

Inspector General

United States
Department of Defense



Independent Auditor's Report on the Examination
of the Existence, Completeness, and Rights of
the Department of the Air Force's Aircraft,
Intercontinental Ballistic Missiles, Satellites,
Cruise Missiles, and Aerial Targets/Drones

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Acronyms and Abbreviations

APSR	Accountable Property System of Record
ICBM	Intercontinental Ballistic Missile
IMDB	Integrated Missile Data Base



INSPECTOR GENERAL
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June 7, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Examination of the Existence, Completeness, and Rights of the Department of the Air Force's Aircraft, Intercontinental Ballistic Missiles, Satellites, Cruise Missiles and Aerial Targets/Drones (Report No. DODIG-2012-100)

We are providing this report for information and use. No written response to this report was required. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 664-5945).

Lorin T. Venable

Lorin T. Venable, CPA
Acting Assistant Inspector General
DoD Payments and Accounting Operations



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**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)**

SUBJECT: Independent Auditor's Report on the Examination of the Existence, Completeness, and Rights of the Department of the Air Force's Aircraft, Intercontinental Ballistic Missiles, Satellites, Cruise Missiles and Aerial Targets/Drones (Report No. DODIG-2012-100)

We examined management's assertion of audit readiness¹ for the existence, completeness, and rights of the Department of the Air Force's aircraft, intercontinental ballistic missiles (ICBMs), satellites, cruise missiles, and aerial targets/drones. As a result of our review of the Air Force's assertion, we performed an examination of the existence, completeness, and rights of the Air Force's aircraft, ICBMs, satellites, cruise missiles, and aerial targets/drones, as of December 31, 2011.² The Air Force's assertion package did not demonstrate audit readiness for any other asset categories; therefore, we excluded all other asset classes from our examination. We attached a table identifying the significance of the number of assets for each of the categories the Air Force included in its assertion. The Air Force's assertion specifically excluded a reconciliation of the summary schedule of assets to the general ledger. Therefore, our examination solely focused on the assets in the Accountable Property System of Record (APSR) and did not determine whether the APSR reconciled to the general ledger.

Air Force management is responsible for its assertion of audit readiness. Our responsibility is to express an opinion on the assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards as stated in the Government Accountability Office, "Government Accounting Standards." Those standards require examining, on a test basis, evidence supporting the Air Force's assertion of audit readiness of the existence, completeness, and rights of its mission-critical assets and performing other procedures we consider necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion on management's assertion.

¹ Audit readiness per the December 2011 DoD Financial Improvement and Audit Readiness guidance. Specifically, Appendix C, Wave 3 – Mission Critical Asset Existence and Completeness Audit Key Supporting Documents (except for number 14 - reconciliation of the summary schedule of assets to the general ledger) and Appendix D, Section D.4.

² The Air Force had to move the assertion date for ICBMs to January 31, 2012, because limitations associated with the APSR, which is the Reliability and Maintainability Information System.

In our opinion, the Air Force's assertion of audit readiness for the existence, completeness, and rights of its aircraft, satellites, cruise missiles, and aerial targets/drones, as of December 31, 2011, and ICBMs, as of January 31, 2012, is fairly stated in all material respects.

Internal Controls

Internal controls are important for safeguarding assets. Management designs internal controls to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or detected and corrected in a timely manner. During our examination, we identified internal control issues. These internal control issues did not preclude us from reaching an opinion regarding the Air Force's assertion. However, management should consider additional actions to improve the internal controls to ensure the sustainability of its processes in accounting for the existence, completeness, and rights of its aircraft, ICBMs, satellites, cruise missiles, and aerial targets/drones.

We identified the following internal control issues.

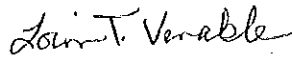
- The Air Force classified certain aircraft in the APSR as military equipment that did not meet the DoD definition of military equipment.³
 - The Air Force classified several types of training aircraft as military equipment. These included types of aircraft the Air Force specifically designated for training, such as the T-6A, and aircraft the Air Force permanently grounded for training purposes, such as a GF-16B. The classification for other aircraft was questionable because they were otherwise military aircraft the Air Force used for training. These include aircraft with a modified training mission design series, such as a TE-008A, or aircraft the Air Force assigned for the purpose of training, such as an F-22A, with a purpose code of "TF." The Air Force should consider determining which of these different types of aircraft would be most accurately classified as general equipment, instead of military equipment.
 - The Air Force classified several aircraft types as military equipment although their mission did not appear military in nature. These aircraft were modified versions of commercial passenger airplanes, and we found that the Air Force generally used them to transport high ranking personnel. Examples include the C-32 (Boeing 757-200 Commercial Airliner) and the C-21 (Lear Jet 35A Business Jet). The Air Force should consider reviewing these different types of aircraft to determine whether or not they should be classified as general equipment, instead of military equipment.
 - The Air Force classified some aircraft as military equipment that the Aerospace Maintenance and Regeneration Group held for parts recovery and then disposal under purpose code "XD." The Air Force did not preserve these aircraft in a condition to permit future operational use. The Air Force should consider removing aircraft with purpose code "XD" from the military equipment population.

³ The DoD Financial Management Regulation, Volume 4, Chapter 6, "Property, Plant and Equipment," defines military equipment as military equipment items that the Armed Forces intend to use to carry out battlefield missions. Examples include combat aircraft, pods, combat ships, support ships, satellites, and combat vehicles.

- Our aircraft existence testing identified a small number of aircraft that the Air Force did not remove from the APSR in a timely manner. For example, the Air Force sold two GC-130E aircraft to the Army in September 2010 but included them in the December 31, 2011, APSR. The Air Force should ensure that the responsible Aerospace Vehicle Distribution Officers take timely and appropriate actions to consistently remove aircraft from the APSR when the aircraft are sold, destroyed, or no longer qualify as military equipment.
- The Air Force needs to establish controls to properly identify complete ICBMs within its APSR. The Air Force initially asserted to 450 complete ICBMs as of December 31, 2011, but the supporting APSR showed 551. The Air Force explained that because of limitations with the APSR, we needed to reconcile the APSR to the Integrated Missile Data Base (IMDB) to identify actual number of complete ICBMs. However, the Air Force was unable to provide the IMDB report for December 31, 2011. Therefore, the Air Force provided the APSR and corresponding IMDB report as of January 31, 2012. The Air Force reported 551 ICBMs in the APSR as of January 31, 2012. However, a reconciliation with the IMDB identified that only 449 complete ICBMs actually existed. The Air Force acknowledged this deficiency in a December 2011 addendum to its assertion package and stated that corrective action involved proposed APSR changes. The Air Force was still working on completing and testing APSR changes at the time of this report.
- The Air Force's controls over the additions and retirements of satellites in the APSR needed improvement. Specifically, the Air Force improperly reported decommissioned satellites as military equipment in the APSR as of December 31, 2011. In addition, the Air Force did not include all operational satellites in the APSR. As a result of this examination, the Air Force initiated actions to correct the satellite information in the APSR and also to improve future satellite reporting. Satellites, as a whole, only represented 1 percent of the total assets for all asserted asset categories in the APSR.
- Our review of the Air Force assertion package for its General Fund operating materials and supplies identified a potential classification issue with aerial targets. Specifically, we questioned the Air Force's classification of aerial targets, QF-4, as operating material and supplies. We concluded that the Air Force and DoD should reexamine this classification because these assets typically have a useful life in excess of 2 years, costs in excess of the capitalization threshold, and are subject to inspection and repair after each mission. The aerial targets appear to exhibit the characteristics of general equipment. The Air Force classified the aerial targets as operating materials and supplies in their December 31, 2011, assertion and should consider reexamining this classification.

Improving these internal control processes will help the Air Force repeat and sustain the processes during future financial statement examinations.

This report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD and the Assistant Secretary of the Air Force (Financial Management and Comptroller) and is not intended to be and should not be used by anyone else. However, this report is a matter of public record, and its distribution is not limited.



Lorin T. Venable, CPA
Acting Assistant Inspector General
DoD Payments and Accounting Operations

Attachment:
As stated

Attachment. Significance of Asserted Asset Categories

The table below shows the significance of the total number of assets for all asset categories the Air Force included in its assertion as reported in the APSR. Because the Air Force's assertion specifically excluded a reconciliation of the summary schedule of assets to the general ledger, we only compared the significance of the asserted assets to the total number of all asserted assets reported in the APSR.

Significance of Asset Categories in the Air Force Assertion

Category	Number of Assets in the APSR	Percent of Number of Assets Grand Total
Aircraft	6,044	78.2
ICBMs*	449	5.8
Satellites	78	1.0
Military Equipment Subtotal	6,571	85.0
Cruise Missiles	982	12.7
Aerial Targets/Drones	175	2.3
Operating Materials & Supplies Subtotal	1,157	15.0
Grand Total	7,728	100.0

* The ICBM numbers are those the Air Force reported in the APSR as of January 31, 2012. The numbers for all other categories are those the Air Force reported in the APSR as of December 31, 2011.



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