



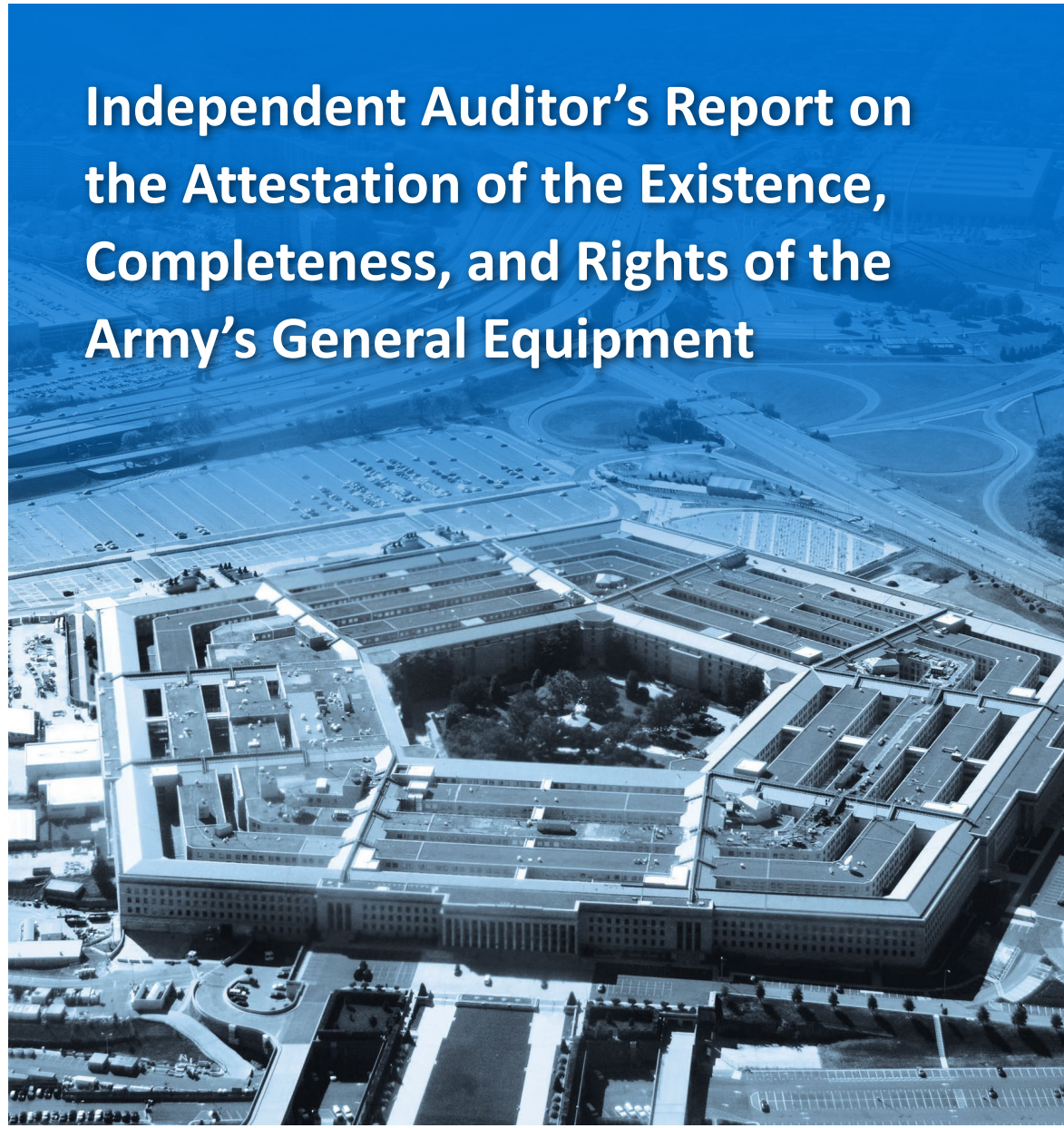
INSPECTOR GENERAL

U.S. Department of Defense

NOVEMBER 25, 2014



Independent Auditor's Report on the Attestation of the Existence, Completeness, and Rights of the Army's General Equipment



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**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

November 25, 2014

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

SUBJECT: Independent Auditor's Report on the Attestation of the Existence, Completeness,
and Rights of the Army's General Equipment (Report No. DODIG-2015-041)

We are providing this report for your information and use. No written response to this report is required. 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) 601-5945.

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting





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Audit Opinion

We examined management's assertion of audit readiness¹ for the existence, completeness, and rights of the Department of the Army's general equipment (GE) as of March 31, 2014. The Army asserted audit readiness of the existence, completeness, and rights of Army GE assets, excluding assets in depot reset/recapitalization, wholesale equipment, and Government-furnished equipment. In addition, the Army excluded assets recorded in accountable property systems of record other than the Property Book Unit Supply Enhanced (PBUSE) system, such as the Defense Medical Logistics Standard Support System and Defense Property Accountability System. 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 generally accepted government auditing standards, as stated in the Government Accountability Office's "Government Auditing Standards," December 2011. Those standards require examining, on a test basis, evidence supporting the Army's assertions of audit readiness of the existence, completeness, and rights of its GE assets and performing other procedures we consider necessary. We believe that our examination provides a reasonable basis for our opinion on management's assertion.

We performed our examination using information provided by Army personnel taken from PBUSE, the Army's primary accountable property system for GE assets. As of March 31, 2014, the Army GE universe consisted of 253,439 assets. We tested a nonstatistical sample of 1,579 assets for existence, 399 assets for completeness, and 1,978 for rights.

¹ Audit readiness per the November 2013 DoD Financial Improvement and Audit Readiness Guidance Wave 3-Mission Critical Asset Existence and Completeness Audit.

There were 14 of 1,579 assets that failed existence testing. Five of the 14 assets failed because Army personnel could not provide timely supporting documentation, as required by Army guidance, and seven assets failed because the Army could not provide adequate documentation to support the proper transfer of the assets.² The data plate on another of the 14 assets did not contain a serial number, so Army personnel could not prove that we were observing the sampled asset. Finally, the last asset failed because it was actually a part of another asset also tested for existence and should not have been in PBUSE as a separate asset. The hand receipt holder deleted this asset from PBUSE while we were at the site.

There were 2 of 399 assets that failed completeness testing. For one of the failures, the asset was not in PBUSE at the time of testing but Army personnel corrected the PBUSE error 6 days after the site visit. For the other asset, Army personnel were unable to provide documentation showing that the asset was in the unit's PBUSE records during testing or after the site visit.

Army personnel could not support that it had rights to 16 of the 1,978 GE assets we tested. For 14 assets, Army personnel did not have adequate supporting documentation, such as DA Form 1687, "Notice of Delegation for Authority-Receipt for Supplies;" DA Form 3161, "Request for Issue or Turn-in;" or a PBUSE hand receipt. In addition, one asset did not exist and should have been excluded from the universe. Finally, one asset failed because it belonged to the Royal Netherlands Air Force as part of a Joint Netherlands Training Detachment and did not belong to the Army. There were 101 additional assets on the hand receipt of this unit that also belonged to the Royal Netherlands Air Force.

In our opinion, the Army's assertion of audit readiness for the existence, completeness, and rights of its GE assets, as of March 31, 2014, is fairly stated in all material respects, in accordance with DoD Financial Improvement and Audit Readiness Guidance Wave 3-Mission Critical Asset Existence and Completeness Audit.

Internal Controls

According to Office of Management and Budget Circular No. A-123, internal controls assure the safeguarding of assets from waste, loss, unauthorized use, or misappropriation, as well as compliance with laws and regulations. The Army did not assert to the operating effectiveness of internal controls, manual or system (automated), other than conducting periodic physical inventories. We performed limited reviews of controls relevant to objectives of the examination.

² Consistent with Army monthly testing timeframes, we requested that the Army provide supporting documentation within 5 business days when verifying assets for existence. For 5 of the 12 assets that failed existence testing due to documentation problems, the Army eventually provided the documentation but it was more than 5 business days after our initial request.

During our examination, we determined that internal controls over some data entered into PBUSE were not adequate. This resulted in errors and omissions in the universe of data for GE assets. We observed the following matters of concern that we are bringing to management's attention for appropriate corrective action.

Asset Location Errors

Of the 253,439 GE assets in the universe, Army personnel did not enter accurate information in the "PRES LOC" data field in PBUSE for 216,973 assets that would identify where the assets were located. Specifically:

- 22,094 assets had no information in this data field.
- The present location for 926 assets was listed as "classified," without a city and state identified. Personnel in the Accountability and Audit Readiness Directorate, Office of the Deputy Assistant Secretary of the Army (Financial Operations), acknowledged that these assets may not be located at classified locations. However, without additional information, the locations of these assets could not be determined.
- For the remaining 193,953 assets, the data field listed either an Army unit name or a city name, but no state name.

Army Audit Readiness personnel subsequently provided a file called the "UIC Tasker Report" that was intended to overcome the asset location problems with the original universe file data. Although this file provided some improved location data for 195,801 of the assets, the file did not indicate the city and state (or city and country) for the remaining 57,638 assets. We performed additional analysis that identified the location for 51,425 assets; however, we could not identify the location of the remaining 6,213 assets. Despite these efforts, file location errors created problems when we tried to verify the assets for existence testing as some of the assets were not in the identified city or state.

For example, we found that there were instances in which the asset's city was identified but the information provided by the UIC Tasker Report identified the wrong state. When we visited Aurora, Colorado; Buffalo, New York; and Dallas, Texas, we found that some assets we expected to be at these locations were in other states that had the same city name. In these cases, the sampled assets were actually in Aurora, Illinois; Buffalo, Minnesota; and Dallas, Oregon; respectively.

The lack of sufficiently accurate information in PBUSE on the location of assets caused additional time and effort to perform testing and prevented the testing of 6,213 assets in the universe.

Inconsistency Between Unit Prices and Acquisition Costs

All assets in the universe had an acquisition cost in PBUSE that met capitalization threshold requirements but the unit price³ of some assets was significantly less than the recorded acquisition cost and the capitalization threshold.⁴ Although Army officials did not assert to the valuation of the Army's GE assets, it was reasonable to expect that the unit price for each asset in the universe would have met the capitalization threshold in place at the time of acquisition. Having these assets in the universe raises questions concerning the reliability of controls over the recording of unit price and acquisition cost data in PBUSE. A comparison by Army personnel of asset unit prices to acquisition costs could have identified material differences for possible corrections.

The universe contained 6,576 assets with a unit price of less than \$100,000 recorded in PBUSE. For example, five digital computer systems had a unit cost of \$1,800 but an acquisition cost of \$9,803,621 each. The table shows additional examples.

Table. Examples of Assets with Unit Prices Significantly Below Capitalization Threshold

Asset Nomenclature	Quantity	Unit Price listed in PBUSE*	Acquisition Cost listed in PBUSE*
Digital Computer System	412	\$899 - \$44,000	\$122,000 - \$9,803,621
Receiver-Transmitter	121	\$8,269	\$815,800 - \$1,344,600
Secure Telephone	77	\$2,372 - \$3,789	\$232,000 - \$3,788,368
Air Cooler	69	\$1,942	\$270,512
Computer, Micro Laptop	64	\$1,120	\$295,770
Carpet Cleaners	33	\$960	\$1,977,393
Television, Large Screen	15	\$1,685 - \$15,000	\$168,494 - \$600,000
All-Terrain Vehicle	8	\$4,360 - \$14,800	\$148,809 - \$1,325,900
ACER Color Monitor	6	\$222	\$150,000

* When two dollar values are shown, they represent the range of unit prices.

During existence testing, site visit teams confirmed that some of these assets were, to a reasonable observer, clearly below the capitalization thresholds and should not have been capitalized. For example, at Fort Bragg, North Carolina, we observed a laptop computer with an acquisition cost of exactly \$100,000 and a unit price of \$3,800. Similarly, at Fort Jackson, South Carolina, we observed a Chevrolet Silverado truck listed at a unit price of \$105,140 and an acquisition cost of \$455,140. Although neither the laptop nor the Chevrolet truck could

³ Unit price is the standard price of the item as shown in Supply Bulletin 700-20, Federal Logistics Data on Portable Media, other source documents, or is estimated.

⁴ The capitalization threshold for GE assets placed in service before October 1, 2013, was \$100,000. The capitalization threshold for GE assets placed in service on or after October 1, 2013, was \$250,000.

be identified through a Federal Logistics Information System Web Search,⁵ through a search of the Internet, we identified similar commercial items that cost approximately \$1,000 and \$32,000, respectively.

Having these assets in the universe raises concerns regarding the reliability of internal controls over the recording of unit price and acquisition cost data in PBUSE.

Assets Were Not General Equipment (Class VII)

The universe incorrectly contained types of assets that were excluded from the Army's audit-readiness assertion. Specifically, 16,335 assets should have been omitted from the universe because they were Class II assets, Class VIII assets,⁶ or otherwise considered real property, including:

- clothing, individual equipment, tools, administrative supplies (13,687 assets) [Class II];
- medical materials (1,710 assets) [Class VIII]; and
- real property (12 assets).

Information in PBUSE identified these assets as other than GE (Class VII) assets. During existence testing, we confirmed that some sample items were misclassified. For example, at Aurora, Colorado, a box of "VES, Animal Medicine and Surgery" supplies was an existence-sample item (Class VIII). At Fort Stewart, Georgia, we observed a "Tent, Modular, General, Purpose System" (Class II).

The universe also included 12 relocatable buildings⁷ that were identified in the General Fund Enterprise Business System⁸ as real property. As a result, these 12 assets were likely included twice in the Army's General Fund financial statements, once as GE and once as real property.

In addition, for the sites we visited, we found 56 assets that should have been excluded from the universe because the assets were Government-furnished equipment.⁹ For example, we identified 35 Government-furnished equipment assets at Fort Huachuca, Arizona, including three assets that were in our sample for existence testing at this location.

⁵ The Federal Logistics Information System Web Search provides essential information about supply items including the National Stock Number, the item name, and manufacturers and suppliers (including part numbers), through a web interface connected to Federal Logistics Information System data. This information is primarily used by the Defense Logistics Agency, Military Services, and U.S. Government sponsored contractors doing business with the U.S. Government.

⁶ According to Army Regulation 710-2, "Supply Policy Below the National Level," March 28, 2008, Class II is defined as equipment, other than principal items, prescribed in authorization and allowance tables (individual equipment, clothing, tentage, tool sets, and administrative supplies). Class VIII is medical material including medical peculiar repair parts.

⁷ A relocatable building is a habitable prefabricated structure designed and constructed to be readily transportable over public roads, erected, disassembled, stored, and reused.

⁸ The General Fund Enterprise Business System develops, acquires, integrates, deploys, and sustains enterprise-wide financial and procurement management to support Army missions and is the Army's system of record for real property.

⁹ Government-furnished equipment is property the Government acquires and makes available to the contractor for use.

According to Army personnel at Fort Huachuca, the assets were furnished to a contractor as Government-furnished equipment to support a depot-level repair and service contract and should not have been included in the universe.

Summary

Improving internal control processes and correcting the problems with the universe of assets subject to audit readiness assertions will help the Army sustain auditable processes for future financial statement examinations.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, 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.



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Assistant Inspector General
Financial Management and Reporting

Acronyms and Abbreviations

GE General Equipment

PBUSE Property Book Unit Supply Enhanced



Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

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