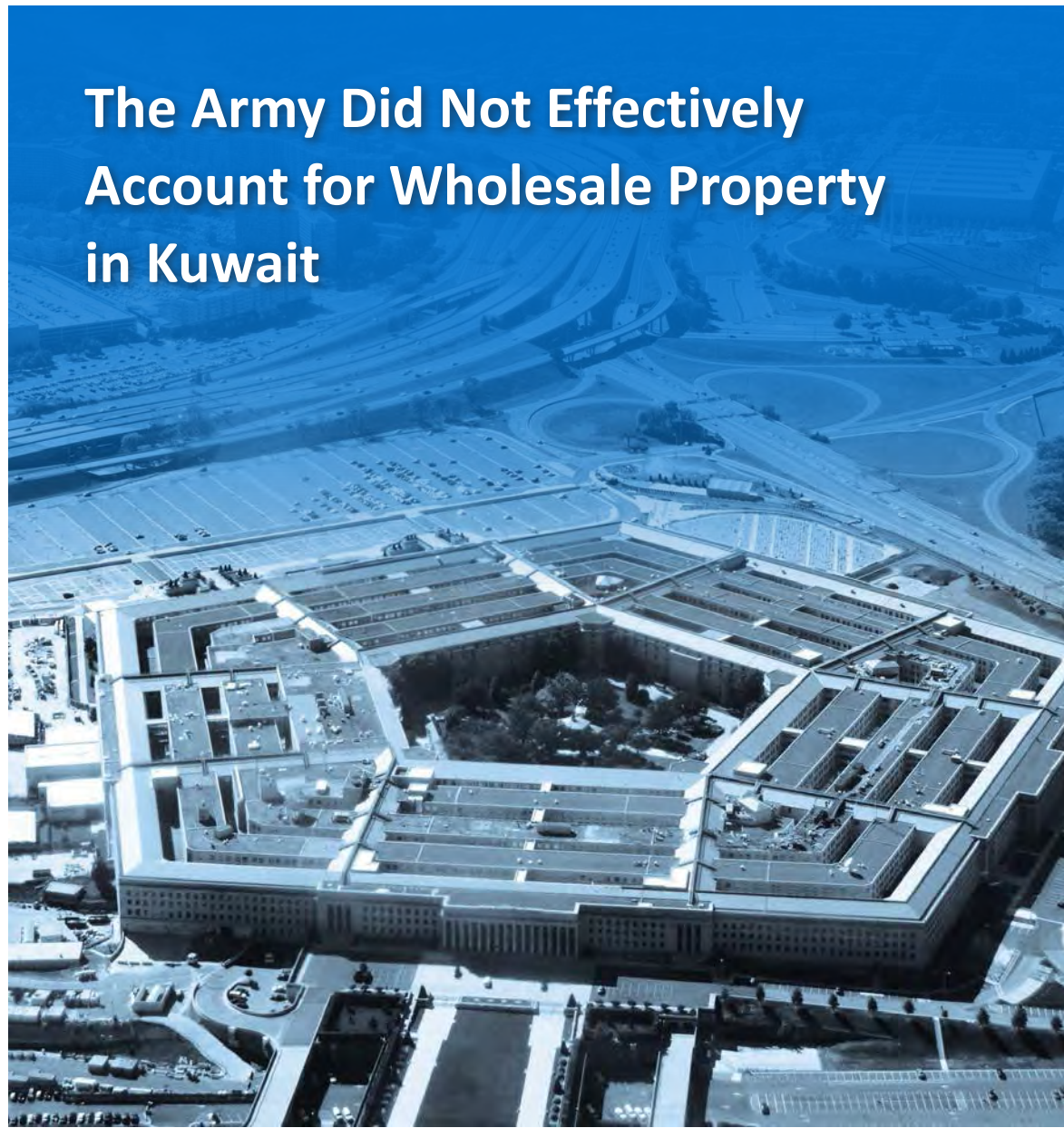




INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 22, 2015



The Army Did Not Effectively Account for Wholesale Property in Kuwait

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Results in Brief

The Army Did Not Effectively Account for Wholesale Property in Kuwait

September 22, 2015

Objective

Our objective was to determine whether the Army had effective controls for maintaining property accountability for equipment in Kuwait. This project relates to the overseas contingency operation, Operation Inherent Resolve, and was completed in accordance with the OIG's responsibilities, as described in Section 8L of the Inspector General Act of 1978, as amended. This is the first in a series of audits on property accountability in support of Operation Inherent Resolve.

Finding

The Army Field Support Battalion (AFSBn)-Kuwait did not have effective controls for conducting inventories of wholesale equipment as required by Army policy and the contract performance work statement. Specifically, 147,831 of the 471,201 items of wholesale equipment (31 percent) at Camp Arifjan, worth \$10.5 million, including 99 sensitive items, were not inventoried within the last year. This occurred because AFSBn-Kuwait personnel directed contractors to conduct inventories by Line Item Number (LIN); however, not all wholesale equipment has an accompanying LIN. As a result, Army Sustainment Command did not have accurate accountability and visibility of equipment available at Camp Arifjan. In addition, there is an increased risk that non-inventoried equipment may be vulnerable to loss or theft.

Management Actions Taken

During the audit, we advised the Commander, 402nd Army Field Support Brigade, that deficiencies in the controls for wholesale equipment inventories existed, which resulted in property accountability

Management Actions Taken (cont'd)

shortfalls at Camp Arifjan. We informed the Commander that the brigade needed to initiate a contracting action to clarify in the performance work statement the methods for conducting wholesale inventories and revise the annual and monthly direction to the contractor to ensure all wholesale equipment is inventoried according to Army regulations.

The Commander, 402nd Army Field Support Brigade, agreed with our observations and immediately initiated steps to improve wholesale property accountability. The AFSBn-Kuwait informed the Administrative Contracting Officer of the issue and potential corrective actions. The Administrative Contracting Officer developed a Letter of Technical Direction that provided clarification to the contract performance work statement. On August 7, 2015, the Administrative Contracting Officer issued the Letter of Technical Direction to the contractor that instructed the contractor to conduct all future inventories by National Item Identification Number (NIIN) and ensure all equipment is verified annually. Furthermore, in September 2015, the AFSBn-Kuwait Wholesale Accountable Officer issued inventory memorandums reminding the contractor to conduct inventories by NIINs instead of LINS. The management actions taken addressed the concerns we identified; therefore, we are not making any additional recommendations.

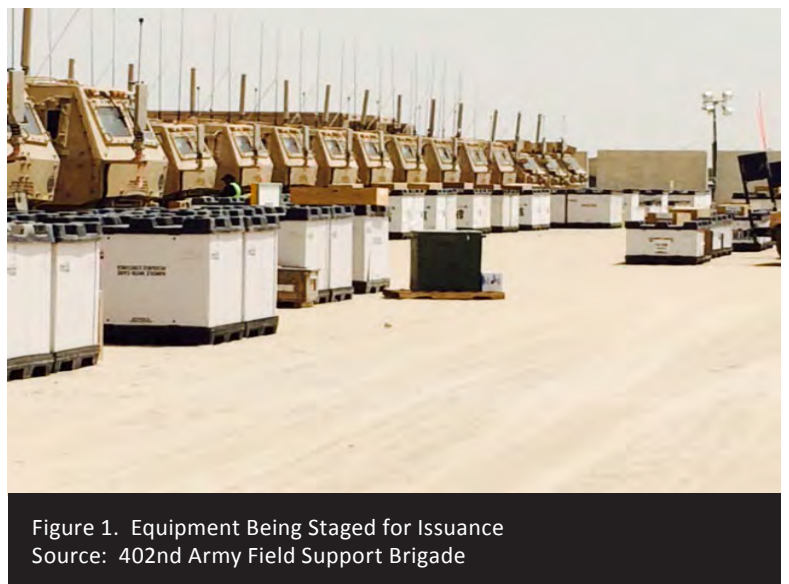


Figure 1. Equipment Being Staged for Issuance
Source: 402nd Army Field Support Brigade

Recommendations Table

Management	Recommendations Requiring Comment
Commander, 401st Army Field Support Brigade	None



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

September 22, 2015

MEMORANDUM FOR DISTRIBUTION

SUBJECT: The Army Did Not Effectively Account for Wholesale Property in Kuwait
(Report No. DODIG-2015-178)

We are providing this report for your information and use. No written response to this report was required, and none was received. This report relates to the overseas contingency operation, Operation Inherent Resolve, and was completed in accordance with the OIG's responsibilities, as described in Section 8L of the Inspector General Act of 1978, as amended. We conducted this audit in accordance with generally accepted government auditing standards.

The Army Field Support Battalion–Kuwait did not have effective controls for conducting inventories of wholesale equipment as required by Army policy and the contract performance work statement. During the audit we notified officials from the 401st and 402nd Army Field Support Brigades and the Army Field Support Battalion–Kuwait of our findings. Both commands took prompt action to resolve each concern we identified; therefore, we will not make any recommendations in this report.

We appreciate the courtesies extended to the staff. Please direct questions to me at Michael.Roark@dodig.mil, (703) 604-9187 (DSN 664-9187).

A handwritten signature in black ink that reads "Michael J. Roark". The signature is written in a cursive style.

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

Distribution:

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Introduction

Objective

Our objective was to determine whether the Army had effective controls for maintaining property accountability for equipment in Kuwait. This report relates to the overseas contingency operation, Operation Inherent Resolve, and was completed in accordance with the OIG's responsibilities, as described in Section 8L of the Inspector General Act of 1978, as amended. This is the first in a series of audits on property accountability in support of Operation Inherent Resolve. See Appendix A for the scope and methodology and Appendix B for the prior coverage related to the audit objective.

Background

Property accountability requires maintaining records of equipment such as identification data, gains and losses, incoming and outgoing equipment, and balances on hand or in use. The Army receives, repairs, maintains, stores, and prepares for issue wholesale equipment in Kuwait. As of September 2015, Camp Arifjan held \$4 billion worth of wholesale equipment. Equipment in Kuwait provides critical support for U.S. and Coalition troops deployed in support of Operation Inherent Resolve.

Types of Wholesale Equipment on Hand in Kuwait

Wholesale equipment are items stored and maintained until issued to a military unit. There are two types of sensitive¹ and non-sensitive wholesale equipment stored in Kuwait: Army Pre-Positioned Stocks (APS) and retrograde stock. APS consists of prepositioned sets of equipment, sustainment stocks, and ammunition. APS is Army equipment readily available to early deploying units to support worldwide operations and reduce the requirement for airlift. Retrograde is a process that moves equipment and materiel from a deployed theater to a reset program to replace, recapitalize, or repair the equipment in another theater of operations to replenish that theater's unit stocks or satisfy stock requirements. The Army redistributes equipment in accordance with theater priorities to meet mission requirements.

¹ Sensitive equipment are those items requiring a high degree of protection and controls due to their high value or high technical or hazardous nature, including night vision devices, small arms, and ammunition.



Figure 2. Camp Arifjan Equipment Being Prepared for Shipment
Source: 402nd Army Field Support Brigade

Kuwait Property Accountability Roles and Responsibilities

There are several Army organizations involved in property accountability in Kuwait. U.S. Army Central Command is responsible for validating and sourcing a unit's requests for equipment in Kuwait. U.S. Army Central Command has the authority to approve a request for retrograde equipment, and the Department of the Army retains approval authority for all APS equipment in Kuwait. The Department of the Army supplies equipment for operations in Kuwait through the Army Materiel Command. The Army Sustainment Command (ASC), a subordinate command of Army Materiel Command, provides sustainment-level logistics and supports Army, Joint, and Coalition forces through the management of prepositioned stocks. ASC executes operational sustainment support in Kuwait through the Army Field Support Brigades (AFSB). The brigade identifies equipment and resolves maintenance and materiel readiness problems for its assigned

combatant command. Prior to July 2015, the 402nd AFSB was responsible for property accountability in Kuwait. In July 2015, the 401st AFSB replaced the 402nd AFSB and assumed responsibility for property accountability of equipment in Southwest Asia, including Kuwait.²

The Army Field Support Battalion (AFSBn)–Kuwait, a subordinate command of the AFSB, manages wholesale equipment throughout Kuwait from its headquarters at Camp Arifjan. They support retrograde operations and serve as the Contracting Officer’s Representative to oversee contractors’ performance for wholesale equipment that enters into and transfers out of Kuwait. The AFSBn–Kuwait Wholesale Accountable Officer maintains oversight responsibility of all wholesale equipment.

Army Contracting Command–Rock Island awarded Contract No. W52P1J-15-C-0016 on February 27, 2015, to provide services in support of ASC and supply functions required to support APS at Camp Arifjan. The contract performance work statement (PWS) required the contractor coordinate the movement, repair, maintenance, and inventory of wholesale equipment.

Army Policies for Property Accountability

Army Regulation 710-2, “Inventory Management—Supply Policy Below the National Level,” March 28, 2008, establishes policies for the accountability and management of stocks stored for issuance to a customer. Specifically, the regulation states that the purpose of an inventory is to determine the location and quantity of material on hand and requires that 100 percent of wholesale equipment be inventoried annually, sensitive equipment be inventoried quarterly, and weapons and ammunition be inventoried monthly. To meet this requirement, the contract PWS included the requirement to inventory 100 percent of wholesale equipment annually and 100 percent of weapons, ammunition, and sensitive equipment monthly. To provide further clarification, the AFSBn–Kuwait Wholesale Accountable Officer issues memorandums directing contractor personnel on the method to conduct inventories of wholesale equipment. Specifically, the memorandum for non-sensitive equipment, issued each year, requires the contractor inventory a portion of equipment by Line Item Number (LIN)³ each month in order to achieve a 100-percent inventory by the end of the year.⁴ The

² Fieldwork for this audit was conducted while the 402nd AFSB was responsible for property accountability in Kuwait. Therefore, this report identifies the audit team’s findings on the 402nd AFSB’s controls for property accountability in Kuwait and the management actions taken by the Commander, 402nd AFSB, incoming Commander, 401st AFSB, and the AFSBn–Kuwait.

³ A LIN is a six-digit alpha-numerical identification code that can be assigned to an individual piece of equipment.

⁴ The AFSBn–Kuwait directed the contractor to inventory 10 percent of non-sensitive wholesale equipment each month for 10 months between October and July. Any new equipment not inventoried within that timeframe should be inventoried in January and September to ensure a 100-percent inventory of all equipment.

memorandum for sensitive equipment, issued each month, reiterates the PWS and Army requirements for the contractor to inventory 100 percent of the sensitive equipment each month. Specifically, the memorandum identifies the Controlled Inventory Item Codes used to identify equipment as a sensitive item.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses with the Army’s methods for conducting inventories of wholesale equipment at Camp Arifjan, Kuwait. Specifically, the AFSBn–Kuwait instructed the contractor to conduct inventories by LIN instead of National Item Identification Numbers (NIIN), which resulted in thousands of wholesale items not being inventoried annually, as required by Army regulations and the contract PWS. However, management took corrective actions to address the concerns identified during the audit and resolved the internal control weaknesses. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Army.

Finding

The Army Did Not Effectively Account for Wholesale Property in Kuwait

The AFSBn-Kuwait did not have effective controls for conducting inventories of wholesale equipment in accordance with Army policy and the contract PWS. Specifically, at Camp Arifjan, 147,831 of the 471,201 total items of wholesale equipment, worth \$10.5 million, including 99 sensitive items, were not inventoried within the last year. This occurred because AFSBn-Kuwait personnel directed the contractor to conduct monthly inventories by LIN; however, not all wholesale equipment has an accompanying LIN. As a result, ASC did not have accurate accountability and visibility of equipment available at Camp Arifjan. In addition, there is an increased risk that non-inventoried equipment may be vulnerable to loss or theft.

The Army Field Support Battalion–Kuwait Did Not Ensure the Inventory of All Wholesale Equipment Annually

The AFSBn-Kuwait did not have effective controls for conducting inventories of wholesale equipment in accordance with Army policy and the contract PWS. Army Regulation 710-2 required a 100-percent annual inventory of non-sensitive equipment, quarterly inventory of sensitive equipment, and monthly inventory of weapons and ammunition. In addition, the contract PWS mandated a 100-percent monthly inventory of sensitive equipment, including weapons.

However, we identified wholesale equipment at Camp Arifjan that had been entered into the Army's visibility and accountability systems but had not been inventoried for several years. Specifically, 147,831 of the 471,201 total items of wholesale equipment (31 percent) at Camp Arifjan, worth \$10.5 million, including 99 sensitive items, were not inventoried annually, as required. The table on the next page shows the breakdown of the amount and dollar value of equipment not inventoried each year.

...147,831
...items
of wholesale
equipment (31 percent)
at Camp Arifjan, worth
\$10.5 million, including
99 sensitive items, were
not inventoried
annually...

Table. Wholesale Equipment Not Inventoried Annually

	Year Equipment Was Last Inventoried				Total
	No Year Identified	2011	2012	2013	
Amount of Equipment	16,357	10	1,131	130,333	147,831
Dollar Value	\$2,091,030.49	\$513.50	\$84,587.98	\$8,295,054.95	\$10,471,186.92

Source: DoD OIG

The Army Field Support Battalion–Kuwait Directed Contractors to Conduct Inventories Using an Ineffective Method

The contract PWS did not provide the method for conducting the inventories of sensitive and non-sensitive wholesale equipment. Instead, the AFSBn–Kuwait

...the AFSBn–Kuwait directed and approved the contractor to inventory... wholesale equipment using a method that did not ensure that all equipment was inventoried as required by guidance.

provided direction to the contractor on how to conduct its wholesale inventories. However, the AFSBn–Kuwait directed and approved the contractor to inventory sensitive and non-sensitive wholesale equipment using a method that did not ensure that all equipment was inventoried as required by guidance. Specifically, the AFSBn–Kuwait issued memorandums that directed contractor personnel to conduct monthly inventories of wholesale equipment by LIN. However, using LINs as the method to identify wholesale equipment to be inventoried was not effective because not all wholesale equipment has an accompanying LIN. Therefore, thousands of wholesale items were not captured in the monthly inventories.

According to AFSBn–Kuwait personnel, each piece of wholesale equipment has a NIIN.⁵ AFSBn–Kuwait personnel stated it would be more effective to conduct inventories using NIINs because it would capture all the wholesale equipment on hand. During the audit, we suggested to AFSBn–Kuwait that the command should clarify in the PWS the methods for conducting wholesale inventories by initiating a contracting action requiring the contractor inventory wholesale equipment by NIIN to ensure that all wholesale equipment is properly inventoried.

⁵ A NIIN is a nine-digit number assigned to every piece of equipment having an approved Federal item identification.

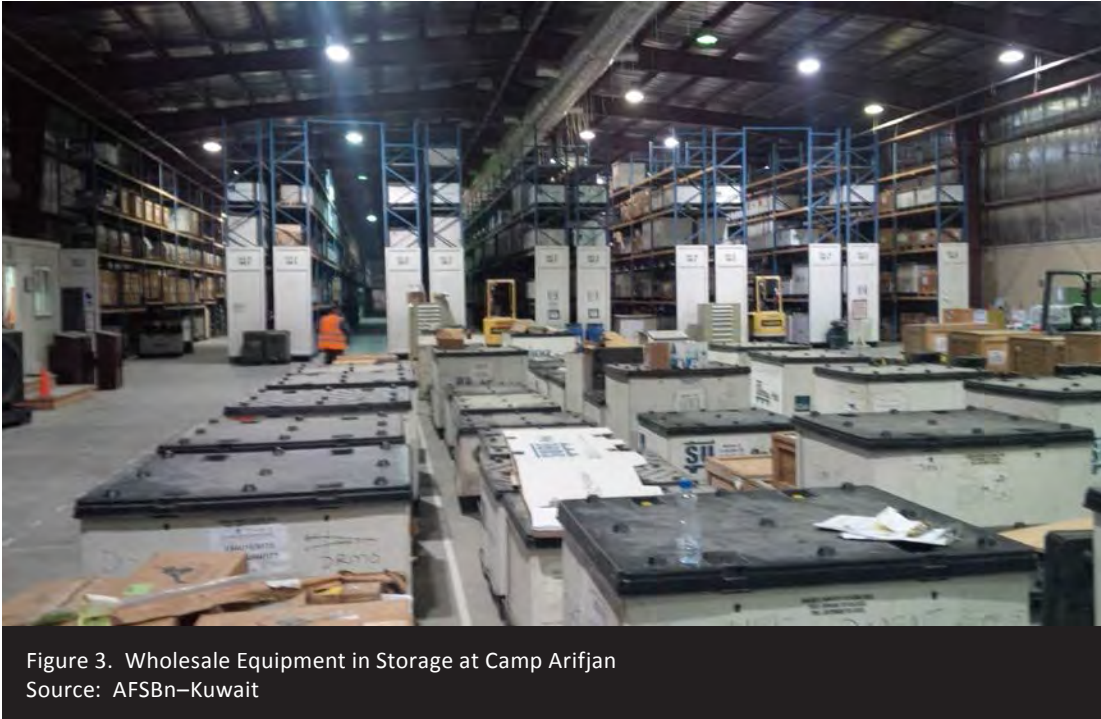


Figure 3. Wholesale Equipment in Storage at Camp Arifjan
Source: AFSBn–Kuwait

Army Sustainment Command Does Not Have Accurate Accountability and Visibility of Wholesale Equipment

As a result of the inventory deficiencies, ASC did not have accurate accountability and visibility of equipment available at Camp Arifjan. Specifically, ASC relies upon the AFSBs to properly account for and safeguard equipment. Accurate inventory records allow ASC to know the location and quantity of wholesale equipment on hand in order to be ready to respond to contingencies worldwide, such as Operation Inherent Resolve. In addition, wholesale equipment, including sensitive equipment that is not inventoried may be vulnerable to loss or theft.

Management Actions Taken

During the audit, we advised the Commander, 402nd AFSB that deficiencies in the controls for wholesale equipment inventories existed, which resulted in property accountability shortfalls at Camp Arifjan. Specifically, we identified thousands of wholesale items, including sensitive equipment, which were not inventoried as required because the contractor inventoried wholesale equipment by LIN instead of NIIN. We informed the Commander that the brigade needed to initiate a contracting action to clarify in the PWS the methods for conducting wholesale inventories and revise the annual and monthly direction to the contractor to ensure that all wholesale equipment is inventoried according to Army regulations.

The Commander, 402nd AFSB, agreed with our observations and immediately initiated steps to implement our suggested corrective actions. AFSBn-Kuwait personnel met with the Administrative Contracting Officer, who developed a Letter of Technical Direction. The Letter of Technical Direction provided clarification to the contract PWS. Specifically, the Letter of Technical Direction directed the contractor to conduct all future inventories by NIIN and ensure all equipment is accounted for as required. On August 7, 2015, the Administrative Contracting Officer issued the Letter of Technical Direction to the contractor.

In addition, in order to ensure that the contractor completes a 100-percent inventory of all wholesale equipment, in September 2015, the AFSBn-Kuwait Wholesale Accountable Officer issued inventory memorandums to the contractor requiring inventories by NIIN. For example, the yearly memorandum for non-sensitive equipment references the specific NIINs to inventory, which will ensure all wholesale equipment is properly inventoried. The management actions taken during the audit addressed our suggestions; therefore, we are not making any additional recommendations.

Appendix A

Scope and Methodology

We conducted this performance audit from April 2015 through September 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed DoD and Army criteria to gain an understanding of the requirements for property accountability for equipment in Kuwait. Specifically, we reviewed Army Regulation 710-2, "Inventory Management—Supply Policy Below the National Level," March 28, 2008; Army Regulation 735-5, "Property Accountability Policies," August 22, 2013, and the AFSBn–Kuwait's Standard Operating Procedure for APS.

We conducted a site visit to Camp Arifjan, Kuwait, and observed the property accountability process to determine whether procedures were in place to effectively process equipment. To accomplish this, we met with officials from the 402nd AFSB, AFSBn–Kuwait, and U.S. Army Central Command. We interviewed the AFSBn–Kuwait Wholesale Accountable Officer and other officials to discuss the roles and responsibilities related to property accountability for wholesale equipment, which includes APS and retrograde, in Kuwait. We conducted inventories of equipment stored and issued to units to verify the location of equipment on hand at Camp Arifjan. We also observed security procedures for safeguarding wholesale equipment stored in multiple locations at Camp Arifjan.

Use of Computer-Processed Data

We used computer-processed data for our audit. We used a spreadsheet created with data from the Army War Reserve Deployment System that contained pertinent information on inventories of wholesale equipment, such as the item name, NIIN, location, and last scan date. To verify the reliability of the data within the spreadsheet we conducted non-statistical inventory testing using the data from the spreadsheet. We verified the serial numbers for 148 items by conducting a physical inspection of the equipment and comparing the serial numbers to those in the spreadsheet. As a result, we determined that the information from the Army War Reserve Deployment System was sufficiently reliable for the purposes of our audit.

Appendix B

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Inspector General (DoD IG), and Army Audit Agency issued 13 reports discussing property accountability. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. Unrestricted Army Audit Agency reports can be accessed from .mil and gao.gov domains at <https://www.aaa.army.mil/>.

GAO

Report No. GAO-13-185R, “Afghanistan Drawdown Preparations DoD Decision Makers Need Additional Analyses to Determine Costs and Benefits of Returning Excess,” December 19, 2012

Report No. GAO-11-774, “Iraq Drawdown Opportunities Exist to Improve Equipment Visibility, Contractor Demobilization, and Clarity of Post-2011 DoD Role,” September 16, 2011

DoD IG

Report No. DoDIG-2014-098, “The Army Did Not Properly Account for and Manage Force Provider Equipment in Afghanistan,” July 31, 2014

Report No. DoDIG-2014-043, “The Army Needs to Improve Property Accountability and Contractor Oversight at Redistribution Property Assistance Team Yards in Afghanistan,” March 4, 2014

Report No. DoDIG-2014-007, “Defense Logistics Agency Disposition Services Afghanistan Disposal Process Needed Improvement,” November 8, 2013

Report No. DoDIG-2012-138, “Wholesale Accountability Procedures Need Improvement for the Redistribution Property Assistance Team Operations,” September 26, 2012

Report No. DoDIG-2012-071, “DoD’s Management of the Redistribution Property Assistance Team Operations in Kuwait,” April 10, 2012

Report No. D-2010-091, “DoD Needs to Improve Management And Oversight of Operations at the Theater Retrograde-Camp Arifjan, Kuwait,” September 30, 2010

Report No. D-2010-088, “Accountability and Disposition of Government Furnished Property in Conjunction with the Iraq Drawdown-Logistics Civil Augmentation Program,” September 30, 2010

Army

Report No. A-2013-0056-MTE, "Retrograde Sort Process Afghanistan,"
February 26, 2013

Report No. A-2013-0048-MTE, "Materiel Management-Retrograde From
Southwest Asia U.S Army Forces Command," February 1, 2013

Report No. A-2011-0077-ALL, "Followup Audit of Retrograde Operations in
Iraq Class VII Theater Provided Equipment," April 12, 2011

Report No. A-2011-0063-ALL, "Redistribution Property Assistance Teams
United States Forces-Iraq," February 14, 2011

Acronyms and Abbreviations

AFSB	Army Field Support Brigade
AFSBn	Army Field Support Battalion
APS	Army Pre-Positioned Stocks
ASC	Army Sustainment Command
LIN	Line Item Number
NIIN	National Item Identification Number
PWS	Performance Work Statement

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