

Inspector General

United States
Department of Defense



Examination of Army Management's Assertion for
Existence and Completeness of Operating Materials
and Supplies Quick Win Assets

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Acronyms and Abbreviations

APSR	Accountable Property System of Record
MIT	Material-in-Transit
OASA(FM&C)	Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
OM&S	Operating Materials and Supplies
RTC	Redstone Test Center



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April 29, 2013

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

SUBJECT: Examination of Army Management's Assertion for Existence and Completeness of
Operating Materials and Supplies Quick Win Assets (Report No. DODIG-2013-076)

We are providing this report for your information and use. No written response to this report is required, and none was received. Therefore, we are publishing this report in its final form.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8938.

A handwritten signature in black ink, reading "Richard B. Vasquez".

Richard B. Vasquez, CPA
Acting Assistant Inspector General
Financial Management and Reporting

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
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ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
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SUBJECT: Examination of Army Management's Assertion for Existence and
Completeness of Operating Materials and Supplies Quick Win Assets
(Report No. DODIG-2013-076)

We examined management's assertion of audit readiness¹ for the existence, completeness, and rights of the Department of the Army's Operating Materials and Supplies (OM&S) quick win assets. As a result of our review of Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA[FM&C]) management's assertion, we performed an examination of the existence, completeness, and rights of the Army's OM&S quick win assets, as of September 30, 2012. Our examination solely focused on the universe provided by OASA(FM&C) and did not determine whether the universe or accountable property systems of record (APSRs) reconciled to the general ledger. Army management is responsible for its assertions of audit readiness. Our responsibility is to express an opinion on the assertions based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and with generally accepted government auditing standards. Those standards require examining, on a test basis, evidence supporting the Army's assertions of audit readiness for the existence, completeness, and rights of its mission critical assets and performing other procedures we consider necessary. We believe that our examination provides a reasonable basis for our opinion on management's assertions.

The Army asserted audit readiness of its OM&S quick win assets, as of September 30, 2012. These assets consisted of Hellfire, Javelin, and Tube-launched, Optically-tracked, Wire-guided missiles. OASA(FM&C) officials provided the September 30, 2012, OM&S quick win asset universe (the universe), which consisted of 95,406 missiles (see Table 1 in the attachment for a breakdown by missile type).

The Army asserted that the OM&S quick win assets in its APSRs existed (existence), the missiles in its APSRs were materially complete (completeness) and it had the rights to report the quick win assets in its APSRs (rights). We tested a nonstatistical sample of 1,065 missiles for existence, 334 missiles for completeness, and 213 missiles for rights².

¹ Audit readiness per the December 2011 DoD Financial Improvement and Audit Readiness Guidance Wave 3 – Mission Critical Asset Existence & Completeness Audit.

² The 213 missiles sampled for rights testing were part of the 1,065 missiles sampled for existence testing.

During our examination, we identified a deficiency related to the Army's reporting of missiles held at the contractor's facilities. Specifically, the universe provided by the Army included 5,684 missiles located at the contractor's facilities. This universe was overstated by approximately 4,600 missiles because the Joint Attack Munition Systems Project Office personnel and contractor representatives stated that the contractor had approximately 1,000 missiles at its facilities. OASA(FM&C) officials stated that the overstatement occurred because of a processing error in recording the missiles in the APSR. We could not perform existence, completeness, and rights testing on those missiles because OASA(FM&C) officials were unable to provide a serialized list of the 5,684 missiles that they reported as located at the contractor's facilities. However, we performed existence and completeness testing on the contractor's inventory system in December 2012 and found their records to be accurate and complete as of that date. As a result, we concluded that this was a reporting issue that needed to be fixed, not an accountability issue. U.S. Army Aviation and Missile Command personnel reconciled the records and implemented corrective actions to ensure the overstatement does not occur in the future.

We also identified a deficiency related to the reporting of 3,493 missiles classified as material-in-transit (MIT). OASA(FM&C) officials explained that, because of system limitations, MIT was not reported in an APSR and was not included in the universe. During our review, we analyzed shipping and receiving documents demonstrating that there were controls in place to track MIT. However, MIT was reported at the summary level and OASA(FM&C) officials could not provide a serialized list of MIT, as of September 30, 2012. As a result, we could not perform existence, completeness, and rights testing on MIT. Consequently, we could not attest to the accuracy of MIT.

In our opinion, except for the reporting deficiencies associated with missiles held at the contractor's facilities and MIT described in the preceding paragraphs, the Army's assertion of audit readiness for the existence, completeness, and rights of its OM&S quick win assets, as of September 30, 2012, is fairly stated in all material respects in accordance with DoD Financial Improvement and Audit Readiness Guidance Wave 3-Mission Critical Asset Existence & Completeness Audit.

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 deficiencies, but they did not preclude us from reaching an opinion regarding the Army'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 and completeness of its OM&S quick win assets.

We identified the following internal control deficiencies.

- The Army did not establish an APSR for missiles held at the contractor's facilities and at the Redstone Test Center (RTC) in Huntsville, Alabama. DoD Instruction

5000.64, "Accountability and Management of DoD Equipment and Other Accountable Property," May 19, 2011, requires accountability of property to be maintained through accountable property records within an APSR, which should serve as the authoritative source for validating the existence and completeness of an asset and should provide a complete audit trail of all transactions. Instead, the Army relied on contractor records to record the inventory of 5,684 quick win assets located at the contractor's facilities and test center data feeds to record 848 quick win assets located at RTC.

- The universe contained 263 missiles that were incorrectly assigned to the U.S. Army Aviation and Missile Research Development and Engineering Center when they should have been assigned to RTC. Army Aviation and Missile Command contractor personnel stated that this occurred because of a system coding error. All 30 missiles in our sample were in the RTC. However, the Army did not have a complete or accurate RTC asset posture because it did not require missile reconciliation by location.
- The universe incorrectly included 24 Air Force missiles assigned to the U.S. Army Aviation and Missile Research Development and Engineering Center and 14 contractor-owned missiles assigned to RTC. Consequently, these missiles were incorrectly reported as Army assets.

Improving these internal control processes will help the Army become audit ready and sustain auditable processes for 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 Army (Financial Management and Comptroller) and is not intended to be used and should not be used by anyone else. However, this report is a matter of public record, and its distribution is not limited.



Richard B. Vasquez, CPA
Acting Assistant Inspector General
Financial Management and Reporting

Attachment:
As stated

Attachment. September 30, 2012, Total OM&S Quick Win Asset Universe

OASA(FM&C) personnel provided the September 30, 2012, OM&S quick win asset universe, which consisted of 95,406 missiles. The following table shows the universe.

Table 1. Significance of Missile Type in September 30, 2012, Universe

Missile Type	Assets in Universe	Percentage of Total
Hellfire	28,533	30
Javelin	18,507	19
TOW*	48,366	51
Total	95,406	100

*TOW Tube-launched, Optically-tracked, Wire-guided

We could not perform existence, completeness, and rights testing for 5,684 missiles held at the contractor's facilities and 3,493 missiles for MIT because OASA(FM&C) personnel could not provide serial numbers for those assets. The following table shows the significance of these missiles.

Table 2. Significance of Missiles at the Contractor's Facilities and MIT

Missile Type	Assets at the Contractor's Facilities	MIT	Number of Assets
Hellfire	5,108	1,675	6,783
Javelin	576	541	1,117
TOW*	0	1,277	1,277
Total	5,684	3,493	9,177

*TOW Tube-launched, Optically-tracked, Wire-guided



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