Audit Report

OFFICE OF THE INSPECTOR GENERAL

FINANCIAL REPORTING OF DEFENSE BUSINESS OPERATIONS FUND FY 1996 PROPERTY, PLANT, AND EQUIPMENT

Report No. 98-008

October 9, 1997

Department of Defense

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Acronyms

DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
IG	Inspector General
PP&E	Property, Plant, and Equipment
USD(C)	Under Secretary of Defense (Comptroller)

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

October 9, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION AND TECHNOLOGY)
UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Financial Reporting of Defense Business Operations Fund FY 1996 Property, Plant, and Equipment (Report No. 98-008)

We are providing this final report for review and comments. We audited the Defense Business Operations Funds Property, Plant, and Equipment Account of the Statement of Financial Position presented on the FY 1996 Financial Statements. Financial statement audits are required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

Management comments on a draft of this report from the Under Secretary of Defense (Comptroller) and the Department of the Army were considered in preparing this final report. Comments were not received from the Air Force. DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request comments from the Army and Air Force on the recommendations and internal control weaknesses by December 9, 1997.

The courtesies extended to the audit staff are appreciated. Questions on this audit should be directed to Mr. James L. Kornides, Audit Program Director, at (614) 751-1400, extension 11, or e-mail JKornides@DODIG.OSD.MIL, or Mr. John K. Issel, Audit Project Manager, at (614) 751-1400, extension 12, or e-mail JIssel@DODIG.OSD.MIL. See Appendix C for the report distribution. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Audit Report No. 98-008 **October 9, 1997**
(Project No. 5FJ-2011.03)

Financial Reporting of Defense Business Operations Fund FY 1996 Property, Plant, and Equipment

Executive Summary

Introduction. Property, plant, and equipment (PP&E) consists of fixed assets, such as land, structures, and facilities; construction-in-progress; purchased and agency-developed software; equipment; capital leases; leasehold improvements; and any capital improvements. We performed this audit of PP&E to meet the requirements of Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Government Management Reform Act of 1994," October 13, 1994. This report is the fourth in a series on Defense Business Operations Fund (the Fund) financial reporting of PP&E. The three previous reports discussed accounting and reporting of Air Mobility Command PP&E, reporting of software development, and Defense Logistics Agency actions to improve PP&E financial reporting. In December 1996, the Under Secretary of Defense (Comptroller) announced that the Fund would be realigned into several Working Capital Funds. The realignment does not affect the matters discussed in this report.

Audit Objective. The overall audit objective was to determine whether the PP&E accounts on the FY 1996 consolidated financial statements of the Fund were presented fairly in accordance with the other comprehensive basis of accounting described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. We also assessed internal controls and compliance with laws and regulations as they applied to the overall audit objective.

Audit Results. Fund managers made progress in correcting the previously identified problems associated with the reporting of PP&E. However, significant accounting and internal control deficiencies still prevented the accurate reporting of PP&E in the Fund's FY 1996 financial statements. Specifically, except for equipment-in-use assets, the Army and the Air Force could not produce reliable universe data for PP&E. The Army and the Air Force estimated that the PP&E universe data that were not available represented about $2 billion of assets, which was a material portion of the $11.9 billion that DoD reported for PP&E in the Fund at the beginning of FY 1996. The incomplete universe data limited the scope of our audit and prevented us from forming a conclusion as to the accuracy of any PP&E value shown on the Fund's consolidated financial statements.

As a result, we focused only on the PP&E equipment-in-use items for which all three Military Departments and the Defense Logistics Agency could provide universe data. A statistical sample showed that material errors existed in the $3.6 billion reported by those organizations as equipment-in-use. The sample indicated that $274.6 million of the assets recorded could not be physically located and $555.2 million of the equipment reported could not be verified by supporting documentation.

In addition to the equipment-in-use misstatements, our judgmental samples of the $1.7 billion of real property and software development reported by the Air Force and the Defense Logistics Agency indicated that those parts of the PP&E accounts were understated by at least $1.2 billion.

As a result of these problems, the financial information used to develop the Fund's PP&E values for FY 1996 was incomplete and materially inaccurate, which further reduced the usefulness of the statements. See Part I for a discussion of the audit results and Appendix A for details of the internal control program.

The recommendations in this report, if implemented, will improve the reliability and usefulness of the Fund's financial reporting of its PP&E accounts.

Summary of Recommendations. We recommend that the Assistant Secretaries of the Army and the Air Force (Financial Management and Comptroller) establish a time-phased plan for developing a reliable universe of capital assets used in the operations of business areas under the Fund, now the Working Capital Fund. We also recommend that the Under Secretary of Defense (Acquisition and Technology), in conjunction with the Under Secretary of Defense (Comptroller), direct all Fund organizations to retain supporting documentation for all capital assets acquired after October 1, 1996, and that supporting documentation be retained until disposal of the capital assets.

Management Comments. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller), concurred with the findings, material control weaknesses, and the intent of the recommendations to retain supporting documentation for all Working Capital Fund capital assets. The Deputy Chief Financial Officer issued a memorandum to the Working Capital Fund organizations, directing them to comply with existing DoD policy, which requires that property records be supported by source documents that capture all transactions affecting the organization's investment in its property. The Under Secretary of Defense (Acquisition and Technology) did not provide comments. The Director of Business Resources, Office of the Assistant Secretary of the Army (Financial Management and Comptroller), concurred with the findings in the report, stated that the Army subsequently has made significant progress in capturing the universe of PP&E, and forwarded the results of an Army process action team effort on the matter. The Assistant Secretary of the Air Force (Financial Management and Comptroller) did not provide comments. Refer to Part I of the report for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. We consider the comments from the Under Secretary of Defense (Comptroller) to be responsive; the actions taken met the intent of our recommendation. Because of those actions, comments from the Under Secretary of Defense (Acquisition and Technology) were not required. The Army comments are nonresponsive because, although they demonstrated a commendable degree of Army management attention to the problem, they did not address the recommendation made in the report. Additional comments from the Army and Air Force are requested by December 9, 1997.

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Part I - Audit Results

Audit Background

Public Law 100-45, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Government Management Reform Act of 1994," October 13, 1994, requires the annual preparation and audit of financial statements for revolving funds such as the Defense Business Operations Fund (DBOF). The Defense Finance and Accounting Service (DFAS) is responsible for the preparation of the financial statements. The DBOF organizations and the DFAS are jointly responsible for the information in the statements. Financial statements are expected to provide information to DoD program managers and Congress to facilitate the effective allocation of resources and the assessment of management performance and stewardship.

DBOF Realignment. The DBOF was established on October 1, 1991, with the intent to standardize, consolidate, and improve systems and operations and to reduce the costs of providing support services to DoD organizations. In December 1996, the Under Secretary of Defense (Comptroller) (USD[C]) announced that the DBOF would be realigned into several Working Capital Funds. The realignment does not affect the matters discussed in this report because the new Working Capital Funds will have property, plant, and equipment (PP&E) and because accountability over PP&E will continue to require management attention. However, beginning in FY 1997, financial statement audit opinions will be at the Military Department and Defense agency level.

DBOF Property, Plant, and Equipment. DoD 7000.14-R, the "DoD Financial Management Regulation," volume 11B, "Reimbursable Operations, Policy and Procedures -- Defense Business Operations Fund," December 1994, describes PP&E as consisting of, but not being limited to, fixed assets, such as land, structures, and facilities; construction-in-progress; purchased and agency-developed software; equipment; capital leases; leasehold improvements; and any capital improvements. DBOF financial statements showed PP&E assets with a net book value of $11.9 billion at the beginning of FY 1996. The balance reported at the end of FY 1996 was $12.3 billion.

Audit Objectives

The overall objective of the audit was to determine whether the PP&E accounts on the FY 1996 consolidated financial statements of the DBOF were presented fairly in accordance with the other comprehensive basis of accounting described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. We also assessed internal controls and compliance with laws and regulations as they applied to the overall audit objective. Details of the scope and methodology are in Appendix A. Appendix B summarized the principal Inspector General (IG), DoD, audit reports that discuss the accuracy of PP&E financial reporting.

Reporting of FY 1996 Property, Plant, and Equipment

Managers of portions of the DBOF have made progress in correcting previously identified problems in the reporting of PP&E on financial statements. However, the DBOF organizations we reviewed did not accurately record PP&E assets in their financial records and, therefore, did not accurately report PP&E values on the FY 1996 financial statements. This condition occurred because DBOF organizations could not provide reliable universe data, except for equipment-in-use assets; had not properly complied with DoD policy requiring DBOF organizations to establish financial accountability for all real property facilities used in operations and to capitalize the value of existing and newly developed software programs; and did not establish internal controls to ensure that the financial data reported were accurate and supported with proper documentation. Specifically, a statistical sample of the $3.6 billion of equipment-in-use assets indicated that $274.6 million of assets could not be physically located and that $555.2 million of assets could not be verified by supporting documentation. Review of other PP&E reporting issues also showed that the $1.7 billion of real property and software development reported by the Air Force and the Defense Logistics Agency (DLA) were understated by at least $1.2 billion. Consequently, the financial information used to develop DBOF PP&E values for FY 1996 was incomplete and materially inaccurate, which further reduced the usefulness of the financial statements.

Financial Reporting Policy

DoD 7000.14-R, the "DoD Financial Management Regulation," volume 6, "Reporting Policy and Procedures," December 1994, indicates that DoD organizations are responsible for:

> 1. Ensuring the accuracy, completeness, timeliness and documentary support for all data. . . submitted. . . for. . . inclusion in financial reports.
>
> 2. Establishing appropriate internal controls to assure the accuracy of data. . .

> 3. Reviewing all reports. . . to assess the accuracy of financial information being reported.

Additionally, DoD 7000.14-R, volume 11B, provides guidance for PP&E identification, accounting, and reporting. DoD 7000.14-R requires DBOF organizations to capitalize* and report all assets that have an acquisition value of $100,000 or greater (for FY 1996) and a useful life of 2 or more years. Capital assets include, but are not limited to, physical plant and property (including minor construction), equipment, and software.

Improving PP&E Reporting

DBOF managers have made progress in correcting PP&E reporting problems that were identified in prior audit reports. Previous audits determined that DBOF financial reports on PP&E contained material inaccuracies (see Appendix B). To correct those problems, managers of various DBOF business areas initiated several actions, such as:

o implementing new guidance established by the Under Secretary of Defense (Comptroller) in DoD 7000.14-R, volume 11B, on the proper reporting of PP&E;

o identifying a new financial reporting system for property, the Defense Property Accountability System (all DBOF organizations are scheduled to have the new Defense Property Accountability System by the end of FY 2000); and

o performing wall-to-wall inventories of their assets and recording those assets in financial records.

Those efforts improved the completeness of reported PP&E. For example, DLA actions resulted in a $1.3 billion increase in the value of PP&E reported on its financial statements.

Additional Improvements Needed

Although managers have taken steps to improve the reporting of PP&E in the financial statements, more improvements are needed. The USD(C) reported in

*Occurs when property is recorded as an asset on financial accounting records.

the DoD FY 1996 annual statement of assurance that inadequate internal controls and audit trails contributed to unreliable financial data and exacerbated significant procedural and systemic deficiencies. Similar deficiencies contribute to material misstatements in the reporting of DBOF organizations' PP&E. Basic information, such as the universe of items that comprises PP&E, was not always available.

During our audit, we requested universe data on all of the Military Departments' PP&E items. However, except for items that were considered equipment-in-use, Army and Air Force management could not provide reliable universe data for all PP&E. The Naval Audit Service stated that the Navy could provide universe data for all of its PP&E. However, except for equipment-in-use, we did not test the Navy data because a DoD-wide assessment of the PP&E reported in the DBOF financial statements was not feasible using only the Navy data.

The Army and Air Force estimated that PP&E assets for which universe data were not available represented about $2 billion of PP&E, which was a material portion of the $11.9 billion that DoD reported for PP&E in the DBOF in FY 1996. As a result, the incomplete universe data prevented us from forming a conclusion on the accuracy of any PP&E value shown in the DBOF consolidated financial statements.

At the time of the audit, the Army and the Air Force had not documented their plans for developing a complete and reliable universe of the capital assets that comprised their PP&E. Sound management practices dictate that a fully documented plan be developed. The plan should be time-phased, focus on all PP&E categories, clearly define roles and responsibilities, and result in the collection of uniform data. We believe that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Assistant Secretary of the Air Force (Financial Management and Comptroller) must take the lead in establishing such a plan if the Army and Air Force are to properly account for PP&E and prepare reliable financial statements.

Financial Data on Equipment-in-Use

Material errors were identified in the equipment-in-use data, the only part of the PP&E account for which the Military Departments could provide universe data. In coordination with the Military Department audit agencies, we statistically sampled the $3.6 billion of items reported by the Military Departments as equipment-in-use. The DBOF organizations could not effectively account for and we could not verify the accuracy of an estimated $829.8 million of equipment assets included in DBOF financial reports.

The $829.8 million consisted of an estimated $274.6 million of equipment assets that could not be located, primarily because the items had been disposed of or transferred to other organizations. The value of the remaining $555.2 million of items could not be verified because the items had been purchased since the inception of the DBOF, but the DBOF organizations did not retain adequate supporting documentation. Historically, Defense organizations were not required to maintain documentation on the valuation of PP&E assets. Good management practice would dictate that each DBOF organization start retaining supporting documentation. We believe that the DBOF organizations should have retained the required documentation on assets acquired since October 1, 1991, when the DBOF was established.

Real Property Assets and Software Development

Our judgmental sample of real property and software development showed that the Air Force and the DLA did not include in financial reports at least $1.2 billion of these assets. The $1.2 billion in unrecorded assets consisted of $386.9 million in real property facilities and $783.8 million in software development.

Real Property Facilities. Accounting policy for capital assets found in DoD 7000.14-R, volume 11B, chapter 58, requires DBOF organizations to capitalize real property assets (including minor construction) when those organizations can establish preponderant use of the assets in producing goods and services. Not all DBOF organizations complied, resulting in an understatement of at least $386.9 million in reported real property assets. For example, at 41 of the 517 locations having a Defense Fuel Supply Center operation, at least 40 minor construction projects, valued at $4.3 million, and 32 buildings or fuel storage facilities, valued at $167.4 million, were not included in the Defense Fuel Supply Center's financial reports.

Additionally, real property facilities that were collocated at DBOF sites were reported by more than one DBOF organization. Real property financial records showed that the Army and the DLA reported the same 65 facilities, valued at $33.1 million, in both their financial reports. The duplicate reporting of the 65 facilities consisted of 27 facilities, valued at $11 million, at Letterkenny Army Depot; 23 facilities, valued at $4.2 million, at Anniston Army Depot; and 15 facilities, valued at $17.9 million, at Tobyhanna Army Depot. We found no duplication in real property reporting at the collocated DLA and Navy and Air Force locations included in our review.

Software Development. DBOF organizations did not report at least $783.8 million in software development. Accounting policy in DoD

7000.14-R, volume 11B, chapter 58, also requires the reporting of software development. Specifically, the policy requires that software development expenditures be accumulated in the Capital Assets Under Development-DBOF account and be included in the construction-in-process line of the DBOF financial statements. When software development and installation are complete, the Capital Assets Under Development-DBOF account should be reduced by the appropriate amount and that amount should be capitalized and depreciated. However, at least $783.8 million in software development was not appropriately capitalized and reflected in financial reports. For example, the Air Force Audit Agency found that the Air Force Materiel Command did not capitalize $292 million of existing software and $104 million of new software belonging to its supply management business area. Also, in the depot maintenance business area, existing systems at 37 depots, valued at $330 million, were not properly capitalized. Additionally, our review showed that the DLA had not properly capitalized $57.8 million of software that it had developed for the Distribution Standard System. The Air Force and the DLA need to establish procedures, in accordance with DBOF policy, to ensure that software development is properly accounted for and reported.

Accuracy of PP&E Reporting

DoD 7000.14-R states that a material deficiency is considered to have occurred when the deficiency results in more than 5 percent of the measurable resources being misstated. By that definition and based on the results of the audit, DBOF financial reporting of PP&E was materially inaccurate.

Our tests of available PP&E universe data and other judgmental samples showed that misstatement of the accounts exceeded 5 percent. The projected error of $829.8 million of the $3.6 billion total value of reported equipment-in-use, combined with a $1.2 billion understatement in the $1.7 billion of real property and software development reported by the Air Force and the DLA, constitutes a misstatement of 38.3 percent in the DBOF consolidated PP&E accounts.

Summary

Although DBOF managers have made progress in improving the reporting process for PP&E, the accounts are materially inaccurate. Complete and reliable universe data on DBOF assets were not available, and assets were not properly capitalized, could not be located and accounted for, and lacked required documentation to verify proper valuation. Recommendations to correct those problems have been previously identified in prior IG, DoD, reports (see Appendix B). However, we believe that additional improvements are needed in PP&E financial reporting. Improvements would include establishing a time-phased plan for developing complete and reliable universe data in the Army and Air Force and requiring the new Working Capital Funds to retain supporting documentation. No recommendations were directed to DLA in this report because recommendations were made in previously issued reports.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Assistant Secretary of the Air Force (Financial Management and Comptroller) establish a time-phased plan for developing a reliable universe of capital assets used in the operations of the Working Capital Fund business areas.

Assistant Secretary of the Army (Financial Management and Comptroller) comments. The Director of Business Resources, Office of the Assistant Secretary of the Army (Financial Management and Comptroller), concurred with the findings in the report and stated that the Army has made significant progress in capturing the universe of PP&E.

Assistant Secretary of the Air Force (Financial Management and Comptroller). The Assistant Secretary of the Air Force (Financial Management and Comptroller) did not provide comments.

Audit Response. The Army comments were not fully responsive because they did not address the recommendation to establish a plan for developing a reliable universe of capital assets. The Assistant Secretaries of the Army and Air Force (Financial Management and Comptroller) are requested to comment on the recommendations and internal control weaknesses by December 9, 1997.

2. We recommend that the Under Secretary of Defense (Acquisition and Technology), in conjunction with the Under Secretary of Defense (Comptroller), direct organizations that manage the Working Capital Funds to retain supporting documentation for all capital assets acquired after October 1, 1996. Supporting documentation should be retained until the disposal of the capital assets.

Under Secretary of Defense (Comptroller) comments. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller), concurred with the finding, the material control weaknesses, and the intent of the recommendations requiring Working Capital Funds to retain supporting documentation for all capital assets. However, the Deputy Chief Financial Officer did not agree that the Under Secretary of Defense (Acquisition and Technology) needed to direct the Working Capital Funds to retain supporting documentation for all capital assets acquired after October 1, 1996. Instead, to correct the reported deficiency, the Under Secretary of Defense (Comptroller) issued a memorandum directing the Working Capital Funds to comply with existing DoD policy, which requires property records to be supported by source documents that capture all transactions affecting the organization's investment in property.

Audit Response. We consider the comments of the Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller), to be responsive. The corrective actions meet the intent of our recommendation. Because of those actions, comments from the Under Secretary of Defense (Acquisition and Technology) were not required.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed DoD policies issued from September 1991 through December 1996 on DBOF financial operations. Our review included the policies, procedures, and controls used to prepare the FY 1996 financial statements for the PP&E accounts of the DBOF. The Army, Navy, Air Force, and DLA DBOF organizations gave us property data that will be used to develop the PP&E accounts for the FY 1996 financial statements. Collectively, the PP&E data showed that those organizations had capital assets with a net book value of $9.68 billion at 573 sites. The $9.68 billion included all classifications (that is, land, structures, military equipment, computer software, equipment-in-use, natural resources, and construction in progress) of PP&E.

Statistical Sampling Technique. Our statistical sample was limited to the equipment-in-use classification of PP&E assets because the Army and Air Force DBOF organizations could not develop reliable universe data on the other classifications of PP&E.

Equipment-in-use Universe. The universe data for equipment-in-use showed assets originally costing a total of $8.6 billion, accumulated depreciation of $5 billion, and a net book value of $3.6 billion. Details are shown in the following table.

Equipment-in-use Universe as of the end of FY 1995
(millions)

Organization	Acquisition Cost	Accumulated Depreciation	Value Reported
Army	$1,185	$ 498	$ 687
Navy	4,742	3,141	1,601
Air Force	2,141	1,112	1,029
Defense Logistics Agency	547	276	271
Totals	**$8,615**	**$5,027**	**$3,588**

Sample Selection. To select our statistical sample of equipment-in-use items for verification, we employed a multistage design and used different sampling techniques at different stages. Initially, using the probability proportional to size with replacement method, we statistically selected 30 of the 573 sites that reported equipment-in-use assets. Use of the probability proportional to size method means that the likelihood of a given site being selected for drawing a sample of equipment items was directly related to its dollar value of the total reported net book value of the equipment-in-use universe. Using the with replacement method, a site may be selected more than once; thus, more than one sample may be drawn from the equipment at that site. Of the 30 sites selected, 10 of the sites were selected more than once. The 30 selected sites consisted of 6 Army, 4 Air Force, and 9 Navy sites.

After selection of the 30 sites for audit verification, we obtained the most current (generally as of March 31, 1996) data on equipment-in-use at those sites. The current equipment-in-use data were then used for the second stage of the sample selection. The equipment items were separated into three strata, based on their value, and a simple random sample of items within each stratum was selected. The three strata were items valued at less then $10,000, items valued from $10,000 to $100,000, and items valued at more than $100,000. A total of 1,080 equipment items were selected for verification, consisting of 320 sample items at both the Army and Air Force sites and 440 sample items at the Navy sites.

Projection of Audit Results. Based on the 1,080 equipment-in-use items statistically selected for review and using a 90-percent confidence factor, we projected that the DBOF financial reporting records included 14,280 equipment-in-use items valued at $274.6 million that could not be accounted for and located, and 37,306 equipment-in-use items valued at $555.2 million that could not be verified with supporting documentation.

Additional PP&E Reviews. In addition to our review of the statistically sampled equipment-in-use items, we followed up on specific PP&E reporting deficiencies identified during previous audits at DLA sites to determine whether corrective actions had been taken. We performed additional reviews of the DLA sites because DLA PP&E values were material to the overall PP&E values of the DBOF, but no DLA sites were selected using statistical sampling procedures. Our DLA review included five major organizations: Defense Distribution Region West; Defense Fuel Supply Center; and Defense Distribution Depots Columbus, Ohio; Richmond, Virginia; and San Diego, California. We followed up on actions taken by Headquarters, DLA, to properly capitalize the $57.8 million of software that it had developed for the Distribution Standard System (see Appendix B).

Use of Computer-Processed Data. We relied on computer-processed data from the Military Department property accountability systems and property reporting systems to conduct this audit. Additionally, our review of DLA sites involved the use of computer-processed data from the DLA property systems, including the Defense Property Accountability System, the Base Operating

Supply System, and the Equipment Management and Control System. To assess the reliability of the computer-processed data, we compared the capital assets recorded on property records at selected DBOF organizations and locations to the assets recorded in financial records. Additionally, we physically verified the property records against on-hand assets at selected locations. We found that the computer-processed data were incomplete and could not be relied on to accurately report in annual financial statements the value of PP&E belonging to the DBOF organizations.

Contacts During the Audit. We visited or contacted individuals or organizations within the DoD. Further details are available on request.

Audit Period and Standards. This financial audit was conducted from October 1995 through March 1997, in accordance with Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," and auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Internal Control Program. We reviewed the adequacy of DBOF internal controls over the accounting and reporting of PP&E. Specifically, we reviewed internal controls established to ensure that reliable and complete PP&E data were entered into financial systems and that documentation was retained to support reported amounts.

Adequacy of Internal Controls. Since FY 1994, the DoD has reported a material internal control weakness in financial accounting for PP&E in its annual statements of assurance required by Public Law 97-255, the "Federal Managers' Financial Integrity Act," September 8, 1982. The statements provided a plan of action and estimated that the weakness would be corrected by the end of FY 1997 for Defense agencies and by FY 2000 for the Military Departments. However, corrective actions still need to be taken to meet the time frames. We identified material internal control weaknesses, as defined by DoD Directive 5010.38, for the Under Secretary of Defense (Comptroller), the Assistant Secretary of the Army (Financial Management and Comptroller), and the Assistant Secretary of the Air Force (Financial Management and Comptroller). A time-phased plan for developing a reliable universe of capital assets was not developed, and all DBOF organizations were not retaining supporting documentation until the disposal of capital assets. Recommendations 1. and 2., if implemented, will correct the weaknesses. A copy of the final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of Defense, the Department of the Army, the Department of the Navy, the Department of the Air Force, and the DLA.

Appendix B. Summary of Prior Coverage

In prior audits of the PP&E accounts on the DBOF financial statements, the IG, DoD, found that PP&E accounts were significantly understated because not all equipment was included and real property and software assets were excluded. The six primary audits are summarized below.

IG, DoD, Report No. 97-112. This report, "Air Mobility Command Financial Reporting of Property, Plant, and Equipment," was issued on March 19, 1997. The report states that the Air Mobility Command and the DFAS Denver Center did not account for the PP&E used in the Air Mobility Command operations properly and did not report the PP&E on financial statements. We recommended that the Commander, Air Mobility Command, in conjunction with the DFAS, implement the policies, procedures, and controls in DoD 7000.14-R, which are necessary to obtain and maintain financial data that accurately reflect the values of PP&E accounts. The Deputy Assistant Secretary of the Air Force, Financial Operations; the Director, Financial Programs and Financial Analysis, U.S. Transportation Command; the Comptroller, Air Mobility Command; and the Deputy Director for Accounting, DFAS, generally concurred with the recommendations. Management initiated actions to improve the Air Mobility Command's financial reporting of PP&E by implementing a property accountability system.

IG, DoD, Report No. 97-097. This report, "Capitalization of Software Developed for the Distribution Standard System," was issued on February 19, 1997. The report states that DLA did not properly capitalize $57.8 million of software that it had developed for the Distribution Standard System. As a result, the FY 1995 financial statements for the DLA Defense Distribution Depots' business areas were materially understated. To improve the reliability of the financial data, the IG, DoD, recommended that the Director, DLA, establish procedures to comply with policy in DoD 7000.14-R on the capitalization of software development. The Director, DLA, concurred with the recommendations and has begun capitalizing software development expenses for the Distribution Standard System.

IG, DoD, Report No. 95-197. This report, "Statement of Financial Position for the Defense Logistics Agency Distribution Depot Business Area of the Defense Business Operations Fund, as of September 30, 1994," was issued on May 19, 1995. We disclaimed an opinion on the Statement of Financial Position because of factors affecting a majority of amounts listed in the financial statements. The reported value of PP&E was materially understated because not all real property facilities were included. DLA initiated corrective actions, but the distribution depots' PP&E values would not be accurately reported until the end of FY 1995. As determined in our current audit, corrective actions have not yet been completed.

IG, DoD, Report No. 95-144. This report, "Recovery of Depreciation for Real Property Facilities," was issued on March 13, 1995. The report addressed the Under Secretary of Defense (Comptroller) policy on DBOF funding. The report states that the Under Secretary of Defense (Comptroller) did not promptly revise DBOF funding policy. Also, depreciation for military construction and non-DBOF-funded minor construction projects was included in the cost recovery rates of the DLA Defense Distribution Depots. As a result, the DLA Defense Distribution Depots overcollected $84 million from the Military Departments from FYs 1993 through 1995 for services provided. Subsequently, in compliance with congressional direction, the Under Secretary of Defense (Comptroller) reimbursed the Military Departments for the majority of overcollected funds, and DoD policy was revised to exclude from cost recovery rates the depreciation for military construction and non-DBOF-funded minor construction projects.

IG, DoD, Report No. 94-149. This report, "Property, Plant, and Equipment Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993," was issued on June 28, 1994. The report states that DLA acquisition costs for PP&E were materially understated by at least $229.4 million. The report recommended that the Director, DLA, establish procedures to more effectively identify and report on capital assets and reconcile data provided to the DFAS on capital assets. DLA agreed to identify and report real property on its financial statements and to periodically reconcile PP&E financial data with property records. DLA established guidance requiring its organizations to develop a comprehensive list of all capital assets by performing inventories and entering the results into financial records. After this information was collected, DLA performed reconciliations at some reporting organizations to validate the accuracy of the financial data. As a result of the DLA efforts, the value of the reported PP&E was significantly less understated. For example, reported PP&E values increased from $319 million on the FY 1993 DLA Statement of Financial Position to $1.6 billion on the FY 1995 DLA Statement of Financial Position.

IG, DoD, Report No. 94-035. This report, "Financial Reporting Procedures for Defense Distribution Depots - Defense Logistics Agency Business Area of the Defense Business Operations Fund," was issued on February 8, 1994. The PP&E account reported on the FY 1992 DLA financial statements was significantly understated because DLA had not complied with DoD policy by reporting all capital assets. DLA also did not report the value of real property assets used to provide goods and services. Guidance from the Under Secretary of Defense (Comptroller) required DBOF organizations to show on financial statements the value of real property assets when those organizations could establish preponderant use of the assets in providing goods and services. DLA stated that the DoD policy was contrary to the United States Code, which gives the Military Departments jurisdiction over real property facilities. The Comptroller General upheld the DoD policy. As a result, DLA initiated actions to improve the financial reporting of real property by its Defense Distribution Depots. Specifically, to correct the reported problems, DLA took action by issuing guidance, "Financial Reporting of Capital Assets," on October 17, 1994. The guidance required DLA organizations to develop a comprehensive list of all capital assets by performing a complete inventory and entering the results into financial records. After this information was collected, DLA performed reconciliations at some reporting organizations to validate the accuracy of the financial data.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition and Technology)
  Deputy Under Secretary of Defense (Logistics)
  Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
  Commander, Defense Contract Management Command
Director, Defense Information Systems Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on National Security, Committee on Appropriations
- House Committee on Government Reform and Oversight
- House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs and Criminal Justice, Committee on Government Reform and Oversight
- House Committee on National Security

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

MEMORANDUM FOR ACTING DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Financial Reporting of Defense Business Operations Fund FY 1996 Property, Plant, and Equipment (Project No. 5FJ-2011.03)

We have reviewed the subject draft report as requested. This office generally agrees with the findings, the recommendations, and the material management control weaknesses discussed in Appendix A.

Regarding recommendation 2, this office agrees with the intent of the recommendation, but not the recommended action. Attached are our specific management comments on recommendation 2.

Questions regarding this matter may be directed to Mr. De W. Ritchie, Jr. He may be reached by e-mail: ritchied@ousdc.osd.mil or at (703) 697-3135.

Nelson Toye
Deputy Chief Financial Officer

Attachment

cc: OUSD(A&T)
ODCFO(ITFM)
DFAS

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) COMMENTS ON THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, AUDIT REPORT ON FINANCIAL REPORTING OF DEFENSE BUSINESS OPERATIONS FUND FY 1996 PROPERTY, PLANT, AND EQUIPMENT (PROJECT NO. 5FJ-2011.03)

DoDIG Recommendation No. 2: We recommend that the Under Secretary of Defense (Acquisition and Technology), in conjunction with the Under Secretary of Defense (Comptroller), direct organizations that will be part of the working capital funds to retain supporting documentation for all capital assets acquired after October 1, 1996. Supporting documentation should be retained until the disposal of the capital assets.

OUSD(C) Comments: Partially concur. This office concurs with the intent of the recommendation, but does not agree that the Under Secretary of Defense (Acquisition and Technology), in conjunction with the Under Secretary of Defense (Comptroller), direct organizations that will be part of the working capital funds to retain supporting documentation for all capital assets acquired after October 1, 1996. Existing DoD policy in chapter 6, Fixed Assets, of Volume 4, "Accounting Policy and Procedures" of the DoD Financial Management Regulation (DoD 7000.14-R), states that property records must be supported by source documents that capture all transactions affecting the Component's investment in property. This office expects Components to fully comply with current DoD policy. In this regard, attached is a memorandum directing the Working Capital Fund organizations to comply with existing DoD policy.

Attachment

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL MANAGEMENT AND COMPTROLLER)
COMMANDER-IN-CHIEF, UNITED STATES TRANSPORTATION COMMAND
COMMANDER, JOINT LOGISTICS SYSTEMS CENTER

SUBJECT: Audit Report on Financial Reporting of Defense Business Operations Fund FY 1996 Property, Plant, and Equipment (Project No. 5FJ-2011.03)

The Office of the Inspector General, Department of Defense (OIG) has released the subject draft report. The audit report discloses that managers of the Working Capital Fund (formerly known as the Defense Business Operations Fund) have made progress in correcting problems associated with the reporting of property, plant and equipment (PP&E). However, the report states that a statistical sample of the Military Departments and the Defense Logistic Agency (DLA) PP&E equipment-in-use items showed that material errors existed in $3.6 billion of PP&E reported by those organizations. The sample also indicated that $274.6 million of the assets recorded could not be physically located and that $555.2 million of the equipment reported could not be verified by supporting documentation.

As a result of the audit, the OIG recommended that all Working Capital Fund organizations be directed to retain supporting documentation for all capital assets, and that supporting documentation is retained until disposal of the capital assets.

The draft audit report indicates that addressees apparently are not exercising proper stewardship over their PP&E, nor fully complying with the existing Department of Defense (DoD) policy. Specifically, Volume 4, "Accounting Policy and Procedures" of the DoD Financial Management Regulation (DoD 7000.14-R) states that property records must be supported by source documents that capture all transactions affecting a Component's investment in property.

Addressees are directed to take immediate and positive steps to eliminate material deficiencies associated with PP&E; to retain supporting documentation for all capital assets; and to otherwise ensure that capital assets are properly accounted for and accurately reported in financial statements.

Questions regarding this matter may be directed to Mr. De W. Ritchie, Jr. He may be reached by e-mail: ritchied@ousdc.osd.mil or at (703) 697-3135.

Nelson Toye

Nelson Toye
Deputy Chief Financial Officer

cc: OUSD(A&T)
DFAS

Department of the Army Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

REPLY TO
ATTENTION OF

August 4, 1997

MEMORANDUM FOR DOD, IG

SUBJECT: DoD IG Audit Report (5FJ-2011.03), Financial Reporting of Defense Operations Fund FY 1996 Property, Plant and Equipment.

We concur with the findings of the audit report with the following comments. As highlighted in the draft audit report Army has made significant progress in capturing the universe of Property Plant and Equipment as reported in the Chief Financial Officers (CFO) Report. Additionally, since the FY 96 reports were audited, we have conducted an extensive review of real property accounting and have made recommendations to clarify many of the existing ambiguities in the FMR. Resolution of these issues will allow us to achieve many of shortfalls identified within the Army during the subject audit.

ASA(FM&C) in coordination with ACSIM and DCSLOG will continue to apply resources toward achieving the goals of CFO reporting. Given the current level of funding for those programs, we anticipate qualitative improvements each year. I have enclosed the recommendations of the process team to assist future audit work in this area.

Paul Roberts
Director, Business Resources

Attachment

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RESIDUAL VALUE

STATEMENT OF ISSUE

How should the residual value of DoD real property be established for capitalization and depreciation purposes for reporting under the CFO Act of 1990?

DISCUSSION

Current DoD Financial Management Guidance doesn't require substantive residual values. Many facilities and renovation projects are more than 20 years old. As such, establishing current value cannot be done by a records search alone (see Supporting Documentation issue). Establishing a residual value for depreciation purposes for existing facilities, when required, should be done by qualified facilities engineers. They have the best expertise for valuing real property.

RECOMMENDATION

The facilities engineer will estimate the residual value or a DoD standard of 10 percent of the original acquisition cost.

COST TO IMPLEMENT RECOMMENDATION:

The cost to implement the policy is negligible to individual activities. There are costs overall to DoD to implement automation support to comply with the CFO Act of 1990. These include developing interfaces among existing financial and property accounting systems such as DPAS, IFS-M, ACES, SOMARDS, STANFINS, SIFS, IFAS, DBMS, DFAMS, STARS, NFADB, and similar systems for the Air Force. Based on the cost to design a generic interface between SIFS and IFS-M ($200,000), the cost for each of the other interfaces and data standardization efforts should be similar. Additional costs will arise for training and communications links. In addition, each installation will have to budget for and pay software license and use fees for the DoD fixed asset accounting subsidiary ledger (e.g. DPAS). These are estimated at $32,000 per year per medium sized installation.

USEFUL LIFE

STATEMENT OF ISSUE

Some projects have already established 99-year life expectancies, which is not reasonable for financial accounting purposes or by engineering standards.

DISCUSSION

No improvement will last 99-years without significant overhaul to extend facility life. 20 to 40 year estimates are more supportable. Records with 99-year life expectancies should be adjusted in accordance with this policy.

RECOMMENDATION

If a useful life of an improvement is other than 20 years (default), then an engineer's supporting evaluation will be required (CONUS not to exceed 40 years) for initial entry of legacy facility projects.

COST TO IMPLEMENT RECOMMENDATION:

Not applicable.

MULTIPLE FUNDING SOURCES

STATEMENT OF ISSUE

Should a single project value for an individual facility which exceeds the DoD threshold value and is funded by multiple activities be capitalized and depreciated?

DISCUSSION

Capitalized expenditures are determined against a single facility, for a single project, and an established capitalization threshold. The project completion date determines the starting time for depreciation. How the project is funded is largely irrelevant to the net effect of a capitalized expenditure for DoD. As such, when multiple agencies contribute separate dollar amounts below (or above) the threshold with the total above the threshold, this represents a capitalized expenditure for DoD for that facility. A funding activity may capitalize their portion whether it meets, exceeds or falls below the threshold. Alternatively, the funding activity may, because of business considerations, elect to write-off the improvement as an expense. Expensing the improvement will require a comment in the accounting journal and ledger to that fact. This will require the capability, in the entry interface, to elect to expense or capitalize a real property improvement and perform appropriate calculations and reporting.

RECOMMENDATION

Change policy presented in DoD Financial Management Regulation 7000.14-R, Volume 11B, Chapter 58, Paragraph 6.b.(3) and 6.b.(4)

A capital asset acquired by a central agent should allow each of multiple funding sources to determine whether to capitalize or expense their portion of the asset.

To change policy presented in DoD Financial Management Regulation 7000.14-R, Volume 4, Chapter 6, Paragraph 060306F.

Eliminate the "preponderant use" portion of the paragraph.

COST TO IMPLEMENT RECOMMENDATION:

Not applicable.

REAL PROPERTY ACCOUNTABILITY

ISSUES:

Which activities can be accountable for DoD real property?

DISCUSSION:

In accordance with Title 10, U.S. Code, Section 2682 and 2701 (PL 87-554), the host installation will be responsible for all real property inventory accountability (physical inventory) on the installation. This establishes the basis that accountability for an inventory of all DoD real property rests with the military departments. Presently there is duplicate reporting of real property, e.g. tenant is reporting the property as well as the host service. This is also the case in the financial arena. Inventory record keeping for any facility should be maintained by a single military department real property officer to avoid duplicate reporting and management. This does not mean that other agencies will not have references and relationships in their business information to real property. This only limits the official record of inventory to the installation real property records.

RECOMMENDATION:

While DoD Agencies may have sole beneficial occupancy and use of a facility for their business purposes, the facility will be carried on the respective host installation inventory for real property accountability purposes. If another military department financed the facility, then a written agreement between the services on accountability may have to be determined, to preclude double reporting.

COST TO IMPLEMENT RECOMMENDATION:

The cost to implement the policy is negligible to individual activities. There are costs overall to DoD to implement automation support to comply with the CFO Act of 1990. These include developing interfaces among existing financial and property accounting systems such as DPAS, IFS-M, ACES, SOMARDS, STANFINS, SIFS, IFAS, DBMS, DFAMS, STARS, NFADB, and similar systems for the Air Force. Based on the cost to design a generic interface between SIFS and IFS-M ($200,000), the cost for each of the other interfaces and data standardization efforts should be similar. Additional costs will arise for training and communications links. In addition, each installation will have to budget for and pay software license and use fees for the DoD fixed asset accounting subsidiary ledger (e.g. DPAS). These are estimated at $32,000 per year per medium sized installation.

UNIQUE FACILITY IDENTIFIER

ISSUE

Who should establish the official identification for DoD facilities and why?

DISCUSSION

Consistency and continuity in all database systems across multiple functions for real property related data and information requires a unique facility identifier for each facility. A single source should establish the official descriptive or identifier for each facility. This will keep the real property accountability and financial accounting records consistent and preclude dissimilar designations for the same facility. Such dissimilar designations raise the probability for multiple reporting and inconsistency throughout the inventory and accounting systems. Having the accountable officer make this designation will allow for consistency within real property management across DoD and is in compliance with Title 10.

RECOMMENDATION:

The host installation real property officer will establish the unique real property identifier.

COST TO IMPLEMENT RECOMMENDATION:

The cost to implement the policy is negligible to individual activities. There are costs overall to DoD to implement automation support to comply with the CFO Act of 1990. These include developing interfaces among existing financial and property accounting systems such as DPAS, IFS-M, ACES, SOMARDS, STANFINS, SIFS, IFAS, DBMS, DFAMS, STARS, NFADB, and similar systems for the Air Force. Based on the cost to design a generic interface between SIFS and IFS-M ($200,000), the cost for each of the other interfaces and data standardization efforts should be similar. Additional costs will arise for training and communications links. In addition, each installation will have to budget for and pay software license and use fees for the DoD fixed asset accounting subsidiary ledger (e.g. DPAS). These are estimated at $32,000 per year per medium sized installation.

REAL PROPERTY INVENTORY DATABASE AS THE SOURCE OF FINANCIAL REPORTING

ISSUE

Eliminate using the use of the real property inventory data base as a source for financial reporting.

DISCUSSION

A recent GAO audit noted the double reporting of Service real property accounting information in a CFO Act annual report. The Service reported duplicate information from financial and real property inventory systems. This is but one example of an inappropriate use of physical property information for financial purposes. It is recognized that other agencies and activities have a need for real property information and financial information that relates to real property. The real property officer's inventory should be an accurate, source record for descriptions and designations of real property to support the management of real property assets. For this reason, all tenants making capital improvements to real property should inform the real property officer of such actions. Because of workloads, declining staffing for real property officer positions, and the need for consistency, this should be done electronically. This data record can then be used for development of geo-spatial information systems that can be used by other multiple installation agencies for maps, capacity planning, equipment resource management, emergency response, environmental management, and financial accounting and reporting. Real property officers are not in a position to make business decisions nor consistently report on the financial activities of tenant or host mission activities and should not have those responsibilities. The real property inventory is not an adequate nor appropriate subsidiary ledger for financial reporting of real property. This should and can be best done through financial management systems by appropriate business activities in DoD. The source for financial reporting about real property should be the subsidiary ledger established for that purpose.

RECOMMENDATION:

The host installation will maintain the data base of record and source documentation for real property. This RPI record will not be used for financial reporting.

COST TO IMPLEMENT RECOMMENDATION:

The cost to implement the policy is negligible to individual activities. There are costs overall to DoD to implement automation support to comply with the CFO Act of 1990. These include developing interfaces among existing financial and property accounting systems such as DPAS, IFS-M, ACES, SOMARDS, STANFINS, SIFS, IFAS, DBMS, DFAMS, STARS, NFADB, and similar systems for the Air Force. Based on the cost to design a generic interface between SIFS and IFS-M ($200,000), the cost for each of the other interfaces and data standardization efforts should be similar. Additional costs will arise for training and communications links. In addition, each installation will have to budget for and pay software license and use fees for the DoD fixed asset accounting subsidiary ledger (e.g. DPAS). These are estimated at $32,000 per year per medium sized installation.

ASSETS - NOT IN SERVICE

ISSUE:

Should assets not in service be depreciated?

DISCUSSION:

Many assets are left vacant or idle awaiting demolition or disposition. This is especially true for BRAC bases. Other facilities are outgranted to another military department or other governmental or private user. These facilities are still in the inventory, but idle and for which financial and accountability reporting continue. Because these facilities are still assets and continue to deteriorate due to weathering and, in some cases, use, they still need to be depreciated. This is unlike equipment, which may be stored and retain value. If the idle asset is brought back into service, it should be brought back in at a value less accumulated depreciation. This will require the capability in automation systems to establish facilities as idle or not in service assets.

RECOMMENDATION:

The support system will have an asset category that permits ready identification of facilities not in service through a separate ledger account. In this case, depreciation will continue even though the asset is not in service. Facilities outgranted to another military department of other governmental or private user will not be reported as vacant.

COST TO IMPLEMENT RECOMMENDATION:

The cost to implement the policy is negligible to individual activities. There are costs overall to DoD to implement automation support to comply with the CFO Act of 1990. These include developing interfaces among existing financial and property accounting systems such as DPAS, IFS-M, ACES, SOMARDS, STANFINS, SIFS, IFAS, DBMS, DFAMS, STARS, NFADB, and similar systems for the Air Force. Based on the cost to design a generic interface between SIFS and IFS-M ($200,000), the cost for each of the other interfaces and data standardization efforts should be similar. Additional costs will arise for training and communications links. In addition, each installation will have to budget for and pay software license and use fees for the DoD fixed asset accounting subsidiary ledger (e.g. DPAS). These are estimated at $32,000 per year per medium sized installation.

NON GOVERNMENT-OWNED FACILITIES

ISSUE:

How should general ledger assets of non-U.S. Government owned facilities be reported?

DISCUSSION:

An intent of the CFO Act was to establish accounting principles within the DoD and other Government agencies for the reporting of business operations and capital expenditures using appropriated dollars. The fixed asset entry on the year-end balance sheet should reflect only those assets which truly belong to the U.S. Government and DoD. NAF funded facilities are the products of a separately funded business entity from appropriated accounts. These should be reported with GLAC 177. Leased, foreign Host Nation, and NATO (among other) facilities are not U.S. Government owned. They should not be given this appearance, as they currently are, by reporting them together with assets built or otherwise improved through appropriated dollars, a separate business entity. While the DoD uses these facilities, the DoD does not have a direct financial interest in them. They are not a cost to or investment by DoD. Non-U.S. Government owned facilities should be reported separately from Government-owned facilities.

RECOMMENDATION:

NAF-constructed (i.e. NAF-funded) facilities should be reported with GLAC 177, separate from appropriated facilities.

Leased, Host Nation, and NATO facilities should not be reported in the General Ledger.

COST TO IMPLEMENT RECOMMENDATION:

Not applicable.

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane
James L. Kornides
John K. Issel
Susan P. Everhart
Walter J. Carney
Eric T. Thacker
Susanne B. Allen