an appropriate steward for these assets, the question is asked, "Is the government effectively managing and safeguarding its assets?"

The *Model Examination Program for Stewardship Land and Heritage Assets* in Appendix II contains suggested procedures for the internal control phase of the examination. Appendix III contains a model internal control questionnaire that can be used to help understand controls over SL and HA. Additionally, Appendix IV contains related interview questions that could be asked of CFO and program officials.

The auditor should document management's processes for gathering, analyzing, and reporting SL and HA information. At a given entity, stewardship land and heritage assets could be documented separately, if significantly different processes and controls apply to each type of asset.

NOTE: Management should document the procedures, systems, and flow of information used in developing SL and HA information. The internal controls over the production and reporting of SL and HA information should be clearly documented, and the documentation should be purposeful and useful to managers in controlling operations, and to auditors or to others involved in analyzing operations. Preparers of reports should retain source documents for facts, figures, and other representations made about SL and HA and make the source documents readily available for examination by management or by auditors.

### Substantive Testing

Most of the auditor's work in reaching conclusions about the reliability of management's representations about SL and HA consists of obtaining and reviewing evidential matter concerning the assertions that are embodied (but not explicitly stated) in those representations. The implicit assertions related to management's representations about SL and HA are:<sup>26</sup>

1. Existence or occurrence: The SL and HA exist at a given date.
2. Completeness: All SL and HA that should be presented are included.
3. Rights and obligations: The entity has legal ownership rights to the SL and HA.

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<sup>26</sup> Source: Adapted from AU 326.04 and GAO's Financial Audit Manual (FAM), section 235.02.

4. Valuation or Allocation: SL and HA categories are at a meaningful level of aggregation have been disclosed in appropriate quantities.
5. Presentation and disclosure: The particular components of the SL and HA information are properly classified, described, and disclosed.

The *Model Examination Program for Stewardship Land and Heritage Assets* in Appendix II contains suggested procedures for the substantive testing phase of the examination.

## APPENDIX I

## APPENDIX I

OMB-REQUIRED PROCEDURES AND REPORTING FOR FISCAL YEAR 2001

## PROCEDURES

OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, paragraph 6.b.(2), requires auditors to perform procedures on SL and HA that are contained in AU Section 558, "Required Supplementary Information," of the *Codification of Statements on Auditing Standards*. The auditors must also perform internal control and compliance work on SL and HA in paragraphs 6.e. and 6.g. of the Bulletin.

AU Section 558, Required Supplementary Information

## Paragraph 07.:

- a. Inquire of management about the methods of preparing the information, including (1) whether it is measured and presented within prescribed guidelines, (2) whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes, and (3) any significant assumptions or interpretations underlying the measurement or presentation.
- b. Compare the information for consistency with: (1) management's responses to the foregoing inquiries, (2) audited financial statements, and (3) other knowledge obtained during the examination of the financial statements.
- c. Consider whether representations on required supplementary information should be included in specific written representations obtained from management.
- d. Apply additional procedures, if any, that other statements, interpretations, guides, or statements of position prescribe for specific types of required supplementary information. (See additional procedures from OMB Bulletin 98-08, below).
- e. Make additional inquiries if the application of the foregoing procedures causes the auditor to believe that the information may not be measured or presented within applicable guidelines."

OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, (as amended)

Paragraph 6.e.

"With respect to internal control objectives described in paragraphs 2.g. (1) and (2) of this bulletin relating to the Principal Statements and Required Supplementary Stewardship Information, the auditor shall obtain an understanding of the components of internal control (see AU Section 319.07...) and assess the level of control risk relevant to the assertions embodied in the... (stewardship report)." (See paragraphs 2.g.(1) and (2), below).

Paragraph 6.g.

"With respect to compliance with applicable laws and regulations, the auditor shall perform tests of compliance with laws and regulations that could have a direct and material effect on the Principal Statements and the Required Supplementary Stewardship Information..."

Paragraph 2.g.

"Internal control" as it relates to the Principal Statements and the Required Supplementary Stewardship Information, is a process, effected by the agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- (1) Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Principal Statements and Required Supplementary Stewardship Information in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;
- (2) Compliance with applicable laws and regulations - transactions are executed in accordance with: (a) laws governing the use of budgetary authority and other laws and regulations that could have a direct and material effect on the Principal Statements or the Required Supplementary Stewardship Information, and (b) any laws, regulations, and governmentwide policies identified by OMB in Appendix C of this Bulletin; ..."

## REPORTING

OMB Bulletin 01-02, paragraph 7.c.(1).d, requires that the results of the auditor's work on SL and HA is to be reported according to AU Section 551.15 which states:

“When supplementary information required by FASB or GASB is presented outside the basic financial statements in an auditor submitted document, the auditor should disclaim an opinion on the information unless he has been engaged to express an opinion on it. The following is an example of a disclaimer an auditor might use in these circumstances:

*The (identify the supplementary information) on page XX is not a required part of the basic financial statements but is supplementary information required by the (Financial or Governmental Accounting Standards Board). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.”*

If the SL and HA information is not audited, the auditor should disclaim an opinion on it. However, AU 551.15 requires that the auditor’s report should be expanded to include an explanatory paragraph, in accordance with AU 558.08, if certain circumstances exist. If AU 558.08 were paraphrased and adapted to fit the SL and HA reporting context, the circumstances requiring an explanatory paragraph would be:

- (1) SL and HA information required by SFFAS No. 8 is omitted.
- (2) Measurement or presentation of the SL and HA information departs materially from prescribed guidelines in SFFAS No. 8.
- (3) The auditor is unable to complete procedures prescribed in AU 558.07 or OMB Bulletin 01-02, paragraphs 6.e. and 6.g.
- (4) The auditor is unable to remove substantial doubt as to whether the SL and HA information conforms to prescribed guidelines in SFFAS No. 8.

The inclusion of any such explanatory paragraph in the auditor’s report ***does not affect the audit opinion*** on the fairness of the presentation of an entity’s principal financial statements.

## APPENDIX II

## APPENDIX II

EXAMPLE EXAMINATION PROGRAM FOR  
STEWARDSHIP LAND AND HERITAGE ASSETS

Federal entities are required to report descriptive, non-financial information on stewardship land and heritage assets in their financial reports accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 8, as amended. Auditors are required to provide examination-level assurance on reported stewardship land and heritage asset information in accordance with professional standards published by the American Institute of Certified Public Accountants, and OMB Bulletin 98-08, *Audits of Federal Financial Statements*, as amended.

#### OBJECTIVES

The objectives of this examination program are to determine whether (1) stewardship land and heritage assets are presented in accordance with SFFAS No. 8, as amended, (2) internal controls related to identification, classification, reporting, and safeguarding of stewardship land and heritage assets contain reportable conditions or material weaknesses, and (3) significant provisions of laws and regulations are complied with that could have a direct and material effect upon the recognition and reporting of stewardship land and heritage assets.

#### SCOPE

This examination program focuses specifically on stewardship land and heritage assets (hereafter referred to as "SL and HA") and it does not address other types of property, plant, and equipment.

SFFAS No. 6 requires presentation and disclosure of dollar amounts in the principal statements that relate to SL and HA, such as disclosure of amounts removed from the Statement of Financial Position and recognition of acquisition and maintenance costs in the Statement of Net Cost. Substantive tests of such dollar amounts are beyond the scope of this examination program, as are procedures on information about the condition of SL and HA.

#### METHODOLOGY

The procedures in this examination program conform to the requirements of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, and are to be performed in accordance with applicable professional standards issued by the American Institute of Certified Public Accountants. Where applicable, these procedures follow the audit methodology contained in the United States General Accounting Office/President's Council on Integrity and Efficiency (GAO/PCIE) Financial Audit Manual (FAM). The criteria against which management's representations about SL and HA are to be examined are in SFFAS No. 8.

**A. Planning Phase:**

Objective: Obtain an understanding of the entity that is sufficient to plan and perform an examination on reported SL and HA information in accordance with applicable standards and requirements.

**1. Understand Entity Operations**

- a. Gather information to obtain an understanding of the entity and its operations that relate to SL and HA.
- b. Document the understanding of the entity and its operations that relate to SL and HA in the Client Profile which is prepared for the overall audit of the entity's financial statements.

**2. Perform Preliminary Analytical Procedures**

- a. Develop expectations based on your understanding of the entity and its operations.
- b. Compare current year information, such as the number of physical units by asset category, with relevant comparative information.
- c. Identify significant fluctuations from expectations and inquire with entity personnel to obtain explanations of significant fluctuations. Inability of entity personnel to explain the cause of a fluctuation may indicate the existence of control and/or inherent risks.
- d. Document results in the General Risk Analysis (GRA) which is prepared for the overall audit of the entity's financial statements.

**3. Identify Significant Asset Categories To Be Tested**

- a. Review reported SL and HA information to identify SL and HA categories that are potentially material.
- b. Determine which asset categories are material in accordance with separate guidance in the *Reporting and Assurance Guide for Stewardship Land and Heritage Assets*.
- c. Request that management (1) accumulate and provide supporting documentation for items to be tested, and (2) identify and provide access to staff who are knowledgeable about the production of information about the assets in question.

**4. Identify Accounting Applications and Cycles Related to Significant Asset Categories**

- a. Identify the methods and records (accounting applications) established to identify, assemble, analyze, classify, record, and report information about significant SL and HA categories and establish accountability over them.
- b. Group related accounting applications into cycles, as appropriate.
- c. Begin preparing the planning phase portion of an Account Risk Analysis (ARA) document for each asset category.

#### 5. Identify Significant Provisions of Laws and Regulations

- a. Inquire of management about and research laws and regulations that pertain to SL and HA.
- b. Document significant provisions for which non-compliance could have a direct and material effect on SL and HA.
- c. Document the results in the GRA.

#### 6. Assess Inherent Risk and the Control Environment

- a. Identify conditions, such as those described in FAM 295 A, that indicate the presence of inherent risks relating to SL and HA.
- b. Identify control environment weaknesses, such as those described in FAM 295 B, that relate to SL and HA.
- c. Document the assessment in the GRA and summarize the results in the ARA.

#### 7. Determine Likelihood of Effective EDP-Related Controls

- a. Identify computerized systems that produce SL and HA information.
- b. Enlist the help of EDP Audit specialists to evaluate and test general controls, application controls, and user controls for those systems.
- c. Document the results in the GRA.

### **B. Internal Control Phase**

#### Objectives:

- A. Obtain evidence about, and evaluate the effectiveness of internal controls related to SL and HA and assess risk. (See the *Example Internal Control Questionnaire* for SL and HA in Appendix III).
- B. Determine if physical controls ensure that assets are protected against waste, loss, and misuse.

#### 1. Document the Cycle(s) for Significant SL and HA Categories

- a. Interview knowledgeable financial management and program officials about systems, procedures, and controls for identifying, reporting, and safeguarding significant categories of SL and HA.
- b. Prepare a cycle memo describing the processes for acquiring and disposing SL and HA, recording to real property and personal property systems or other centralized listings, maintaining and updating records, ensuring data integrity, and classifying, aggregating, and reporting in the stewardship report.
- c. Prepare flow charts to illustrate the processes described in the cycle memo.
- d. Perform “walkthroughs” to confirm the accuracy of the flow charts and the cycle memo.

## 2. Evaluate Internal Controls and Assess Risk

- a. Prepare a Specific Control Evaluation (SCE) document for the cycle that lists relevant assertions, potential misstatements, control objectives, control techniques and their effectiveness, and related audit steps.
- b. Conclude on the levels of control risk and combined risk (low, moderate, high).
- c. Finalize the ARA form and conclude on the effectiveness of control techniques.

### C. Substantive Testing Phase:

#### Management's Assertions About SL and HA:

Most of the auditor's work in reaching conclusions about the reliability of management's representations about SL and HA consists of obtaining and reviewing evidential matter concerning the assertions that are embodied (but not explicitly stated) in those representations. The implicit assertions related to management's representations about SL and HA are:

1. Existence or occurrence: The SL and HA exist at a given date.
2. Completeness: All SL and HA that should be presented are included.
3. Rights and obligations: The entity has legal ownership rights to the SL and HA.
4. Valuation or Allocation: SL and HA categories are at a meaningful level of aggregation have been disclosed in appropriate quantities.
5. Presentation and disclosure: The particular components of the SL and HA information are properly classified, described, and disclosed.

The objectives and steps for the substantive phase of this examination program refer to both SL and HA. However, as described below, certain information that is required for SL is not required (only suggested) for HA. Nonetheless, many entities have elected to report such information for HA. The objectives and steps refer to HA in order to assist auditors who may encounter HA information that is similar to what is required for SL.

For stewardship land, SFFAS No. 8 *requires* that certain minimum information be included in the stewardship report. In contrast, for heritage assets, the standard only *suggests* “examples of information that should be considered for presentation” with the explanation that “The determination of the most relevant information to be presented should be made by the preparer...” The different treatment for the two categories is deliberate. The lack of specific requirements for heritage asset information is intended to encourage creativity in reporting the variety of heritage assets held by federal entities.

Although the treatment differs, the minimum information *required* for stewardship land is essentially the same as the information *suggested* for heritage assets. Reporting requirements for stewardship land include acquisitions, withdrawals, and ending balances expressed in physical units by major categories of use, according to SFFAS No. 8, paragraph 81. Corresponding examples of suggested reporting for heritage assets in paragraph 50 include “The number of physical units added and withdrawn from the heritage asset records during the year and the end-of-year number of physical units for each type of heritage asset.”

## Objectives:

- A. SL and HA exist: To determine whether SL and HA exist and are owned by the entity.
- B. Complete reporting: To determine whether SL and HA are recorded and reported.
- C. Additions appropriate: To determine whether additions to SL and HA are authentic and are shown in the correct physical unit measurement in the SL and HA records.
- D. Withdrawals recorded: To determine whether withdrawals of SL and HA are properly removed from the SL and HA records.
- E. Proper classification and disclosure: To determine whether ending balances for SL and HA are properly stated, classified, and described.
- F. Compliance: To determine whether the entity has complied with significant provisions of laws and regulations and applicable accounting standards.

## 1. Perform the following steps for material categories of SL and HA:

- a. Obtain and review the section of the financial report on SL and HA, listed by physical units and categories, including the following:
  - (1) beginning balance
  - (2) additions
  - (3) withdrawals
  - (4) ending balance
- b. Review the description of the methods of acquisition and withdrawal of SL and HA.
- c. Obtain detailed schedules of SL and HA by physical unit and category, and trace totals to summary schedule.
  - (1) Beginning balance:
    - (a) If this is the initial year of audit for SL and HA, obtain an inventory, master listing, or catalog of each category and make an appropriate selection. Perform the following tests for the selected items:
      - i. Trace to supporting documentation
      - ii. Consider performing physical inspection of items
      - ii. If the population is small, consider performing 100% testing
    - (b) If this is not the first year of audit for SL and HA, trace beginning balances of number of units for each major category of SL and HA per the summary schedules to ending balances per the prior year's working papers.
  - (2) Additions: Draw a statistical sample from the detailed schedule of additions and perform the following tests on the selected items:
    - (a) Trace to supporting documentation
    - (b) Review for authorization

- (c) If the population is small, consider performing 100% testing
  - (3) Withdrawals: Draw a statistical sample from the detailed schedule of withdrawals and perform the following tests on the selected items:
    - (a) Trace to supporting documentation
    - (b) Review for authorization
    - (c) If the population is small, consider performing 100% testing
  - (4) Ending balances: Recalculate ending balances and trace to stewardship report.
- d. Select a sample of physical units in custody of the entity (from a display, external listing, map, etc.). Trace each selected item to the entity's main register, inventory, or catalog.
2. Test compliance with significant provisions of laws and regulations identified during the planning phase.

**D. Reporting Phase:**

1. Perform Overall Analytical Procedures. Develop expectations based on your understanding of the entity and its operations. Review the following relationships for the current and preceding year and obtain explanations for significant fluctuations:
  - a. Number of physical units for each category;
  - b. Number of additions for each category;
  - c. Number of withdrawals for each category; and
2. Review Management Representations.
  - a. Obtain and review written representations from management about the adequacy of SL and HA disclosures and related controls.
3. Determine Conformity with Accounting Standards
  - a. Review the SL and HA information to determine if it conforms with the reporting requirements for SL and HA in SFFAS No 8.
  - b. Conclude as to whether SL and HA are presented fairly in all material respects, in accordance with requirements in SFFAS No. 8.
  - c. Document the results in an audit summary memorandum.
  - d. Prepare proposed audit adjustments and/or findings and recommendations as appropriate.

## APPENDIX III

## APPENDIX III

EXAMPLE INTERNAL CONTROL QUESTIONNAIRE  
FOR STEWARDSHIP LAND AND HERITAGE ASSETS

**A. Initiation and Execution of SL and HA Transactions**

**Objective:** Additions and withdrawals of SL and HA are made in accordance with management's authorization.

***Questions - Control policies and Procedures***

1. Is advanced approval in accordance with management's criteria required for all SL and HA transactions?
2. Are requests for additions, major maintenance and repair, and withdrawals of SL and HA -
  - a. Initiated by designated individuals, in accordance with management's authorization?
  - b. Formally documented, including an adequate description of the proposal, its reasons, and the estimated number of units involved in the transaction?
  - c. Reviewed for key considerations in accordance with management's criteria?  
Key considerations may include such issues as:
    - (i) type/use/category
    - (ii) method of unit measure
    - (iii) condition of the asset
  - c. Approved at a higher level than the department or official who initiated the request?
3. Are authorizations to execute SL and HA transactions adequately documented?
4. Are procedures adequate for determining that components and services for SL and HA are received or performed?
5. Are procedures adequate for determining that all withdrawals of SL and HA have been executed and proceeds, if any, are received in accordance with management's authorization?

**B. Recording SL and HA**

**Objective:** Transactions involving SL and HA are accurately recorded, accumulated, and classified in order to:

1. permit preparation of required SL and HA information in conformity with criteria in SFFAS No. 8; and
2. maintain accountability for SL and HA.

***Questions -- Control Policies and Procedures***

1. Have policies, procedures, or other guidance been developed for accounting for SL and HA in accordance with SFFAS No. 8?
2. Has management defined accounting and reporting for SL and HA as a separate cycle?
3. Has management identified or developed internal control objectives for the SL and HA cycle?
4. Has management implemented internal control techniques that provide a high degree of assurance that the internal control objectives are being achieved?
5. Is the internal control system for stewardship reporting documented so that:
  - a. The documentation is purposeful and useful to managers in controlling operations, and to auditors or to others involved in analyzing operations?
  - b. The procedures, systems, and flow of information used in developing and reporting SL and HA information are clear.
6. Are detailed SL and HA records maintained for all categories of significant SL and HA which present:
  - a. Descriptions of significant SL and HA, their location, and if applicable, such specific identification as serial or other control numbers?
  - b. Beginning count, numbers of acquisitions, number withdrawals, and ending count for a given period?
  - c. Acquisition and withdrawal dates?
  - d. Condition of the SL and HA?
7. Are responsibilities for initiating SL and HA transactions segregated from those for final approvals that commit government resources?
8. Do persons who maintain the detail SL and HA records receive timely and adequate information about acquisitions and withdrawals?

9. Do documents provide evidence of SL and HA property rights (for example, deeds, public laws, etc.)?
10. Are the documents of title and property rights in the custody of a responsible employee whose duties do not include maintenance of detailed property records or physical custody of the assets?
11. Are the documents of title and property rights compared with the detailed property records at reasonable intervals by persons whose duties do not include:
  - a. custody of such documents?
  - b. maintenance of the detailed SL and HA records

## **B. Safeguarding of SL and HA**

**Objectives:** SL and HA are protected from unauthorized use or removal. Access to SL and HA is limited to designated individuals in accordance with management authority so that unauthorized dispositions may be prevented and detected within a timely period.

### ***Questions - Control policies and Procedures***

1. Do physical safeguards of SL and HA appear reasonably adequate in relation of the materiality of the assets and the susceptibility to theft? Examples include:
  - fenced areas
  - restricted access storerooms or vaults
  - security guards
  - detection and scanning devices (for example, alarms and television cameras)
  - inspection of personnel
  - maximum visibility by supervisors and security personnel of work and storage areas.
2. Do SL and HA appear reasonably protected from physical deterioration? Examples include:
  - shelters and buildings
  - maintenance of the environment at appropriate temperature and humidity
  - containers and storage facilities
3. Are persons responsible for custody of SL and HA independent of SL and HA recording?

4. Are SL and HA physically inspected for condition at reasonable intervals and compared with detailed records?
5. Are SL and HA of a small size properly identified with metal numbered tags or other means of positive identification?

**C. Physical Counts of SL and HA**

**Objective:** Recorded amounts of SL and HA are substantiated and evaluated at reasonable intervals by comparison with and evaluation of actual quantities on hand.

**Questions -- Control Policies and Procedures**

1. Are SL and HA subject to periodic physical count?
2. Do detailed written procedures and instructions exist for counting SL and HA?
3. Do the procedures for counting SL and HA adequately address the following matters:
  - a. location and orderly physical arrangement of the assets?
  - b. identification and description of SL and HA by persons familiar with the assets?
  - c. method of determining quantities such as acreage or numerical count?
  - d. recording of items on count sheets or tickets, including complete descriptions, identifying codes, as well as quantities counted?
  - e. cutoffs or acquisitions and withdrawals?
  - f. control of physical count records, such a prenumbering of all count sheets, count tickets, and accounting for all numbered records issued and used?
  - g. substantiation of SL and HA held by others?
  - h. investigation and disposition of differences between physical counts and detailed SL and HA records?
4. Are physical count procedures supervised by a responsible official whose duties do not include physical custody or recording of assets?
5. Are physical count procedures adequately communicated to and understood by persons who perform the physical counts?

6. Are physical counts performed by persons whose duties do not include physical custody or detailed record-keeping for SL and HA?
7. Are physical counts subject to adequate verification such as recounts by persons other than those who made the initial counts or spot checks by others, such as internal auditors?
8. Is summarization of physical counts subject to adequate verification such as reperformance, on a complete or test basis, by persons other than those who initially performed the tasks?
9. Are differences between physical counts and detailed records of SL and HA investigated before the records are adjusted?
10. Are adjustments to the detailed SL and HA records given prior approval in accordance with management's authorization?

#### **D. Reporting SL and HA**

**Objective:** Requirements for reporting SL and HA in SFFAS Nos. 6 and 8 are met.

#### ***Questions - Control Policies and Procedures***

1. Have all SL and HA been identified and removed from the Statement of Net Position?
2. Has the method for determining the dollar amount removed from the Statement of Net Position for stewardship been documented?
3. Have amounts removed been charged to Net Position and shown as a prior period adjustment?
4. Have costs to acquire SL and HA and prepare them for their intended use been recognized and reported in the year of acquisition?
5. Has no cost (zero) been recognized and reported for SL and HA acquired by donation and devise?
6. Are source documents for facts, figures, and other representations made about SL and HA retained and readily available for examination by management or by auditors?

## APPENDIX IV

## APPENDIX IV

EXAMPLE INTERVIEW QUESTIONS FOR CFO AND PROGRAM OFFICIALS

## QUESTIONS FOR CFO OFFICIALS

1. Has your entity developed policies, procedures, or other guidance for accounting for SL and HA in accordance with SFFAS No. 6, Accounting for Property, Plant, and Equipment and SFFAS No. 8, Supplementary Stewardship Reporting? If so, please provide a copy.
2. Have all SL and HA been identified and removed from the balance sheet?
3. How was the dollar amount for SL and HA to be removed from the balance sheet determined?
4. Were amounts removed from the balance sheet disclosed in the notes?
5. Were the amounts removed charged to Net Position and shown as a prior period adjustment in the Statement of Changes in Net Position?
6. Describe the process that you went through to identify, evaluate, account for, and report SL and HA in your stewardship report.
7. What controls are in place to ensure all SL and HA are identified and reported per SFFAS No. 8?
8. What is the source of information in the supplementary report for SL and HA' (a) type/category of use, (b) physical units (c) additions, (d) deletions?
9. Is there an audit trail that auditor's can follow from the reported SL and HA information to source documents?
10. Were costs expensed to acquire SL and HA, prepare them for their intended use, and maintain them?
11. How do you account for SL and HA acquired through donation or devise?

## QUESTIONS FOR PROGRAM OFFICIALS

1. What is the purpose of your office/function and where is it located in the organization? (Please provide an organization chart.)
2. What is the status of your efforts to identify and inventory all of the SL and HA your entity might be responsible for?

3. What criteria is used to differentiate SL and HA from other assets?
4. How do you know that you have identified all of your entity's SL and HA?
5. How do you ensure that when SL and HA are acquired or disposed of that these actions are accurately recorded in your records?
6. What documents do you maintain to prove ownership of assets?
7. What records or systems support SL and HA information provided to the CFO for the stewardship report?
  - a. How and when do SL and HA get listed/removed from the records/systems?
  - b. Do the records/systems provide information on the (1) type/use, (2) number of physical units, (3) additions, and (4) deletions?
  - c. What controls are in place to maintain the integrity of the SL and HA information, and to prevent unauthorized additions, deletions, and/or modifications to the data?
  - d. Have the records/systems ever been audited? If so, by whom and what were the results?
8. What policies and procedures govern the maintenance of the SL and HA information? (Please provide excerpts from entity manuals.)
9. Are you aware of any reports by your office or by others that describe your entity's management of SL and HA that might provide background information for our review?

## GLOSSARY

Following are definitions of terms related to reporting and examining SL and HA. Most of these definitions are drawn from the Consolidated Glossary in Appendix E to *FASAB Volume 1 Original Statements: Statements of Federal Financial Accounting Concepts and Standards*, March 1997, GAO/AIMD-21.1.1. Definitions from other sources are specifically noted.

**Collection-type heritage assets** – a broad category of heritage assets, typically consisting of objects, specimens, and other items that are gathered and maintained for public exhibition, education, or research. (Adapted from SFFAS No. 8, paragraph 50, and input from Smithsonian Institution officials).

**Comprehensive reporting** - providing descriptive information on the relative condition of items within asset categories, based on measurable criteria established by management.

**Condition** – the physical state of an asset. The condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Evaluating an asset's condition requires knowledge of the asset, its performance capacity and its actual ability to perform, and expectation of its continued performance. The condition of a long-lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors, ..."

**Condition assessment surveys** – are periodic inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies.

**Deferred maintenance** – is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.

**De minimis** – refers to very small or trifling matters—of small value, cost, or amount; insignificant. (Adapted from Black's Law Dictionary)

**Exception reporting** - providing condition information about only those assets that do not meet management's definition of acceptable condition. (Originated in Section 3 of this guide, *Measuring and Reporting Condition*.)

**General PP&E land** – land and land rights owned by the Federal government that are acquired for or in connection with items of general PP&E.

**General property, plant, and equipment** – any property, plant, and equipment used in providing goods or services. General PP&E typically has one or more of the following characteristics:

- it could be used for other purposes but is used to produce goods, or services, or
- it is used in business-type activities, or
- it is used by entities in activities whose costs can be compared to those of other entities performing similar activities.

**Heritage assets** – property, plant, and equipment that are unique for one or more of the following reasons:

- historical or natural significance;
- cultural, educational, or artistic importance; or
- significant architectural characteristics.

**Land** – is the solid part of the surface of the earth. Excluded from the definition of land are the natural resources (depletable resources such as mineral deposits and petroleum, renewable resources such as timber, and the outer-continental shelf resources related to land).

**Land rights** – are interests and privileges held by an entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, rights-of-way, and other land interests in land. (SFFAS No. 6, footnote 18)

**Materiality** – “The determination of whether an item is material depends upon the degree to which omitting or misstating information about the item makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.” (SFFAS No. 8, paragraph 41)

**Multi-use heritage assets** – are heritage assets whose predominant use is general government operations. A heritage asset used to serve two purposes—a heritage function and general government operations—shall be considered a multi-use heritage asset if the predominant use of the asset is in general government operations. (SFFAS No. 16, paragraph 6 and glossary)

**Net book value** – the net amount at which an asset or a liability is carried on the books of account.

**Non-collection type heritage assets** – assets such as parks, memorials, monuments, and buildings. (SFFAS No. 6, paragraph 50)

**Property, plant, and equipment** – consists of tangible assets, including land, that meet the following criteria:

- they have estimated useful lives of two years or more;
- they are not intended for sale in the ordinary course of operations; and
- they have been acquired or constructed with the intention of being used, or being available for use by the entity.

Property, plant, and equipment also includes:

- assets acquired through capital leases, including leasehold improvements;
- property owned by the reporting entity in the hands of others; and
- land rights.

Property, plant, and equipment excludes, items (1) held in anticipation of physical consumption such as operating materials and supplies, and (2) the Federal government has a reversionary interest in. (SFFAS No.6, paragraphs 17, 18, and 19)

**Reasonable person** – a reader of the financial statements who uses SL and HA information to contribute to an understanding of an entity's mission, operations, and financial condition. (Originated in Section 2 of this guide, *Determining Materiality*.)

**Remedial reporting** - Disclosing the status of efforts to gather needed condition information. (Originated in Section 3 of this guide, *Measuring and Reporting Condition*.)

**Safeguarded** – protected against waste, loss, and misuse; managed consistent with the asset's intended use in accordance with federal laws and regulations; and not materially degraded while under government care. (Originated in Section 3 of this guide, *Measuring and Reporting Condition*.)

**Stewardship** – is the Federal Government's responsibility for the general welfare of the nation in perpetuity.

**SL and HA** – SL and HA is a term that collectively refers to two of the three subcategories of stewardship PP&E defined by SFFAS No. 6: stewardship land and heritage assets. SL and HA does not include “national defense PP&E,” or any other stewardship items described in SFFAS No. 8 such as “stewardship investments” or “stewardship responsibilities.” (Adapted from the *Introduction* to this guide.)

**Stewardship land** – land and land rights owned by the Federal government and not acquired for or in connection with other general PP&E.

**Useful life** – the normal operating life of an asset in terms of utility to the owner. (Adapted from the glossary in Appendix C to SFFAS No. 16.)

APPENDIX VI

APPENDIX VI

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