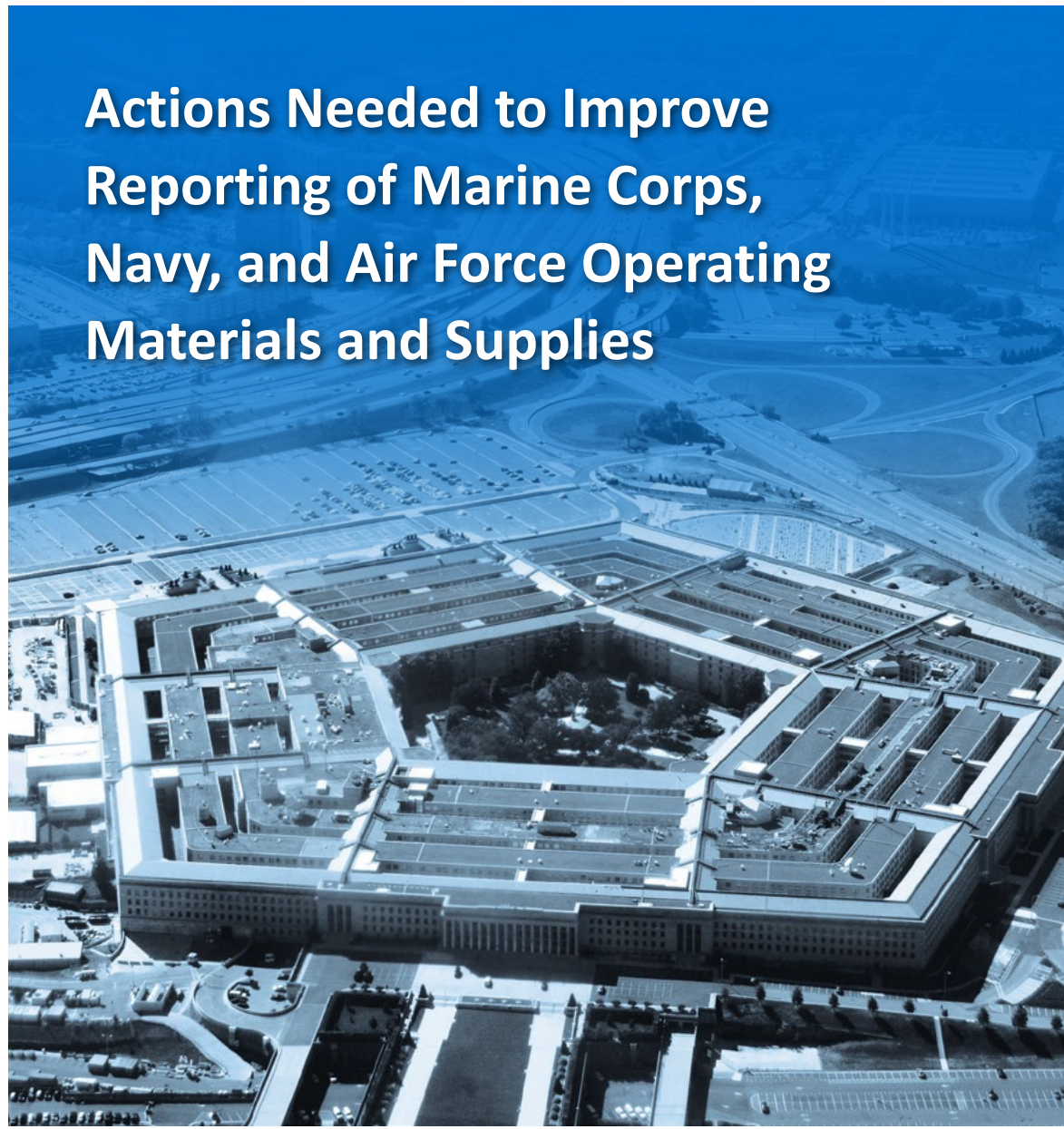




INSPECTOR GENERAL

U.S. Department of Defense

JULY 26, 2016



Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Mission

Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.

Vision

Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.



Fraud, Waste, & Abuse

HOTLINE

Department of Defense

dodig.mil/hotline | 800.424.9098

For more information about whistleblower protection, please see the inside back cover.



Results in Brief

Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies

July 26, 2016

Objective

We determined whether the Operating Materials and Supplies (OM&S)–Ammunition owned by the Marine Corps, Navy, and Air Force (the other Services) and held by the Army was accurately reported on each Service’s respective financial statements.

Findings

Army-held, other Services-owned OM&S–Ammunition was not accurately reported on each of the other Service’s financial statements. Specifically, Army and other Service personnel did not adequately reconcile their records for 65.9 million Army-held OM&S–Ammunition, valued at \$1.7 billion. This occurred because the Joint Ordnance Commanders Group OM&S–Ammunition management policies and procedures did not require the Army and other Services to comply with the DoD guidelines that require records maintained by the Army, as custodian, and the other Services’ financial reporting records to be the same.

In addition, other Services’ personnel recorded \$8.5 billion of OM&S–Ammunition to the incorrect OM&S categories; inaccurately reported \$1.6 billion in Excess, Obsolete, and Unserviceable OM&S assets; and inadequately supported \$57 million in financial statement adjustments. This occurred because Office of Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD personnel did not provide adequate OM&S financial recording and

Findings (cont’d)

reporting guidance, and the other Services’ personnel did not implement effective controls over the OM&S financial statement compilation processes.

Recommendations

We recommend that the:

- Commander, Army Joint Munitions Command, as Chairman of the Joint Ordnance Commanders Group, develop and issue policies and procedures to require the Army and other Services to comply with the DoD guidelines that require Army’s records to be the same as the owner’s records. Specifically, develop policies and procedures that require the Army and other Services to perform complete, quarterly reconciliations and retain OM&S–Ammunition asset documentation in accordance with DoD and U.S. National Archives and Records Administration guidance.
- Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD provide adequate OM&S financial recording and reporting guidance, including guidance to ensure OM&S–Ammunition records are correctly categorized and Excess, Obsolete, and Unserviceable OM&S is accurately reported.
- Commander, Naval Supply Systems Command, Global Logistics Support Ammo and Deputy Chief of Staff Air Force Headquarters, A4, in coordination with the Assistant Secretaries of the Navy and Air Force (Financial Management and Comptroller), comply with DoD criteria for ensuring OM&S–Ammunition records are correctly categorized.
- Assistant Secretary of the Air Force (Financial Management and Comptroller) reconcile amounts reported by field locations to General Accounting and Finance System–Re-Engineered on a quarterly basis and resolve differences.



Results in Brief

Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies

Management Comments and Our Response

Comments on behalf of the Assistant Secretary of the Navy (Financial Management and Comptroller); Assistant Secretary of the Air Force (Financial Management and Comptroller); Deputy Chief of Staff, Air Force Headquarters, A4; and Commander, Naval Supply Systems Command, Global Logistics Support Ammo addressed all specifics of the recommendations, and no additional comments are required. However, comments from the Deputy Chief Financial Officer, responding on behalf of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Executive Director for Ammunition, Army JMC, responding on behalf of the Chairman of the Joint Ordnance Commanders Group, partially addressed their respective recommendations. The actions cited by the Deputy Chief Financial Officer did not completely address the specifics of the recommendation regarding disclosure of the valuation of Excess, Obsolete, and Unserviceable OM&S. The cited standard disclosure does not provide sufficient information on the basis for the valuation of Excess, Obsolete, and Unserviceable OM&S and does not inform the reader that this basis

is not compliant with Statements of Federal Financial Accounting Standards. In addition, the actions proposed by the Executive Director did not completely address the development and implementation of policies and procedures to ensure:

- identification of requirements for reconciliation of cited data fields and inclusion of both wholesale and retail data;
- proper cataloging of cited data fields;
- Army and the other Services validate reconciliation file completeness;
- other Services specify and define the codes used to indicate ownership; and
- retention of custodial record supporting documentation for at least 2 years after asset disposal or removal from agency's financial statement.

Therefore, we request the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and Chairman of the Joint Ordnance Commanders Group provide additional comments to this report by August 25, 2016. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD	B.1.c	B.1.a, B.1.b
Assistant Secretary of the Navy (Financial Management and Comptroller)		B.2
Assistant Secretary of the Air Force (Financial Management and Comptroller)		B.2, B.3
Commander, Army Joint Munitions Command, as Chairman of the Joint Ordnance Commanders Group	A.1.a, A.1.c, A.1.d, A.1.e, A.1.f, A.1.g	A.1.b
Deputy Chief of Staff, Air Force Headquarters, A4		A.2.a, A.2.b, B.2
Commander, Naval Supply Systems Command, Global Logistics Support Ammo		B.2

Please provide Management Comments by August 25, 2016.





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

July 26, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Actions Needed to Improve the Marine Corps, Navy, and Air Force Reporting
of Operating Materials and Supplies (Report No. DODIG-2016-114)

We are providing this report for review and comment. For Army-held, other Services-owned OM&S—Ammunition, inadequate policies, procedures, and financial statement compilation processes increased the risk of the other Services materially misstating the OM&S amount reported on the financial statements and not complying with the FY 2017, congressionally mandated, full financial statement audit-readiness requirement.

We considered comments on a draft of this report. We considered comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; Assistant Secretary of the Navy (Financial Management and Comptroller); Assistant Secretary of the Air Force (Financial Management and Comptroller); Chairman of the Joint Ordnance Commanders Group; Deputy Chief of Staff, Air Force Headquarters, A4; and Commander, Naval Supply Systems Command, Global Logistics Support Ammo when preparing the final report.

DoD Instruction 7650.03 requires that all recommendations be resolved promptly. We request additional comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD on Recommendation B.1.c and Commander, Army Joint Munitions Command, as Chairman of the Joint Ordnance Commanders Group on Recommendations A.1.a and A.1.c through A.1.g by August 25, 2016.

Please send a PDF file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

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

A handwritten signature in black ink that reads "Lorin T. Venable".

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

Contents

Introduction

Objective	1
Background	1

Finding A. The Army and Other Services Need to Adequately Reconcile Army-Held OM&S—Ammunition Records

Inadequately Reconciled Records	5
Inadequate Asset Management Policies and Procedures	7
Increased Audit-Readiness Risk	13
Management Comments on the Finding and Our Response	13
Recommendations, Management Comments, and Our Response	14

Finding B. The Other Services Had Ineffective Financial Statement Compilation Processes for OM&S

Deficiencies in Recording, Supporting, and Reporting of OM&S	22
Ammunition Recorded in Incorrect Categories	22
Inadequate OM&S Category Guidance	23
Ineffective Controls Over Compliance With DoD Financial Management Regulations	25
Non-Compliant Reporting of Excess, Obsolete, and Unserviceable OM&S	26
Unsupported Financial Statement Adjustments	27
Increased Audit-Readiness Risk	27
Recommendations, Management Comments, and Our Responses	27

Appendixes

Appendix A. Scope and Methodology	32
Use of Computer-Processed Data	33
Use of Technical Assistance	33
Prior Coverage	34
Appendix B. OM&S Condition Codes	35

Contents (cont'd)

Management Comments

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments	38
Assistant Secretary of the Navy (Financial Management and Comptroller) and Commander, Naval Supply Systems Command, Global Logistics Support Ammo Comments	41
Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments	43
Chairman of the Joint Ordnance Commanders Group Comments	44
Deputy Chief of Staff, Air Force Headquarters, A4 Comments	49
Glossary	51
Acronyms and Abbreviations	54



Introduction

Objective

We determined whether the Operating Materials and Supplies (OM&S)–Ammunition owned by the Marine Corps, Navy, and Air Force (the other Services) and held by the Army was accurately reported on each Service’s respective financial statements. See Appendix A for the scope and methodology and prior audit coverage related to the objective.

Background

According to Army records, the Army held 1.7 billion in other Services-owned OM&S–Ammunition assets as of September 30, 2015.¹ The Army supports, stores, and manages this OM&S–Ammunition, including 5.56-millimeter training bullets, detonating cords, and serialized assets, like missiles. As depicted in Table 1, this OM&S–Ammunition was valued at \$21.3 billion.

Table 1. Total Army-Held, Other Services-Owned OM&S–Ammunition, According to Army

Service	Quantity	Dollar Value
Marine Corps	1,015,334,118	\$5,029,730,055
Navy	306,813,738	7,565,056,564
Air Force	401,327,288	8,680,231,874
Total	1,723,475,144	\$21,275,018,493

Source: Based on Army accountable property systems of record as of September 30, 2015.

Ammunition Information Systems

The Army and other Services use several accountable property systems of record (APSR)² to manage their respective OM&S–Ammunition. The other Services rely on the Army APSRs—Logistics Modernization Program (LMP) for wholesale sites and the Worldwide Ammunition Reporting System–New Technology (WARS-NT) for retail sites³—for OM&S–Ammunition records including ownership, location, Condition Code,⁴ and quantity. The Army has an automated interface to send Marine Corps and Navy-owned LMP (Army) records to the Ordnance Information System (OIS) and Air Force-owned LMP (Army) records to

¹ The 1.7 billion OM&S Ammunition assets excluded 313.9 million Navy Special Warfare assets that the Army held but were reported on U.S. Special Operations Financial Statements.

² An APSR is a system that maintains the property records that reflect the current status, location, and condition of an asset.

³ Wholesale sites supply OM&S–Ammunition to retail sites. Retail sites supply OM&S–Ammunition to operational units.

⁴ A Condition Code is a one-character alphabetic code used to classify material in terms of readiness or to identify action underway to change the status of material. See Appendix B for a list of Condition Codes, their titles, and use.

the Combat Ammunition System (CAS) for financial reporting. However, Army personnel currently send WARS-NT (Army) OM&S–Ammunition records to the other Services monthly, as there is no automated transmission to OIS (Marine Corps and Navy) or CAS (Air Force). See the Glossary for more information on the APSRs discussed above.

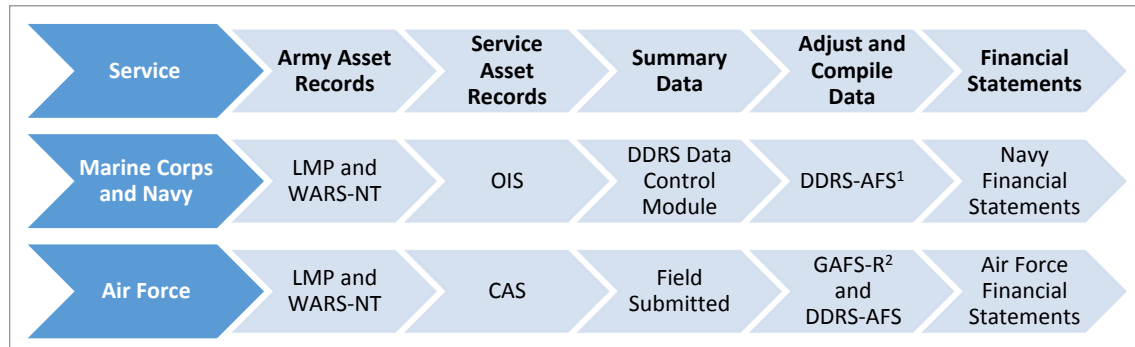
Roles, Responsibilities, Requirements, and Processes

The Secretary of the Army is the DoD’s Single Manager for Conventional Ammunition. According to DoD Instruction 5160.68,⁵ the Single Manager’s mission includes all aspects of the conventional ammunition, from development to disposal.

Financial Reporting

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO) is responsible for issuing financial reporting guidance. The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for implementing that guidance in the Department of Navy Financial Statements, which includes the Marine Corps financial data. The Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) is responsible for the Department of Air Force Financial Statements. The other Services’ OM&S–Ammunition financial reporting data flows are similar, with OM&S–Ammunition records originating in logistics systems that are summarized, adjusted, and compiled in financial reporting systems for the financial statements. Figure 1 illustrates the other Services’ financial reporting data flows.

Figure 1. Other Services’ OM&S–Ammunition Financial Reporting Data Flows



Source: Based on DoD OIG analysis of DoD information systems

¹ DDRS-AFS - Defense Departmental Reporting System – Audited Financial Statements

² GAFS-R - General Accounting and Financial System – Reengineered

⁵ DoD Instruction 5160.68, “Single Manager for Conventional Ammunition (SMCA): Responsibilities of the SMCA, the Military Services, and United States Special Operations Command (USSOCOM),” December 29, 2008.

The other Services prepare quarterly and annual financial statements to comply with Office of Management and Budget Circular No. A-136⁶ and DoD Financial Management Regulation (FMR), volume 6B, chapter 1.⁷ Currently, the other Services' annual financial statements, including OM&S, are not audit ready, as required by the Chief Financial Officers Act of 1990. The other Services' financial statements are required to be validated as audit ready by September 30, 2017, according to Public Law 111-84.⁸ To support this requirement, the OUSD(C)/CFO required reporting entities ensure the existence and completeness auditability of all mission-critical assets, including OM&S, by June 30, 2016.

Ammunition Management

The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD[AT&L]) is responsible for issuing guidance related to OM&S–Ammunition management. OUSD(AT&L) publishes DoD Manual 4140.01, volume 5,⁹ which requires Army and other Service personnel to collaborate to ensure that the inventory data, including OM&S–Ammunition inventory, in their respective systems is the same. To implement this guidance, the Secretary of the Army delegated OM&S–Ammunition management responsibilities to the Deputy Commanding General of Army Materiel Command.¹⁰

The Army Joint Munitions Command (JMC), a subordinate command of Army Materiel Command, stores and manages bulk OM&S–Ammunition at wholesale sites for the Army and other Services, and transmits LMP (Army) information to support the other Services' financial statements. The Commander, Army JMC chairs the Joint Ordnance Commanders Group (JOCG), which develops and provides standardized conventional ammunition management practices for the Army and other Services through the “Joint Conventional Ammunition Policies and Procedures” (JCAPP).¹¹ The JOCG does not currently use these policies and procedures to require the Army and other Services to comply with DoD Manual 4140.01, volume 5.

⁶ Office of Management and Budget Circular No. A-136, “Financial Reporting Requirements,” September 18, 2014.

⁷ DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 6B, chapter 1, “Introduction and Summary.”

⁸ Public Law 111-84, “National Defense Authorization Act for Fiscal Year 2010,” Section 1003, “Audit Readiness of Financial Statements of the Department of Defense,” October 28, 2009.

⁹ DoD Manual 4140.01, volume 5 “DoD Supply Chain Materiel Management Procedures: Delivery of Materiel,” February 10, 2014.

¹⁰ The Secretary of the Army delegated Single Manager for Conventional Ammunition to the Assistant Secretary of the Army for Acquisitions, Logistics, and Technology, who in turn delegated asset management responsibilities to Deputy Commanding General of Army Materiel Command.

¹¹ “Joint Conventional Ammunition Policies and Procedures,” October 2014.

Multiple Army commands¹² oversee retail sites, which issue OM&S–Ammunition to operational units and transmit information to support the other Services’ financial statements through WARS-NT (Army).

The other Services dedicate commands to OM&S–Ammunition management and logistics, including: Marine Corps Systems Command; Naval Supply Systems Command (NAVSUP), Global Logistics Support Ammo; and Air Force Headquarters, A4.

Review of Internal Controls

DoD Instruction 5010.40¹³ 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 reviewed the Army’s and other Services’ internal controls operating for FY 2015 financial reporting. We identified internal control weaknesses related to the reconciling of Army-held, other Services-owned OM&S–Ammunition records and compiling of the other Services’ financial statement OM&S amounts. We will provide a copy of the report to the senior official responsible for internal controls in the DoD, Army, and other Services.

¹² Those commands include: Sustainment, Central, Pacific, Europe, Installation Management, Forces, South, and Africa.

¹³ DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013.

Finding A

The Army and Other Services Need to Adequately Reconcile Army-Held OM&S–Ammunition Records

Army and other Service personnel did not reconcile 65.9 million Army-held OM&S–Ammunition assets, valued at \$1.7 billion.¹⁴ This occurred because the JOCG OM&S–Ammunition management policies and procedures did not require records maintained by the Army, as custodian, and the other Services' financial reporting records to be the same,¹⁵ as required by DoD Manual 4140.01, volume 5. Specifically, the JOCG policies and procedures did not include roles and responsibilities for the:

- performance of a complete, quarterly reconciliation of all Army-held OM&S–Ammunition records maintained by the Army and other Services; and
- assignment of ownership in OM&S–Ammunition records or retention of documentation to support ownership.

Inadequate policies and procedures, including a complete, quarterly reconciliation of Army-held, other Services-owned OM&S–Ammunition records, increased the risk of OM&S–Ammunition managers relying on inaccurate OM&S–Ammunition records to make decisions regarding the acquisition, distribution, transportation, storage, maintenance, and disposal of OM&S–Ammunition. In addition, the other Services may assert OM&S audit readiness with material amounts of Army-held OM&S–Ammunition misreported on or omitted from their financial statements.

Inadequately Reconciled Records

Army and other Service personnel did not reconcile 65.9 million Army-held, other Services-owned OM&S–Ammunition assets, valued at \$1.7 billion, which affected the accuracy of the amounts reported on the FY 2015 Department of Navy and Air Force Financial Statements. Table 2 depicts the unreconciled Army-held OM&S–Ammunition record differences for each of the other Services.

¹⁴ The asset valuations in this finding were based on the other Services' valuations, when available. When unavailable, Army's valuations were used. We did not verify the accuracy of the OM&S–Ammunition dollar amounts reported in the balance sheet or footnotes.

¹⁵ A custodian is someone who keeps and protects something valuable for another person.

Table 2. Unreconciled OM&S–Ammunition Record Differences for Each of the Other Services

Service	Quantity	Dollar Value
Marine Corps	25,952,275	\$845,068,577
Navy	24,179,268	343,908,718
Air Force	15,790,081	537,407,043
Total	65,921,624	\$1,726,384,339

Source: Based on DoD OIG analysis of the Army's and other Services' records as of September 30, 2015.

The other Services' respective APSRs—CAS (Air Force) and OIS (Marine Corps and Navy)—did not include 58 million of the 65.9 million unreconciled OM&S–Ammunition assets (valued at \$1.4 billion) reported in the Army's records (LMP [Army]). For example, LMP (Army) contained:

- 5,030 Army-held, Marine Corps-owned 120-millimeter cartridges,¹⁶ valued at \$4.8 million, not in OIS (Marine Corps).
- 38 Army-held, Navy-owned guided missiles,¹⁷ valued at \$33.7 million, not in OIS (Navy).
- 3,654 Army-held, Air Force-owned penetrating bombs,¹⁸ valued at \$78.2 million, not in CAS (Air Force).

Since this OM&S–Ammunition was not in OIS (Marine Corps and Navy) or CAS (Air Force), it was not reported in the FY 2015 Department of Navy and Air Force Financial Statements, respectively.

Army's APSRs—LMP (Army) and WARS-NT (Army)—did not include the remaining 7.9 million of the 65.9 million unreconciled OM&S–Ammunition assets (valued at \$318.9 million) that were in OIS (Marine Corps and Navy) and CAS (Air Force). For example:

- OIS (Marine Corps) contained 41,448 Army-held, Marine Corps-owned 40-millimeter cartridges,¹⁹ valued at \$2.2 million, not in LMP (Army).
- OIS (Navy) contained 619,371 pounds of Army-held, Navy-owned magnesium,²⁰ valued at \$2.2 million, not in LMP (Army).

¹⁶ The 120-millimeter cartridges record had a NIIN of 016072105 and Condition Code of A.

¹⁷ The guided missiles record had a NIIN of 013954613 and Condition Code of A.

¹⁸ The penetrating bombs record had a NIIN of 015855698 and Condition Code of A. These were used in the production of Air Force OM&S–Ammunition. Neither Army nor Air Force included them in their FY 2015 financial statements. The JOCG issuing policies and procedures requiring the Army and other Services to specify and define the codes used to indicate ownership and perform complete, quarterly reconciliations should resolve this issue.

¹⁹ The 40-millimeter cartridges record had a NIIN of 015642160 and Condition Code of A.

²⁰ The magnesium record had a NIIN of 009355878 and Condition Code of A.

- CAS (Air Force) contained 88 Army-held, Air Force-owned guidance and control sections of guided missiles,²¹ valued at \$7.9 million, not in LMP (Army).

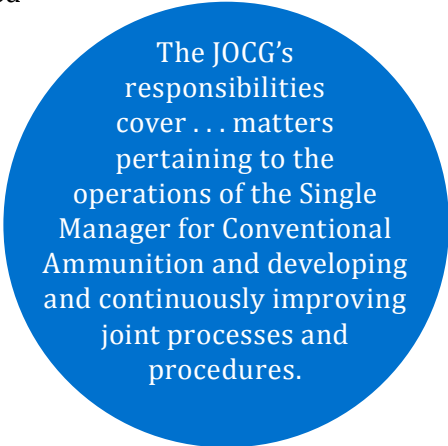
Because the other Services' APSRs included Army-held OM&S–Ammunition that Army's APSRs did not include, the Department of Navy and Air Force potentially overstated their FY 2015 financial statements by reporting OM&S–Ammunition that did not exist.

While the six examples above represent instances of Army APSRs including records not in the other Services' APSRs, along with the opposite circumstance, the Army and other Services need to conduct additional research to determine whether this OM&S–Ammunition actually existed and whether it should have been included in the financial statements.

Inadequate Asset Management Policies and Procedures

The JOCG OM&S–Ammunition management policies and procedures did not require records maintained by the Army, as custodian, and the other Services' financial reporting records to be the same, as required by DoD Manual 4140.01, volume 5. Specifically, the JOCG did not define roles and responsibilities for performing complete, quarterly reconciliations of OM&S–Ammunition records and for the assignment of ownership to OM&S–Ammunition records or retention of ownership documentation.

The JOCG's responsibilities cover the entire spectrum of conventional ammunition life cycle management, including matters pertaining to the operations of the Single Manager for Conventional Ammunition and developing and continuously improving joint processes and procedures. As the Army and other Services' joint processes did not ensure OM&S–Ammunition records were the same, the JOCG should issue policies and procedures requiring the Army and other Services personnel to improve their joint processes.



The JOCG's responsibilities cover . . . matters pertaining to the operations of the Single Manager for Conventional Ammunition and developing and continuously improving joint processes and procedures.

²¹ The guidance and control sections of guided missiles record had a NIIN of 012859800 and Condition Code of G.

Reconciliation Roles and Responsibilities Not Defined

The JOCG did not have policies and procedures defining the Army and other Services' roles and responsibilities for performing complete, quarterly reconciliation of Army-held, other Services-owned OM&S–Ammunition and requiring reconciliation files be retained.

Lack of a Complete Reconciliation

Due to inadequate JOCG policies and procedures, Army and other Service personnel did not perform complete reconciliations of their OM&S–Ammunition records. For example, Marine Corps personnel stated that they reconciled the transactions from LMP (Army) daily. However, the daily transaction reconciliation file, also known as the DZA file, did not include all Army-held, Marine Corps-owned OM&S–Ammunition in LMP (Army). The incomplete reconciliations resulted in unreconciled differences, such as:

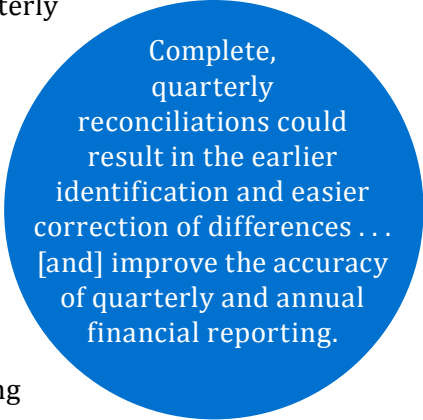
- transferred OM&S–Ammunition records in OIS (Marine Corps) were not recorded in LMP (Army),
- transferred OM&S–Ammunition records were removed from LMP (Army), but not from OIS (Marine Corps), and
- OIS (Marine Corps) did not accept LMP (Army) OM&S–Ammunition asset records because OIS (Marine Corps) requires Marine Corps to be listed as a user of that OM&S–Ammunition in the Federal Logistics Information System (FLIS)²² in order to be accepted by OIS (Marine Corps).

Air Force personnel stated it was pointless to perform complete reconciliations because CAS (Air Force) could only receive summary-level LMP (Army) data, not the transaction-level LMP (Army) data needed to perform complete reconciliations. In an attempt to overcome this limitation, Air Force personnel identified and researched differences between summary-level daily balances for select OM&S–Ammunition but did not perform complete reconciliations to ensure Army and Air Force OM&S–Ammunition records were the same, as required by DoD Manual 4140.01, volume 5. Until CAS (Air Force) is able to receive transaction-level data, Air Force personnel should develop a plan to perform complete, quarterly reconciliations using alternative procedures that resolves all differences between the summary-level data used by CAS (Air Force) and the LMP (Army) and perform a complete, quarterly reconciliation once CAS (Air Force) receives transaction-level LMP (Army) data.

²² FLIS is a list of National Stock Numbers, manufacturers' part numbers, and Commercial and Government Entity Codes supplemented with related data for more than 15 million assets used by the Government. FLIS lists authorized users of OM&S–Ammunition, which the Army and other Services use to determine the record data to send, receive, and accept.

While Navy performed daily reconciliations similar to Marine Corps, Navy personnel also had an annual reconciliation process in place in contrast to Air Force and Marine Corps. However, that process was not effective because the Army reconciliation file used was incomplete, as discussed in this report's next section. As a result, the Navy's reconciliation process did not identify and resolve all differences between Army and Navy OM&S–Ammunition records.

The Army and other Services performing complete, quarterly reconciliations could result in the earlier identification and easier correction of differences compared to annual reconciliations. The quarterly reconciliations would also improve the accuracy of quarterly and annual financial reporting required by Office of Management and Budget Circular No. A-136 and DoD FMR, volume 6B, chapter 1. In August 2015, Army and other Service personnel agreed that the key data fields required for complete OM&S–Ammunition reconciliations were Routing Identifier Code (RIC),²³ Ownership/Purpose Code (O/P Code), National Item Identification Number (NIIN),²⁴ Condition Code, and Quantity. In later discussions, the other Services' personnel also agreed that the DoD Activity Address Code²⁵ and Unit Identification Code²⁶ were key data fields necessary to identify the cause for variances. Therefore, the JOCG should develop and issue policies and procedures requiring the Army and other Services perform complete, quarterly reconciliations of the key data fields for all Army-held, other Services-owned OM&S–Ammunition records and resolve differences.



Complete, quarterly reconciliations could result in the earlier identification and easier correction of differences . . . [and] improve the accuracy of quarterly and annual financial reporting.

Furthermore, the other Services' personnel did not reconcile WARS-NT (Army) retail site OM&S–Ammunition records with records in their respective APSRs (OIS [Marine Corps and Navy] and CAS [Air Force]). For example, Marine Corps personnel acknowledged they did not report in the Navy's FY 2015 third-quarter financial statements 64.9 million Army-held, Marine Corps-owned OM&S–Ammunition (valued at \$726.5 million) recorded in WARS-NT (Army). During the audit, Marine Corps personnel stated that they had not reported

²³ The Army and other Services use RICs and O/P Codes in their OM&S–Ammunition APSRs to identify the owner that should include that OM&S–Ammunition record on their financial statements.

²⁴ A NIIN is a nine-character numeric code that identifies a specific asset procured by the Government.

²⁵ A DoD Activity Address Code is a six-character code that uniquely identifies a unit, activity, or organization that has the authority to requisition, contract for, receive, have custody of, issue, or ship Government-owned assets, or fund or pay bills for materials and services.

²⁶ A Unit Identification Codes is a six-character code created by the DoD Components to identify an activity in manpower and readiness reporting systems.

these assets because the WARS-NT (Army) file was not automatically uploaded to OIS (Marine Corps). However, Marine Corps personnel agreed to report and actually reported the WARS-NT (Army) OM&S–Ammunition records beginning with the FY 2015 annual Department of Navy Financial Statements.

Navy and Air Force personnel were able to demonstrate that they recorded some WARS-NT (Army) OM&S–Ammunition records in OIS (Navy) and CAS (Air Force). However, they could not provide a complete reconciliation between WARS-NT (Army) and their respective APSRs. Implementing complete, quarterly reconciliations of all Army-held, other Services-owned OM&S–Ammunition records, including those in WARS-NT (Army), would result in more accurate OM&S–Ammunition records and financial reports.

Navy personnel stated they did not reconcile to WARS-NT (Army) records because the WARS-NT (Army) file did not contain transaction-level data. Subsequently, the Army provided support showing WARS-NT (Army) has the ability to provide transaction-level data. The JOCG should develop and issue policies and procedures requiring the Army and other Services to provide transaction-level data for all transactions related to Army-held, other Services-owned OM&S–Ammunition.

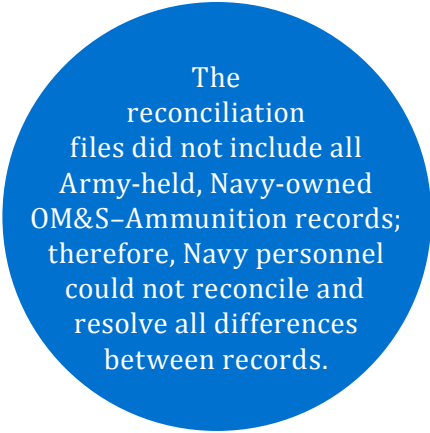
In addition to the Marine Corps OM&S–Ammunition record information not being cataloged in FLIS, as identified earlier in this report, Air Force personnel did not include some OM&S–Ammunition records in CAS (Air Force). This occurred because the Air Force was not listed as a potential owner of that OM&S–Ammunition in FLIS. While the Army and Air Force personnel need to research these discrepancies to determine whether FLIS should be revised, these discrepancies resulted in incomplete OM&S–Ammunition record reconciliations and financial statements. Since the Army and other Services initiate FLIS catalog changes, the JOCG should develop and issue policies and procedures requiring the Army and other Services assure that all NIINs, manufacturers’ part numbers,²⁷ and Commercial and Government Entity Codes²⁸ are accurately and completely cataloged in FLIS to minimize differences between the Army’s and other Services’ records.

²⁷ A manufacturers’ part number is a 32-character field containing the part number assigned by the manufacturer.

²⁸ A Commercial and Government Entity Code is a five-character alpha-numeric identifier assigned to entities located in the United States and its territories.

Incomplete Reconciliation Files

The JOCG did not have policies and procedures to ensure the reconciliation files provided by Army to Navy were complete. Specifically, the reconciliation files did not include all Army-held, Navy-owned OM&S–Ammunition records; therefore, Navy personnel could not reconcile and resolve all differences between records. For example, NAVSUP personnel provided support for 656 NIIN and Condition Code combinations recorded in LMP (Army) that were not in the Army’s reconciliation file provided to Navy. This occurred in part because Army JMC personnel did not include non-standard NIINs²⁹ in their reconciliation file. NAVSUP personnel also provided support for 89 NIIN and Condition Code combinations in OIS (Navy) that were not included in the Army’s reconciliation file provided to Navy. Additionally, Marines Corps and Air Force personnel did not receive Army reconciliation files, and therefore were unable to confirm the completeness of their OM&S–Ammunition records. The JOCG should develop and issue policies and procedures requiring the Army and other Services to provide complete transaction-level reconciliation files and validate the completeness of the reconciliation files upon receipt.



The reconciliation files did not include all Army-held, Navy-owned OM&S–Ammunition records; therefore, Navy personnel could not reconcile and resolve all differences between records.

Reconciliation Files Not Retained

The JOCG did not develop and issue policies and procedures requiring the Army and other Services to retain OM&S–Ammunition reconciliation files as required by DoD FMR, volume 1, chapter 9 and U.S. National Archives and Records Administration (NARA) guidance.³⁰ Army personnel did not retain the FY 2015 reconciliation file provided to the Navy.³¹ Therefore, Army personnel were unable to identify the causes for the incomplete reconciliation file previously discussed. NARA guidance states that records supporting the compilation of agency financial statements, such as schedules and reconciliations prepared to support financial statements, should be destroyed no less than 2 years after closure of the financial statements. The JOCG should develop and issue policies and procedures requiring the Army and other Services to retain OM&S–Ammunition reconciliations files in accordance with DoD FMR and NARA guidance.

²⁹ The term non-standard NIIN describes information that is not in the standard nine-character numeric format.

³⁰ DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 1, chapter 9 “Financial Records Retention” defers to NARA “General Records Schedule 1.1: Financial Management and Reporting Records,” September 2014, for guidance on the disposal of records. In February 2016, OUSD(C)/CFO updated the DoD FMR to include the same document retention requirements as NARA for the compilation of financial statements and the ownership of assets.

³¹ Army could not provide the file sent to Navy. Navy was able to provide an altered version of the file they received from the Army. The alteration resulted from the LMP (Army) interface converting the reconciliation file to a format OIS (Navy) allows and from OIS (Navy) attempting to match the file to its records.

Lack of Ownership and Document Retention Criteria

The JOCG and Army personnel did not develop and implement policies and procedures to define the codes supporting the ownership of Army-held OM&S–Ammunition. We reported in Report No. DODIG-2015-165,³² the Army lacked ownership policies and procedures, which contributed to the issuance

of an adverse examination opinion.³³ Specifically,

When an OM&S–Ammunition production asset contained both Army and Air Force ownership codes, neither reported the asset on their financial statements.

Report No. DODIG-2015-165 stated that Army personnel did not establish adequate guidance defining OM&S–Ammunition asset ownership codes. The Army used RICs and O/P Codes to denote OM&S–Ammunition ownership.

When RICs and O/P Codes resulted in inconsistent ownership assignment, OM&S–Ammunition could have been unreported or misreported on the Army’s and other Services’ financial statements. For example,

when an OM&S–Ammunition production asset contained both Army and Air Force ownership codes, neither reported the asset on their financial statements. For OM&S–Ammunition and their corresponding records to be attributed correctly, ownership guidance must clearly be established and consistently applied by Army and other Services. The Army’s inadequate guidance precluded the Army and other Services from determining ownership as necessary for complete reconciliations of the Army-held OM&S–Ammunition records.

Army personnel stated they were revising Department of the Army Pamphlet 700-16³⁴ by September 30, 2016, to provide procedural guidance for correctly assigning ownership codes to OM&S–Ammunition records. To facilitate complete reconciliations of Army’s APSRs to the other Services’ APSRs, the JOCG should develop and issue policies and procedures specifying and defining the codes the Army and other Services use to indicate ownership.

In addition, JOCG personnel did not have document retention policies and procedures for OM&S–Ammunition that comply with DoD FMR, volume 1, chapter 9 and NARA guidance. Both these sources of guidance state that records necessary for documenting the existence, acquisition, ownership, cost, valuation, depreciation, and classification of assets should be retained for at least 2 years after asset disposal or removal from an agency’s financial statements. Report No. DODIG-2015-165 concluded that Army personnel could not provide

³² Report No. DODIG-2015-165, “Independent Auditor’s Report on the Attestation of the Existence, Completeness, and Rights of Select Army-Held Operating Materials and Supplies–Ammunition,” August 28, 2015.

³³ An adverse examination opinion essentially states that the entities’ financial statements do not present results fairly or are not conforming to the generally accepted accounting principles.

³⁴ Army Pamphlet 700-16, “The Army Ammunition Management System,” December 1, 1982.

documentation to support ownership of OM&S–Ammunition recorded in Army APSRs. Furthermore, during this audit, Air Force personnel stated they lacked “key supporting documentation to substantiate that the Air Force owns what is being reported in CAS [Air Force].” The JOCG should develop and issue policies and procedures requiring the Army and other Services to retain OM&S–Ammunition transaction documentation in accordance with DoD FMR and NARA guidance.

Increased Audit-Readiness Risk

Inadequate policies and procedures, including a complete, quarterly reconciliation of Army-held, other Services-owned OM&S–Ammunition, increased the risk of:

- decision-makers relying on inaccurate OM&S–Ammunition records to make acquisition, distribution, transportation, storage, maintenance, and disposal decisions; and
- the other Services asserting compliance with the FY 2017, congressionally mandated, full financial statement auditability deadline, and June 30, 2016, OM&S existence and completeness audit-readiness deadline, with material amounts of Army-held OM&S–Ammunition misreported on or omitted from their financial statements.

Management Comments on the Finding and Our Response

Management Comments on the Reconciliation of OM&S–Ammunition Records

The Executive Director for Ammunition, Army JMC disagreed with the notion that the JOCG has not directed the Army and other Services to work together in order to promote OM&S–Ammunition accountability and financial reporting readiness. She stated that the goal of the JCAPP, along with DoD Directive 5160.65³⁵ and DoD Instruction 5160.68, is to provide high-level guidance to all entities identifying who will perform each duty listed, not spell out the detail on how the duty will be worked. However, she acknowledged that the JCAPP can be improved to address reconciliation per DODIG findings.

Our Response

We agree that JOCG provided guidance for the Army and other Services to work together towards the accuracy and timeliness of the OM&S financial records. This was demonstrated by the Marine Corps and Navy performing transaction-level reconciliations with Army and the ongoing efforts by the Army and other Services to develop OM&S–Ammunition APSRs capable of sending and

³⁵ DoD Directive 5160.65, “Single Manager for Conventional Ammunition (SMCA)” August 1, 2008.

receiving transaction level data. The Executive Director for Ammunition, Army JMC acknowledged that implementation of our recommendations will lead to improvements in internal controls over the reconciliation process.

This report identified weaknesses in the JCAPP, such as the lack of procedures for the assignment of production asset ownership and ensuring the completeness of the reconciliation files transmitted between the Army and other Services. The lack of such procedures resulted in incompatibilities between the Army and other Services reconciliation processes. These incompatibilities precluded the Army and other Services personnel from performing complete reconciliations. The goal of our recommendations to JOCG is their issuance of high-level policies and procedures with sufficient detail to ensure that the Army and other Services perform complete, quarterly reconciliations.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend the Commander, Army Joint Munitions Command, as Chairman of the Joint Ordnance Commanders Group, develop and issue policies and procedures to require the Army and other Services to:

- a. Perform complete, quarterly reconciliations of Ownership/Purpose Codes, Routing Identifier Codes, National Item Identification Numbers, DoD Activity Address Codes, Unit Identification Codes, Condition Codes, and Quantities for all Army-held, other Services-owned Operating Materials and Supplies-Ammunition records (both wholesale and retail) and resolve differences to improve the accuracy of financial reporting.**

Chairman of the Joint Ordnance Commanders Group Comments

The Executive Director for Ammunition, Army JMC, responding on behalf of the Chairman of the JOCG, agreed and stated her office has been working with the other Services over the past six years to ensure records are correctly passed between systems and has been pressing to automate the reconciliation process. She also stated the other Services will need to review Army data and provide responses. The estimated completion date for the automated reconciliation process is December 31, 2017.

Our Response

The Executive Director for Ammunition's comments partially addressed the specifics of the recommendation. She did not address our recommendation that JOCG's policies and procedures include requirements for the reconciliation of the cited data fields and the inclusion of both wholesale and retail data in the reconciliation process. We request that the Chairman of the JOCG provide comments on the final report to address actions planned or taken.

- b. Provide transaction-level data for all transactions related to Army-held, other Services-owned Operating Materials and Supplies–Ammunition.**

Chairman of the Joint Ordnance Commanders Group Comments

The Executive Director for Ammunition, Army JMC, responding on behalf of the Chairman of the JOCG, agreed. She stated Army JMC continues to work to provide transaction-level data to the other Services. The estimated completion date for providing transaction-level data to the other Services is December 31, 2017.

Our Response

The Executive Director for Ammunition's comments addressed all specifics of the recommendation, and no further comments are required.

- c. Provide assurance that all National Item Identification Numbers, manufacturers' part numbers, and Commercial and Government Entity Codes are accurately and completely cataloged in the Federal Logistics Information System to minimize differences between the Army's and other Services' records.**

Chairman of the Joint Ordnance Commanders Group Comments

The Executive Director for Ammunition, Army JMC, responding on behalf of the Chairman of the JOCG, partially agreed. She stated that although the Logistics Support Activity owns the data feed from FLIS into LMP (Army) and controls the permanent addition of new stock numbers, Army JMC will continue to work with Logistics Support Activity to update FLIS.

Our Response

The Executive Director for Ammunition's comments partially addressed the specifics of the recommendation. She did not comment on whether JOCG is developing policy and procedures requiring that National Item Identification Numbers, manufacturers' part numbers, and Commercial and Government Entity Codes be accurately and completely catalogued in FLIS. The JCAPP provides the

standardized practices for conventional ammunition management, which should include requirements that those numbers and codes be accurately and completely catalogued to ensure the accuracy and completeness of FLIS data, so that the Army and other Services may rely on it for use as an effective financial reporting control. The JCAPP, however, does not include such requirements. We request that the Chairman of the JOCG provide comments on the final report to address actions planned or taken.

d. Provide and validate complete Army-held, other Services-owned Operating Materials and Supplies–Ammunition record reconciliation files.

Chairman of the Joint Ordnance Commanders Group Comments

The Executive Director for Ammunition, Army JMC, responding on behalf of the Chairman of the JOCG, agreed. She stated that Army JMC is able to provide the reconciliation data today but data validation is tied to the ability of systems outside of LMP (Army) to receive transaction-level data. The estimated completion date for providing and validating complete, transaction-level reconciliation files is December 31, 2017.

Our Response

The Executive Director for Ammunition's comments partially addressed the specifics of the recommendation. Her comments did not address developing policies and procedures requiring the Army and other Services to validate reconciliation file completeness. The JCAPP provides standardized practices for conventional ammunition management, which should include requirements for complete reconciliation files. Including this level of detail in the JCAPP is necessary to ensure that the Army and other Services have complete reconciliation files available to perform complete, quarterly reconciliations.

Additionally, while Army personnel are currently able to provide reconciliation files, our report identified that these files were not validated as complete according to LMP (Army). Specifically, her comments did not address policies and procedures requiring the Army to validate reconciliation file completeness before sending them to the other Services. We request that the Chairman of the JOCG provide comments on the final report to address actions planned or taken.

- e. **Retain Operating Materials and Supplies–Ammunition reconciliation data files for at least 2 years after closure of the financial statement, in accordance with DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 1, chapter 9, “Financial Records Retention,” and U.S. National Archives and Records Administration, “General Records Schedule 1.1” requirements.**

Chairman of the Joint Ordnance Commanders Group Comments

The Executive Director for Ammunition, Army JMC, responding on behalf of the Chairman of the JOCG, agreed. She stated that the JCAPP would be updated to require Army JMC to maintain reconciliation files for a period of two years. She also stated that the Army and other Services should only be responsible for the data that comprises their financial statements and that the Army will hold only Army financial data. She concluded that Army has fully implemented this recommendation.

Our Response

The Executive Director for Ammunition’s comments partially addressed the specifics of the recommendation. She stated that the JCAPP would be updated to require Army JMC to retain reconciliation files. However, she also stated that the Army would hold only Army financial data, making it unclear whether the updated policy would require Army to retain reconciliation files sent to the other Services. As custodian of the other Services’ OM&S–Ammunition, Army should retain the reconciliation files sent to the other Services. Army personnel did not retain the most recent annual reconciliation file sent to Navy and have provided no evidence Army fully implemented this recommendation. We request that the Chairman of the JOCG provide comments on the final report to address actions planned or taken.

- f. Specify and define the codes the Army and other Services use to indicate ownership of Operating Materials and Supplies–Ammunition.**

Chairman of the Joint Ordnance Commanders Group Comments

The Executive Director for Ammunition, Army JMC, responding on behalf of the Chairman of the JOCG, agreed. She stated that Army is working to determine acceptable RIC and O/P Code combinations and implementation is contingent upon Department of the Army G4.

Our Response

The Executive Director for Ammunition’s comments partially addressed the specifics of the recommendation. Her comments do not address JOCG’s plans for requiring the other Services to specify and define the codes used to indicate ownership. We request that the Chairman of the JOCG provide comments on the final report to address actions planned or taken.

- g. Retain Operating Materials and Supplies–Ammunition transaction documentation files for at least 2 years after the asset is disposed of or removed from the agency’s financial statement, in accordance with DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 1, chapter 9, “Financial Records Retention,” and U.S. National Archives and Records Administration, “General Records Schedule 1.1” requirements.**

Chairman of the Joint Ordnance Commanders Group Comments

The Executive Director for Ammunition, Army JMC, responding on behalf of the Chairman of the JOCG, agreed. She stated that LMP (Army) is designed to hold asset information for 75 months, which exceeds DoD FMR and NARA requirements.

Our Response

The Executive Director for Ammunition’s comments did not address all the specifics of the recommendation because the proposed JCAPP language does not comply with NARA requirements. While the proposed language states that Army JMC will maintain “custodial record for use as exhibit for a period of two years,” it does not specifically require the retention of custodial record supporting documentation for at least 2 years after asset disposal or removal from an agency’s financial

statements, as required by NARA. Examples of this supporting documentation may include purchase orders, contracts, and transfer, acceptance, and inspection records. Additionally, her comments focused on retention of LMP (Army) asset information for 75 months instead of the supporting documentation discussed above, which does not reside in LMP (Army). Also, her comments did not address the retention of WARS-NT (Army) supporting documentation. We request that the Chairman of the JOCG provide comments on the final report to address actions planned or taken.

Recommendation A.2

We recommend Deputy Chief of Staff, Air Force Headquarters, A4 develop a plan to perform complete, quarterly reconciliations of Army-held Operating Materials and Supplies–Ammunition using:

- a. Alternative procedures that resolve all differences between the summary-level data provided by Army and used by Combat Ammunition System and Logistics Modernization Program until Combat Ammunition System is capable of receiving transaction-level data from the Army.**

Deputy Chief of Staff, Air Force Headquarters, A4 Comments

The Assistant Deputy Chief of Staff for Air Force Headquarters, A4, responding on behalf of the Deputy Chief of Staff, Air Force Headquarters, A4, agreed. He stated that the Air Force does make an extensive effort to resolve summary-level data differences and meet current policy to achieve variance less than 3 percent. The Air Force will continue to explore ways to improve accuracy, but 100 percent reconciliation may not be possible until CAS (Air Force) is capable of receiving transactional-level data. A modernized version of CAS (Air Force) is expected to be fielded in early 2017 and should provide the ability to fully reconcile Army-held OM&S–Ammunition. The estimated completion date implementing procedures that resolve all differences between the summary-level data provided by Army for CAS (Air Force) and LMP (Army) is April 2017.

Our Response

The Assistant Deputy Chief of Staff for Air Force Headquarters, A4's comments addressed all specifics of the recommendation, and no further comments are required.

b. The Combat Ammunition System once it is capable of receiving transaction-level data from the Army.

Deputy Chief of Staff, Air Force Headquarters, A4 Comments

The Assistant Deputy Chief of Staff for Air Force Headquarters, A4, responding on behalf of the Deputy Chief of Staff, Air Force Headquarters, A4, agreed and stated his office will develop a plan to perform complete, quarterly reconciliations of Army-held OM&S–Ammunition using CAS (Air Force) once it is capable of receiving transaction-level data from the Army. The estimated completion date implementing procedures that resolve all transaction-level differences between LMP (Army) and CAS (Air Force) is April 2017.

Our Response

The Assistant Deputy Chief of Staff for Air Force Headquarters, A4's comments addressed all specifics of the recommendation, and no further comments are required.

Finding B

The Other Services Had Ineffective Financial Statement Compilation Processes for OM&S

The other Services' personnel did not correctly record, adequately support, or accurately report OM&S³⁶ in their financial statements. Specifically:

- other Services' personnel did not record \$8.5 billion in OM&S–Ammunition³⁷ to the correct OM&S categories³⁸ because OM&S–Ammunition records were not correctly crosswalked from Condition Code to OM&S category.
- other Services' personnel did not accurately report \$1.6 billion of Excess, Obsolete, and Unserviceable (EOU)³⁹ OM&S in their financial statements.
- Air Force personnel did not adequately support \$57 million in financial statement adjustments.

This occurred because OUSD(C)/CFO personnel did not provide adequate guidance for the recording of OM&S–Ammunition to the correct OM&S category and reporting of EOU. In addition, the other Services' OM&S–Ammunition and financial management personnel did not implement effective OM&S financial statement compilation controls.

The incorrect recording, inadequate supporting, and inaccurate reporting of OM&S increased the risk of materially misstating the other Services' financial statements and not complying with the FY 2017, congressionally mandated, full financial statement auditability deadline.

³⁶ According to the FY 2015 United States Department of Defense–Agency Financial Report, “OM&S includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption.” This finding addresses both the Army-held and other Services-held OM&S reported on FY 2015 Department of Navy and Air Force Financial Statements.

³⁷ We did not verify the accuracy of the OM&S dollar amounts reported in the balance sheet or footnote.

³⁸ The OM&S categories were Held For Use; Held in Reserve For Future Use; EOU; and Held for Repair [Remanufacturing].

³⁹ Excess OM&S is OM&S stock that exceed the amount expected to be used in normal operations. Obsolete OM&S is OM&S that is no longer needed due to changes in technology, laws, customs, or operations. Unserviceable OM&S is OM&S that is physically damaged and cannot be consumed in operations.

Deficiencies in Recording, Supporting, and Reporting of OM&S

The other Services' personnel did not correctly record, accurately report, or adequately support OM&S in their financial statements.

Ammunition Recorded in Incorrect Categories

Miscategorizations created an \$859.7 million potential overstatement of OM&S reported in the FY 2015 Department of Navy and Air Force balance sheets.

The other Services' personnel did not record \$8.5 billion in OM&S–Ammunition to the correct OM&S categories presented in the balance sheet footnotes. The miscategorizations created an \$859.7 million potential overstatement of OM&S reported in the FY 2015 Department of Navy and Air Force balance sheets.⁴⁰

DoD FMR, volume 4, chapter 4⁴¹ defines the relationship between Condition Codes and financial statement OM&S categories, also referred to as a “crosswalk.” For a list of Condition Codes, along with their titles and an explanation of their use, see Appendix B. Because the category used could affect OM&S–Ammunition valuation, incorrect crosswalking could result in valuation differences. As of September 30, 2015, OIS (Marine Corps) contained \$233.8 million of OM&S–Ammunition that Marine Corps personnel incorrectly crosswalked to the Held for Use category, due to unclear guidance for the use of Condition Code N. In accordance with DoD FMR, these records should have crosswalked to the EOU category, which is valued at zero dollars based on current OUSD(C)/CFO guidance.

Table 3 depicts the categorization differences between OM&S–Ammunition records⁴² and the summary data⁴³ used to compile the FY 2015 Department of Navy and Air Force Financial Statements. Specifically, we identified an absolute value⁴⁴ of \$8.5 billion in categorization differences between the OM&S–Ammunition records and summary data, which materially impacts OM&S in the FY 2015 Department of Navy and Air Force Financial Statement footnotes.

⁴⁰ Department of Navy Financial Statements included OM&S in Note 8, and Department of Air Force included it in Note 9.

⁴¹ DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 4 “Inventory and Related Property.”

⁴² OM&S–Ammunition records reside in OIS (Marine Corps and Navy) and CAS (Air Force).

⁴³ Summary data resides in Defense Departmental Reporting System Data Control Module (Marine Corps and Navy) and a spreadsheet that compiles field submitted summary data for Air Force.

⁴⁴ Absolute value is the value of a number without regard to its sign.

Table 3. Categorization Differences Between OM&S–Ammunition Records and Summary Data

Category*	Marine Corps	Navy	Air Force	Total*
Held for Use	\$233,824,215	\$437,720,555	\$ –	\$671,544,770
Held in Reserve for Future Use	–	(2,575,687,630)	(794,634,011)	(3,370,321,642)
EOU	(233,824,215)	(437,720,555)	(188,130,871)	(859,675,641)
Held for Repair (Remanufacturing)	–	2,575,687,630	982,764,882	3,558,452,513
Absolute Value*	\$467,648,430	\$6,026,816,371	\$1,965,529,764	\$8,459,994,565

Source: Based on DoD OIG comparison of the other Services' individual records and financial reporting data as of September 30, 2015.

* Differences of +/- \$1 between the table data and totals are attributed to rounding.

In addition, the total OM&S–Ammunition reported on the FY 2015 Department of Navy and Air Force balance sheets were likely overstated by \$859.7 million, based on current DoD FMR guidance. The potential overstatement resulted from the other Services' personnel incorrectly crosswalking \$671.5 million to the Held for Use category and \$188.1 million to the Held for Repair [Remanufacturing] category,⁴⁵ when these amounts should have been crosswalked to the EOU category. Because current OUSD(C)/CFO policy⁴⁶ requires OM&S–Ammunition records categorized as EOU to be valued at zero dollars, the additional \$859.7 million reported on the FY 2015 Department of Navy and Air Force balance sheets was an overstatement and should have been valued at zero dollars in accordance with current OUSD(C)/CFO guidance. The topic of valuing EOU at zero dollars is discussed in the “Non-Compliant Reporting of Excess, Obsolete, and Unserviceable OM&S” section below.

Inadequate OM&S Category Guidance

DoD FMR, volume 4, chapter 4 guidance, which crosswalks Condition Codes to the appropriate OM&S categories, was unclear and inconsistently applied by the other Services. Table 4 illustrates the different ways the other Services applied the crosswalk to their financial statements. For example, while the DoD FMR requires OM&S–Ammunition records with a Condition of N to be crosswalked to the EOU category, Marine Corps and Navy crosswalked them to the Held for Use category and Air Force crosswalked them to the Held for Repair (Remanufacturing) category.

DoD FMR, volume 4, chapter 4 guidance . . . was unclear and inconsistently applied by the other Services.

⁴⁵ The difference of \$0.1 million between the \$859.7 million in the EOU category and the \$859.6 million in the Held for Use and Held for Repair [Remanufacturing] categories is attributed to rounding.

⁴⁶ OUSD(C)/CFO Memorandum on “Accounting Policy Update for Inventory and Related Property,” March 1, 2013.

Table 4. Incorrect Crosswalking of Condition Codes to Financial Statement OM&S Categories for FY 2015

Condition Code	Condition Code Title	Marine Corps GLAC ¹	Navy GLAC ¹	Air Force GLAC ¹	DoD FMR Guidance GLAC ¹
E	Unserviceable (Limited Restoration)	1512	1514	1514	1512/1513 ²
J	Suspended (In Stock)	1512	1514	1514	1512/1513 ²
K	Suspended (Returns)	1512	1514	1514	1512/1513 ²
L	Suspended (Litigation)	1512	1514	1514	1512/1513 ²
N	Suspended (Suitable for Emergency Combat)	1511	1511	1514	1513
Q	Suspended (Product Quality Deficiency)	Not Used	Not Used	1513	1512/1513 ²
T	Serviceable (Ammunition Suitable for Training Only)	Not Used	1511	Not Used	1513

Source: Based on DoD OIG analysis of summary data provided by the other Services and DoD FMR guidance.

¹ General Ledger Account Code (GLAC) 1511 is "Held for Use." GLAC 1512 is "Held in Reserve for Future Use." GLAC 1513 is "EOU." GLAC 1514 is "Held for Repair (Remanufacturing)."

² The current DoD guidance prescribes mapping to the EOU Category (GLAC 1513) for asset quantities at or below the approved acquisition objective and the Held in Reserve for Future Use category (GLAC 1512) exceeding the objective.

In addition, DoD FMR, volume 4, chapter 4 did not include a crosswalk for Condition Codes N and T to a specific OM&S category on the financial statement. Rather, the DoD FMR prescribed that any OM&S–Ammunition with Condition Codes not expressly crosswalked to the Held for Use, Held in Reserve for Future Use, or Held for Repair (Remanufacturing) categories were, by default, assigned to EOU. The OUSD(C)/CFO, Financial Improvement and Audit Readiness (FIAR) Directorate personnel acknowledged that recording OM&S–Ammunition with Condition Codes N and T in the EOU category was inaccurate and agreed to revise the DoD FMR to crosswalk Condition Code N to the Held in Reserve for Future Use category and Condition Code T to the Held for Use category. Also, OUSD(C)/CFO, FIAR Directorate personnel agreed to explicitly state Condition Codes H, P, and V are the only Condition Codes that should be included in the EOU category.

Further, the DoD FMR makes a distinction on how to report OM&S–Ammunition on the financial statements when they are *above* or *below* the approved acquisition objective.⁴⁷ This distinction determines how the OM&S–Ammunition records are categorized in the footnotes of the financial statements. Current DoD FMR guidance requires OM&S–Ammunition with Condition Codes E, J, K,

⁴⁷ The approved acquisition objective is the quantity of an asset authorized for peacetime and wartime requirements to equip and sustain U.S. and allied forces, according to current DoD policies and plans.

L, and Q that are *above* the approved acquisition objective be reported in the Held in Reserve for Future Use category; however, under current DoD FMR guidance OM&S–Ammunition with Condition Codes E, J, K, L, and Q that are *below* the approved acquisition objective would be categorized as EOU. OUSD(C)/CFO, FIAR Directorate personnel agreed to revise the DoD FMR definition for the Held in Reserve for Future Use category and require the use of this category for recording all OM&S with Condition Codes E, J, K, L, and Q.

OUSD(C)/CFO, FIAR Directorate personnel did not provide a timeframe for the implementation of DoD FMR, volume 4, chapter 4 change discussed above. The OUSD(C)/CFO personnel should update the DoD FMR to accurately and completely crosswalk Condition Codes to OM&S categories, which at a minimum should include explicitly crosswalking all OM&S–Ammunition records with:

- Condition Code N to the Held in Reserve for Future Use category;
- Condition Code T to the Held for Use category;
- Condition Codes H, P, and V to the EOU category; and
- Condition Codes E, J, K, L, and Q to the Held in Reserve for Future Use category.

Ineffective Controls Over Compliance With DoD Financial Management Regulations

Navy and Air Force OM&S–Ammunition and financial management personnel did not ensure procedures for crosswalking Condition Codes to financial statement OM&S categories complied with DoD FMR guidance. Specifically, as depicted in Table 4, Navy and Air Force personnel did not properly record OM&S–Ammunition with Condition Codes E, J, K, L, and Q to the Held in Reserve for Future Use or EOU category when recording OM&S–Ammunition that was above and below the approved acquisition objective, based on current DoD guidance. Instead, Navy and Air Force personnel erroneously crosswalked the assets with those Condition Codes to the Held for Repair (Remanufacturing) category. NAVSUP, Global Logistics Support Ammo and Air Force Headquarters, A4 personnel, in coordination with the Assistant Secretaries of the Navy and Air Force (Financial Management and Comptroller), should implement procedures for ensuring ongoing compliance with DoD FMR guidance for crosswalking Condition Codes to financial statement OM&S categories.

Navy and Air Force . . . personnel did not ensure procedures for crosswalking Condition Codes to financial statement OM&S categories complied with DoD FMR guidance.

Non-Compliant Reporting of Excess, Obsolete, and Unserviceable OM&S

The other Services' financial management personnel did not accurately report \$1.6 billion of EOU OM&S in the FY 2015 Department of Navy and Air Force Financial Statements. This occurred because the OUSD(C)/CFO Memorandum, "Accounting Policy Update for Inventory and Related Property," March 1, 2013, required the other Services to report the value of EOU at zero dollars. The OUSD(C)/CFO Memorandum also suspended the DoD FMR requirement for the other Services to report OM&S at net realizable value (NRV).⁴⁸ However, the OUSD(C)/CFO Memorandum did not comply with the Statements of Federal Financial Accounting Standards No. 3 (SFFAS 3) requirement to report EOU at an estimated NRV. Further, the other Services' personnel did not disclose in their FY 2015 financial statement notes that this policy was the basis for the \$1.6 billion in adjustments as required by SFFAS 3.

The OUSD(C)/CFO Memorandum did not comply with . . . SFFAS 3 to report EOU at an estimated NRV.

In DoD OIG Report No. D-2010-048,⁴⁹ we recommended that the OUSD(C)/CFO suspend the DoD FMR, volume 4, chapter 4 provisions for valuing EOU because the valuation methodology was prescribed before assessing whether it would result in a reasonable estimate of DoD's EOU inventory and OM&S. OUSD(C)/CFO personnel agreed with the recommendation but have not issued replacement NRV guidance. On February 25, 2013, OUSD(C)/CFO personnel responded to DoD OIG Report No. D-2010-048, stating that they submitted guidance for approval with an estimated completion date of second quarter FY 2014. On September 30, 2015, OUSD(C)/CFO, FIAR Directorate personnel stated that they were continuing to develop appropriate NRV guidance, but did not provide a completion date. On March 30, 2016, OUSD(C)/CFO, FIAR Directorate personnel stated that DoD FMR, volume 4, chapter 4 will be sent out for coordination once a decision has been made on an EOU valuation methodology. Since OUSD(C)/CFO personnel have not provided documentation supporting their corrective actions, we are making the recommendation again in this report. The OUSD(C)/CFO personnel should develop and issue an appropriate NRV guidance for EOU OM&S. Until that methodology is developed, the OUSD(C)/CFO personnel should require the Navy and Air Force financial management personnel to disclose in their financial statements that the valuation of zero dollars for EOU OM&S is based on OUSD(C)/CFO interim policy until revised SFFAS 3-compliant guidance is issued.

⁴⁸ SFFAS 3 defines NRV as the estimated amount that can be recovered from disposal of an asset less estimated costs of completion, holding, and disposal.

⁴⁹ DoD OIG Report No. D-2010-048, "DoD Methodology for the Valuation of Excess, Obsolete, and Unserviceable Inventory and Operating Materials and Supplies," March 25, 2010.

Unsupported Financial Statement Adjustments

Assistant Secretary of the Air Force (Financial Management and Comptroller) personnel could not support \$57 million in adjustments to field submitted OM&S summary data used to compile the \$55.6 billion OM&S amount reported in the FY 2015 Department of Air Force Financial Statements. In an attempt to reconcile summary data to the balances reported in the General Accounting and Finance System–Re-Engineered (GAFS-R) (adjusted and compiled data), Air Force personnel prepared a summary schedule showing the differences by OM&S category. Air Force personnel used amounts reported in GAFS-R to support their financial statements. The totals reported in the summary data differed from amounts reported in GAFS-R by \$57 million. Due to system limitations, Air Force personnel were unable to explain the difference or attribute it to typical causes, such as journal voucher adjustments, system adjustments, or any other type of documented accounting adjustments. The Assistant Secretary of the Air Force (Financial Management and Comptroller) should completely reconcile amounts submitted by the field to GAFS-R on a quarterly basis and resolve differences.

Increased Audit-Readiness Risk

The incorrect recording, inadequate supporting, and inaccurate reporting of OM&S increased the risk of materially misstating OM&S on the other Services' financial statements. Furthermore, those financial statements may not be audit-ready in time to comply with the FY 2017, congressionally mandated, full financial statement auditability deadline.

Recommendations, Management Comments, and Our Responses

Recommendation B.1

We recommend the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. **Update the DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 4, "Inventory and Related Property" to accurately and completely crosswalk Condition Codes to specific General Ledger Account Codes, which at a minimum should include explicitly crosswalking all Operating Materials and Supplies–Ammunition records with:**
 - **Condition Code N to the Held in Reserve for Future Use category;**
 - **Condition Code T to the Held for Use category;**

- **Condition Codes H, P, and V to the Excess, Obsolete, and Unserviceable category; and**
- **Condition Codes E, J, K, L, and Q to the Held in Reserve for Future Use category.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The Deputy Chief Financial Officer, responding on behalf of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, agreed. He stated the DoD FMR, volume 4, chapter 4 had been updated to include all OM&S condition codes crosswalked to specific general ledger account codes. The updated FMR chapter is scheduled for publication by September 30, 2016.

Our Response

The Deputy Chief Financial Officer's comments addressed all specifics of the recommendation, and no further comments are required.

- b. Develop and issue appropriate, Statements of Federal Financial Accounting Standards No. 3-compliant Net Realizable Value guidance for assets categorized as Excess, Obsolete, and Unserviceable Operating Materials and Supplies.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The Deputy Chief Financial Officer, responding on behalf of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, agreed. He stated that the OUSD(C)/CFO is developing NRV guidance for EOU OM&S assets in the next update to the DoD FMR, volume 4, chapter 4. The updated FMR chapter is scheduled for publication by September 30, 2016.

Our Response

The Deputy Chief Financial Officer's comments addressed all specifics of the recommendation, and no further comments are required.

- c. **Require the other Services' financial management personnel to disclose in their financial statements that assets categorized as Excess, Obsolete, and Unserviceable Operating Materials and Supplies were valued at zero dollars based on Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD interim policy until appropriate Statements of Federal Financial Accounting Standards No. 3-compliant guidance is issued.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The Deputy Chief Financial Officer, responding on behalf of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, agreed. He stated this disclosure has appeared in the DoD financial statement Note 1 since FY 2010. He also stated that the OUSD(C)/CFO standard disclosure for Note 1.M. is "The [Reporting Entity] recognizes Excess, Obsolete, and Unserviceable Inventory and OM&S at a net realizable value of zero pending development of an effective means of valuing such materiel."

Our Response

The Deputy Chief Financial Officer comments partially addressed the specifics of the recommendation. He cited the OUSD(C)/CFO standard disclosure for Note 1.M. to guide reporting entities in developing their note related OM&S accounting policy. The standard disclosure, however, does not identify that the EOU value is deemed zero dollars in accordance with interim DoD policy and is not an SFFAS-compliant NRV. Additionally, this SFFAS-noncompliance is not covered by the OUSD(C)/CFO standard disclosure for Note 1.A. where other types of noncompliance with generally accepted accounting principles are discussed. Finally, Air Force personnel have adopted the current standard disclosure for Note 1.M., whereas Navy personnel have not. We request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD provide comments on the final report to address actions planned or taken.

Recommendation B.2

We recommend the Commander, Naval Supply Systems Command, Global Logistics Support Ammo, and Deputy Chief of Staff Air Force Headquarters, A4, in coordination with the Assistant Secretaries of the Navy and Air Force (Financial Management and Comptroller), implement procedures to ensure ongoing compliance with DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 4 guidance for crosswalking Condition Codes to Operating Materials and Supplies categories.

Navy Management Comments

The Deputy Assistant Secretary of the Navy (Financial Operations), responding on behalf of the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Commander, NAVSUP, Global Logistics Support Ammo, agreed. She stated Navy will implement procedures to ensure ongoing compliance with DoD FMR, volume 4, chapter 4 guidance for crosswalking Condition Codes to OM&S categories. The estimated completion date for the implementation of these procedures is September 30, 2016.

Air Force Management Comments

The Associate Deputy Assistant Secretary (Financial Operations), responding on behalf of the Assistant Secretary of the Air Force (Financial Management and Comptroller), and the Assistant Deputy Chief of Staff for Air Force Headquarters, A4, responding on behalf of the Deputy Chief of Staff, Air Force Headquarters, A4, agreed. They stated that more defined guidance is required in DoD FMR, volume 4, chapter 4 for certain Condition Codes to establish proper assignment to the appropriate general ledger account code, and will include specific direction in AFI 21-01, “Management and Maintenance of Non-Nuclear Munitions,” to comply with procedures in the FMR specific to Condition Code crosswalk to the proper general ledger account code. The estimated completion date for the implementation of procedures to ensure DoD FMR compliance is December 2016.

Our Response

The Deputy Assistant Secretary of the Navy (Financial Operations); the Associate Deputy Assistant Secretary (Financial Operations); and the Assistant Deputy Chief of Staff for Air Force Headquarters, A4 comments addressed all specifics of the recommendation, and no further comments are required.

Recommendation B.3

We recommend the Assistant Secretary of the Air Force (Financial Management and Comptroller) completely reconcile amounts reported by field locations in the summary data submission to General Accounting and Finance System–Re-Engineered on a quarterly basis and resolve differences.

Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments

The Associate Deputy Assistant Secretary (Financial Operations), responding on behalf Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed. Currently, his office is working on analyzing the universe of transactions to determine the cause of the discrepancies and develop corrective action plans to reconcile field submitted summary amounts to GAFS-R. The estimated completion date for the implementation of a quarterly reconciliation between the summary amounts and GAFS-R is December 2016.

Our Response

The Associate Deputy Assistant Secretary (Financial Operations)'s comments addressed all specifics of the recommendation, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from August 2015 through May 2016 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.

The scope of our fieldwork in support of Finding A was limited to OM&S–Ammunition in accordance with our audit objective. However, the scope of our fieldwork in support of portions of Finding B included all OM&S because we could not separately attribute non-compliance to OM&S–Ammunition.

We visited the following locations for this audit:

- Army JMC (Rock Island, Illinois)
- Marine Corps Systems Command (Stafford, Virginia)
- NAVSUP (Mechanicsburg, Pennsylvania)
- Air Force Materiel Command (Montgomery, Alabama)

Prior to our visits, we provided personnel with a standard set of questions designed to obtain information on the Army’s and other Services’ systems, processes, and controls for managing and reporting Army-held, other Services-owned OM&S–Ammunition. We followed-up on the responses with interviews and documentation requests.

To gain an understanding of the Army’s and other Services’ systems, processes, and controls used to report OM&S in the other Services’ financial statements, we interviewed personnel and obtained documentation from the following offices: Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; Under Secretary of Defense for Acquisition, Technology, and Logistics; Army Materiel Command; Assistant Secretaries of the Army, Navy, and Air Force (Financial Management and Comptroller); and Marine Corps Programs and Resources Division, Accounting and Financial Systems Branch.

We obtained from the other Services a universe of Army-held, other Services-owned OM&S–Ammunition records as of August 31, 2015, and September 30, 2015, and compared those records to Army’s records. Specifically, we compared the ownership, NIIN, Condition Code, and Quantity data fields to

determine whether there were discrepancies between records. We obtained explanations from Army and other Service personnel about discrepancies between their records. We did not physically verify the existence and completeness of the OM&S–Ammunition records or test the accuracy of their valuations.

To gain an understanding of the other Services' compilation processes, we interviewed and obtained documentation from the other Services' accounting and financial reporting personnel. We also compared OM&S–Ammunition records, summary data, and the adjusted and compiled OM&S amounts reported in the FY 2015 Department of Navy and Air Force Financial Statements and related footnotes.

Use of Computer-Processed Data

We used computer-processed data to perform this audit. We performed identical types of tests to the Army's and other Services' universe data. We assessed the accuracy, reliability, and completeness of the data by reconciling between the Army's APSRs—WARS-NT (Army) and LMP (Army)—and the other Services' APSRs—OIS (Marine Corps and Navy) and CAS (Air Force). We assessed the accuracy of the reported OM&S amounts by comparing the other Services' OM&S asset records to:

- Defense Departmental Reporting System–Data Control Module and Audited Financial Statements,
- Field Submitted Summary Data, and
- GAFS-R.

We also verified that computer processing was accurate and complete by comparing the system-generated data to financially reported data; comparing Army-held, other Services-owned OM&S–Ammunition records maintained by Army to other Services' records; investigating differences between the Army's and other Services' records; and interviewing Army and other Service personnel to enhance our understanding of their OM&S–Ammunition accounting and reporting systems. We determined that the data were sufficiently reliable to support the findings and conclusions made in this report.

Use of Technical Assistance

Quantitative Methods Division personnel provided technical assistance in comparing the Army and other Services provided OM&S–Ammunition record universes as of August 31, 2015, and September 30, 2015, using analytical computer software.

Prior Coverage

During the last 6 years, the Government Accountability Office (GAO) and the DoD OIG issued eight reports related to OM&S Financial Reporting. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

GAO

GAO Report No. GAO-14-182, “Actions Needed to Improve Department-Wide Management of Conventional Ammunition Inventory,” March 2014

DoD IG

DoD IG Report No. DODIG-2015-165, “Independent Auditor’s Report on the Attestation of Existence, Completeness, and Rights of Select Army-Held Operating Materials and Supplies,” August 2015

DoD IG Report No. DODIG-2015-164, “Independent Auditor’s Report on the Examination of Existence, Completeness, and Rights of United States Air Force Operating Materials and Supplies-Ammunition and Tactical Missiles,” August 2015

DoD IG Report No. DODIG-2015-089, “Independent Auditor’s Report on the Attestation of the Existence, Completeness, Rights and Obligations, and Presentation and Disclosure of the Department of the Navy’s Ordnance Located in Foreign Countries and U.S. Territories,” March 2015

DoD IG Report No. DODIG-2015-003, “Independent Auditor’s Report on the Attestation of the Existence, Completeness, Rights and Obligations, and Presentation and Disclosure of the Department of the Navy’s Afloat Ordnance,” October 2014

DoD IG Report No. DODIG-2014-047, “Independent Auditor’s Report on the Attestation of the Existence, Completeness, Rights and Obligations, and Presentation and Disclosure of the Department of the Navy’s Ordnance,” March 2014

DoD IG Report No. DODIG-2013-076, “Examination of Army Management’s Assertion for Existence and Completeness of Operating Materials and Supplies Quick Win Assets,” April 2013

DoD OIG Report No. D-2010-048, “DoD Methodology for the Valuation of Excess, Obsolete, and Unserviceable Inventory and Operating Materials and Supplies,” March 2010

Appendix B

OM&S Condition Codes

Condition Codes classify materiel in terms of readiness for issue and use or identify action underway to change the status of materiel. Supply Condition Codes currently in use within the Department of Defense include the following:

Condition Code	Title	Explanation
A	Serviceable (Issuable Without Qualification)	New, used, repaired, or reconditioned materiel that is serviceable and issuable to all customers without limitation or restriction. Includes materiel with more than 6 months of shelf life remaining.
B	Serviceable (Issuable With Qualification)	New, used, repaired, or reconditioned materiel that is serviceable and issuable for its intended purpose, but which is restricted from issue to specific units, activities, or geographical areas by reason of its limited usefulness or short service life expectancy. Includes materiel with 3 to 6 months of shelf life remaining.
C	Serviceable (Priority Issue)	Items that are serviceable and issuable to selected customers, but which must be issued before Condition Codes A and B materiel to avoid loss as a usable asset. Includes materiel with less than 3 months of shelf life remaining.
D	Serviceable (Test/Modification)	Serviceable materiel that requires testing, alteration, modification, technical data marking, conversion, or disassembly. This does not include items that must be inspected or tested immediately prior to issue.
E	Unserviceable (Limited Restoration)	Materiel that involves only limited expense or effort to restore to serviceable condition, and which is accomplished in the storage activity where the stock is located.
F	Unserviceable (Reparable)	Economically reparable materiel that requires repair, overhaul, or reconditioning; includes reparable items that are radioactively contaminated.
G	Unserviceable (Incomplete)	Materiel requiring additional parts or components to complete the end item prior to issue.
H	Unserviceable (Condemned)	Unserviceable materiel that does not meet repair criteria; includes condemned items that are radioactively contaminated, Type I shelf-life materiel that has passed its expiration date, and Type II shelf-life materiel that has passed its expiration date and cannot be extended.
I	Not Assigned	Reserved for future DoD assignment.

OM&S Condition Codes (cont'd)

Condition Code	Title	Explanation
J	Suspended (In Stock)	Materiel in stock that has been suspended from issue pending condition classification or analysis, where the true condition is not known. Includes shelf-life Type II materiel that has reached its expiration date pending inspection, test, or restoration.
K	Suspended (Returns)	Materiel returned from customers or users and awaiting condition classification.
L	Suspended (Litigation)	Materiel held pending litigation or negotiation with contractors or common carriers.
M	Suspended (In Work)	Materiel undergoing maintenance at an organic or contractor maintenance facility.
N	Suspended (Ammunition Suitable For Emergency Combat Use Only)	Ammunition stocks suspended from issue except for emergency combat use.
O	Not Assigned	Reserved for future DoD assignment.
P	Unserviceable (Reclamation)	Materiel determined to be unserviceable, uneconomically repairable as a result of physical inspection, teardown, or engineering decision. Item contains serviceable components or assemblies to be reclaimed.
Q	Suspended (Product Quality Deficiency)	Potential and confirmed product quality deficiency-related materiel that is prohibited for use within DoD and prohibited for reutilization screening. Includes product quality deficiency exhibits returned by customers or users due to technical deficiencies reported by Product Quality Deficiency Reports. Exhibits require technical or engineering analysis to determine cause of failure to perform in accordance with specifications. Includes product quality deficient materiel.
R	Suspended (Reclaimed Items, Awaiting Condition Determination)	Assets turned in by reclamation activities which do not have the capability (e.g., skills, manpower, or test equipment) to determine the materiel condition. Actual condition will be determined prior to induction into maintenance activities for repair or modification.
S	Unserviceable (Scrap)	Materiel that has no value except for its basic materiel content. No stock will be recorded as on-hand in Condition Code S. This code is used only on transactions involving shipments to Defense Logistics Agency Disposition Services Field Offices.

OM&S Condition Codes (cont'd)

Condition Code	Title	Explanation
T	Serviceable (Ammunition Suitable For Training Use Only)	New, used, repaired, or reconditioned ammunition stock originally intended for combat use, but due to condition, function, or performance characteristics is serviceable and issuable for training use only. Authorized for intra-Service use and authorized for staggered implementation for inter-Service use by agreement of impacted trading partners.
U	Not Assigned	Reserved for future DoD assignment
V	Unserviceable (Waste Military Munitions)	Waste military munitions will be assigned Condition Code V only under the authority of a designated DoD or Service designated disposition authority. The Services are responsible for appropriate disposal of Condition Code V assets.)
W, X, Y, Z	Not Assigned	Reserved for future DoD assignment.

Management Comments

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments



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

JUN 15 2016

COMPTROLLER

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND
REPORTING, DOD OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on Draft Audit Report, "Actions Needed to Improve Reporting of Marine
Corps, Navy, and Air Force Operating Materials and Supplies"
(Project No. D2015-D000FL-0238.000)

This memorandum is in response to your request for comments on recommendations
B.1.a, B.1.b, and B.1.c contained in the subject draft audit report. Upon review of the draft
report, we concur with the three recommendations as detailed in the enclosed attachment.

The Department appreciates the opportunity to comment on the subject draft report, and
appreciates your office's ongoing engagement and support for efforts directed at DoD's financial
improvement and auditability. My staff point of contact is [REDACTED]. Please reach [REDACTED]
[REDACTED]

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated



Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments (cont'd)

**THE OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
DRAFT AUDIT REPORT DATED MAY 16, 2016
PROJECT NO. D2015-D000FL-0238.000**

**“ACTIONS NEEDED TO IMPROVE REPORTING OF MARINE CORPS, NAVY, AND
AIR FORCE OPERATING MATERIALS AND SUPPLIES”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE DoD OIG RECOMMENDATIONS**

RECOMMENDATION B.1.a: The DoD OIG recommends the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD update the DoD Regulation 7000.14-R, DoD Financial Management Regulation, Volume 4, Chapter 4, “Inventory and Related Property,” to accurately and completely crosswalk condition codes to specific general ledger account codes, which at a minimum should include explicitly crosswalking all Operating Materials and Supplies–Ammunition records with:

- Condition Code N to the Held in Reserve for Future Use category;
- Condition Code T to the Held for Use category;
- Condition Codes H, P, and V to the Excess, Obsolete, and Unserviceable category; and
- Condition Codes E, J, K, L, and Q to the Held in Reserve for Future Use category.

DoD RESPONSE: The Department concurs with the recommendation. The Office of the Under Secretary of Defense (Comptroller) has updated the DoD Financial Management Regulation (FMR) Volume 4, Chapter 4, “Inventory and Related Property,” to include all condition codes, including Operating Materials and Supplies (OM&S)-Ammunition condition codes, and crosswalked the condition codes to the specific general ledger account codes. The updated FMR chapter is scheduled for publication by September 30, 2016.

RECOMMENDATION B.1.b: The DoD OIG recommends the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD develop and issue an appropriate, Statements of Federal Financial Accounting Standards No. 3-compliant, net realizable value guidance for assets categorized as Excess, Obsolete, and Unserviceable Operating Materials and Supplies.

DoD RESPONSE: The Department concurs with the recommendation. Currently, the Office of the Under Secretary of Defense (Comptroller) is developing the guidance for valuing and reporting net realizable value on assets categorized as Excess, Obsolete, and Unserviceable OM&S. The net realizable value guidance will be included in the next update to the DoD FMR Volume 4, Chapter 4, “Inventory and Related Property,” which is scheduled for publication by September 30, 2016.

RECOMMENDATION B.1.c: The DoD OIG recommends the Under Secretary of Defense (Comptroller)/Chief Financial Officer, require the other Services’ financial management personnel to disclose in their financial statements that assets categorized as Excess, Obsolete,

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments (cont'd)

and Unserviceable Operating Materials and Supplies were valued at zero dollars based on Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD interim policy until appropriate Statements of Federal Financial Accounting Standards No. 3-compliant guidance is issued.

DoD RESPONSE: The Department concurs with the recommendation. This disclosure has appeared in the notes to the Department's financial statements since Fiscal Year 2010. In accordance with the Office of Management and Budget Circular A-136, "Financial Reporting Requirements," the disclosure of the valuation of Excess, Obsolete, and Unserviceable OM&S is reported in Note 1. The Department has developed standard note disclosures for Reporting Entities to use as a guide in developing their notes. Specifically, the standard disclosure for Note 1.M. is "Inventories and Related Property. The [Reporting Entity] recognizes Excess, Obsolete, and Unserviceable Inventory and OM&S at a net realizable value of zero pending development of an effective means of valuing such materiel."

Assistant Secretary of the Navy (Financial Management and Comptroller) and Commander, Naval Supply Systems Command, Global Logistics Support Ammo Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

20 June 2016

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies

Reference: (a) Draft DoDIG Report D2015-D000FL-0238.000 dated 16 May 2016

As requested by reference (a), I am forwarding the updated attached status on recommendations relating to the crosswalking of Ordnance Condition Codes to Operating Materials and Supplies (OM&S) reporting categories.

My point of contact is [REDACTED], who can be reached at [REDACTED].


Karen L. Fenstermacher
Deputy Assistant Secretary of the Navy
(Financial Operations)

Attachment:
As stated

Assistant Secretary of the Navy (Financial Management and Comptroller) and Commander, Naval Supply Systems Command, Global Logistics Support Ammo Comments (cont'd)

Department of the Navy Response to Department of Defense Inspector General Recommendations on "Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies"

Below is the Department of the Navy (DON) response to the Department of Defense (DoDIG) Recommendation B2:

DoDIG Recommendation B2: We recommend that the Commander, Naval Supply Systems Command Global Logistics Support Ammo (GLS Ammo), and Deputy Chief of Staff Air Force Headquarters, A4, in coordination with the Assistant Secretary of the Navy and Air Force (Financial Management and Comptroller), implement procedures to ensure ongoing compliance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 4 guidance for crosswalking Condition Codes to OM&S categories.

ASN (FM&C) Response: The DON concurs with this recommendation. My office has consulted with GLS Ammo and they have stated that they should be able to implement the change in the Condition Code crosswalk to the proper Operating Materials and Supplies categories by 30 September 2016. My office will monitor GLS Ammo and ensure that this issue gets resolved as promised.

Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

MEMORANDUM FOR DoDIG

FROM: SAF/FM

SUBJECT: SAF/FM Comments to Official Draft Report of Audit, Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies (Project No. D2015-D000FL-0238.000)

We concur with the intent of the audit findings and recommendations identified in the DoDIG Official Draft Report of Audit, Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies (OM&S). The Air Force is committed to improving the financial reporting of munitions. We are implementing corrective actions such as condition code cross-walking to appropriate General Ledger Accounts and quarterly reconciliation on a quarterly basis will affect our ability to report on Air Force-owned munitions. Our specific comments for each of the recommendations assessed to SAF/FM are as follows:

a. Recommendation B.2: SAF/FM concurs that more defined guidance is required in DoD Regulation 7000.14-R, "DoD Financial Management Regulation (FMR)," volume 4, chapter 4 for certain Condition Codes to establish proper assignment within the appropriate GLAC, and will coordinate with AF/A4LW to include specific direction in AFI 21-201, *Munitions Management*, to comply with procedures in the FMR specific to Condition Code crosswalk to the proper GLAC. Estimated completion date for recommendation B.2: December 2016.

b. Recommendation B.3: SAF/FM generally concurs that amounts reported by field locations in the summary data submission to General Accounting and Finance System-Re-Engineered need to be reconciled on a quarterly basis. Currently, SAF/FM is working on analyzing the Universe of Transactions to determine the cause of the discrepancies and develop corrective action plans that will enable the USAF to reconcile APSR data to the general ledger. Estimated completion date for recommendation B.3: December 2016.

SAF/FM point of contact is [REDACTED]

FREDRICK E. CARR
Associate Deputy Assistant Secretary
(Financial Operations)

Chairman of the Joint Ordnance Commanders Group Comments



DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

AMCIR

13 JUN 2016


MEMORANDUM FOR Department of Defense Inspector General (DoDIG),
Mr. Craig W. Michaels, Program Director, Financial Management and Reporting
Directorate, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments on DoDIG Draft Report: Actions Needed to Improve
Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies,
Project D2015-D000FLJ-0238.

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and
the response from the U.S. Joint Munitions Command (JMC). AMC endorses the
enclosed JMC response.

2. The AMC point of contact is [REDACTED]

Encl


LISHA H. ADAMS
Executive Deputy to the
Commanding General

Chairman of the Joint Ordnance Commanders Group Comments (cont'd)



REPLY TO
ATTENTION OF

AMSJM-JS

JUN 03 2016

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY JOINT MUNITIONS COMMAND
2695 RODMAN AVENUE
ROCK ISLAND, IL: 61299-6000

MEMORANDUM FOR Inspector General Department of Defense, 4800 Mark Center Drive, Alexandria, Virginia 22350-1500

SUBJECT: Draft Report: Actions Needed to Improve the Marine Corps, Navy, and Air Force Reporting of Operating Materials and Supplies (Project No. D2015-D000FL-0238.000)

1. Thank you for the opportunity to review and comment on the draft report. Our comments are enclosed.

2. The POC is [REDACTED]

Ready-Reliable-Lethal! AMMO Strong!!

Encl


RHONDA L. VANDECASTEELE
Executive Director for Ammunition

Chairman of the Joint Ordnance Commanders Group Comments (cont'd)

DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Draft Report: Actions Needed to Improve the Marine Corps, Navy, and Air Force Reporting of Operating Materials and Supplies (Project No. D2015-D000FL-0238.000)

General Comments: The Joint Ordnance Commander's Group (JOCG) Executive Secretariat disagrees with the notion that the JOCG has not directed the Single Manager for Conventional Ammunition and the Joint Services to work together in order to promote ammunition accountability and financial reporting readiness. DODD 5160.65 and DODI 5160.68 spell out the duties of the SMCA and the Services at a high level, the Joint Conventional Ammunition Policies and Procedures (JCAPPs) follow the same format and spell out duties in 15 specific areas. The goal is to provide guidance to all entities on who will perform each duty listed, not spell out the detail on how the duty will be worked. However, the JCAPPs can be improved to address reconciliation per DODIG findings. Below are excerpts from the JCAPPs which are pertinent to this discussion:

The Joint Conventional Ammunition Policies and Procedures (JCAPPs) are developed and published under the authority of DoD Directive 5160.65, "Single Manager for Conventional Ammunition (SMCA)," August 1, 2008.

The JCAPPs provide guidance for execution of conventional ammunition responsibilities delineated in DoD Instruction 5160.68, "Single Manager for Conventional Ammunition (SMCA): Responsibilities of the SMCA and the Military Services," December 29, 2008.

J5.3. STOCK CONTROL AND ACCOUNTABILITY. This section establishes procedures for transaction reporting and accounting for ammunition by the SMCA and Military Services. The SMCA Field Operating Activity (or FOA, who is the US Army's Joint Munitions Command) and Military Services will provide accurate and timely information on ammunition receipts and issues to and from SMCA sites. Receipts include ammunition from production, field returns and Interdepot transfers.

J5.3.1. SMCA Responsibilities. The SMCA FOA will provide accurate and timely information to the Military Services on ammunition stored at SMCA sites.

J5.3.1.1. The SMCA FOA will maintain custodial accountability records including NSN, Department of Defense Identification Code (DODIC) / Navy Ammunition Logistics Code (NALC), ownership, condition code (CC), storage site, lot, serial number and unique identification. The SMCA FOA will report any discrepancies to the owning Military Service.

We propose the following language be added to the end of J5.3.1.1. The newest addition of JCAPP 5 will be finalized by 31 Dec 16.

Chairman of the Joint Ordnance Commanders Group Comments (cont'd)

*****Owning Service and SMCA FOA will reconcile quarterly all lines appearing on both the SMCA custodial record and the owning Service financial record. SMCA FOA will maintain file of reconciliation and custodial record for use as exhibit for a period of two years.*****

Recommendation A.1

For the Commander, Army Joint Munitions Command, as Chairman of the Joint Ordnance Commanders Group,

Develop and issue policies and procedures to require the Army and other Services to:

- a. Perform complete, quarterly reconciliations of Ownership/Purpose Codes, Routing Identifier Codes, National Item Identification Numbers, DoD Activity Address Codes, Unit Identification Codes, Condition Codes, and Quantities for all Army-held, other Services-owned Operating Materials and Supplies–Ammunition records (both wholesale and retail) and resolve differences to improve the accuracy of financial reporting.*
- b. Provide transaction-level data for all transactions related to Army-held, other Services-owned Operating Materials and Supplies–Ammunition.*
- c. Provide assurance that all National Item Identification Numbers, manufacturers' part numbers, and Commercial and Government Entity Codes are accurately and completely cataloged in the Federal Logistics Information System to minimize differences between the Army and other Services' records.*
- d. Provide and validate complete Army-held, other Services-owned Operating Materials and Supplies–Ammunition record reconciliation files.*
- e. Retain Operating Materials and Supplies–Ammunition reconciliations data files for at least 2 years after closure of the financial statement, in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 9, "Financial Records Retention," and U.S. National Archives and Records Administration, "General Records Schedule 1.1" requirements.*
- f. Specify and define the codes the Army and other Services use to indicate ownership of Operating Materials and Supplies–Ammunition.*
- g. Retain Operating Materials and Supplies–Ammunition transaction documentation files for at least 2 years after the asset is disposed of or removed from the agency's financial statement, in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 9, "Financial Records Retention," and U.S. National Archives and Records Administration, "General Records Schedule 1.1" requirements.*

Chairman of the Joint Ordnance Commanders Group Comments (cont'd)

Command Comments: to Recommendation A.1

a. **Concur.** The JMC has been working with the Joint Services over the past six years since LMP go-live to ensure records are correctly passed via the appropriate systems of record.

This work has been hampered by the lack of DAASC compliment systems outside of LMP. We continue to work the reconciliations between the Services and are pressing to automate the reconciliation itself. Once complete, the Services will need to review Army data and provide responses which has not occurred to date. The Air Force expects to be system compliant to receive transaction data in Dec 2017. The Marine Corps by the end of 2016. We have received no timeframe from the Navy. Anticipated implementation is 31 Dec 2017.

b. **Concur.** JMC has been and continues to work to provide necessary transaction data to all Services. This has been an ongoing process of which the Army was open about when discussing with DODIG personnel. The Air Force expects to be system compliant to receive transaction data in Dec 2017. The Marine Corps by the end of 2016. We have received no timeframe from the Navy. Anticipated implementation is 31 Dec 2017.

c. **Partially Concur.** The JMC's Material Master Cell works with LOGSA to ensure data is updated as necessary but LOGSA owns the data feed into LMP and controls permanent additions of new stock numbers. JMC will continue to work with LOGSA.

d. **Concur.** We are able to provide the data today but validation is tied to the command comment to recommendation A.1.a Anticipated implementation is 31 Dec 2017.

e. **Concur.** Each Service should be responsible for the data that comprises their financial statements. The Army will hold Army financial data only. The Army fully implemented this recommendation.

f. **Concur.** The Army has worked with AMC to determine acceptable Routing Identifier Code and Ownership/Purpose code combinations. The work is ongoing. Milestone to completion is at DA G4 for determination. Implementation is contingent upon DA G4 Determination.

g. **Concur.** LMP is designed to hold assets for the Department of Army mandated 75 months which exceeds this requirement. Fully Implemented

Deputy Chief of Staff, Air Force Headquarters, A4 Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

17 Jun 16

MEMORANDUM FOR DoDIG

FROM: AF/A4

SUBJECT: AF/A4 Management Comments to Official Draft Report of Audit, Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies (Project No. D2015-D000FL-0238.000)

We concur with the intent of the audit findings and recommendations identified in the DoDIG Official Draft Report of Audit, Actions Needed to Improve Reporting of Marine Corps, Navy, and Air Force Operating Materials and Supplies (OM&S). Also, we are hopeful other recommendations throughout the report are adequately and promptly addressed, as many likely will directly affect resolution of findings assigned against AF/A4. Higher level policy affecting cataloging, Ownership/Purpose and Routing Identifier Codes (specifically related to in-process materials used in production of end items), Condition Code crosswalking to appropriate General Ledger Account Code (GLAC), and valuation-by-condition greatly impact our ability to manage and properly report on Air Force-owned munitions. Our specific management comments for each of the recommendations assessed to AF/A4 are as follows:

a. Recommendation A.2.a: Despite the fact Combat Ammunition System (CAS) does not support transactional-level detail interfaces with Logistics Modernization Program (LMP), the Air Force does perform an extensive effort to resolve differences in summary level data during quarterly reconciliations. By current policy in AFI 21-201 *Munitions Management*, the Global Ammunition Control Point executes this process to less than a 3.0 percent variance, and recently has achieved as low as 0.1895 percent for the input to the 2Q FY16 CFO report. The Air Force will continue to explore ways to improve accuracy with the goal of complete reconciliation of data. Unfortunately, 100 percent reconciliation may not be possible until CAS is capable of receiving transactional-level data directly from LMP, and other CAS shortfalls related to in-transit and data latency issues are corrected. A modernized version of CAS is expected to be fielded in early CY17 and should provide the ability to fully reconcile Army-held OM&S-Ammunition. Estimated completion date for recommendation A.2.a: April 2017. **(OPEN)**

b. Recommendation A.2.b: AF/A4 agrees with the recommendation and will develop a plan to perform complete, quarterly reconciliations of Army-held OM&S-Ammunition using CAS once it is capable of receiving transaction-level data from the Army. The modernized version of CAS is expected to be fielded in early CY17, and should provide the ability to fully reconcile Army-held OM&S-Ammunition. Estimated completion date for recommendation A.2.b: April 2017. **(OPEN)**

Deputy Chief of Staff, Air Force Headquarters, A4 Comments (cont'd)

c. Recommendation B.2: AF/A4 agrees that more defined guidance is required in DoD Regulation 7000.14-R, "DoD Financial Management Regulation (FMR)," volume 4, chapter 4 for certain Condition Codes to establish proper assignment within the appropriate GLAC, and will include specific direction in AFI 21-201, *Munitions Management*, to comply with procedures in the FMR specific to Condition Code crosswalk to the proper GLAC. Estimated completion date for recommendation B.2: December 2016. (OPEN)

AF/A4 point of contact is [REDACTED].

BRIDGES.TIMOT
HY.K [REDACTED]
TIMOTHY K. BRIDGES, SES
Asst DCS/Logistics, Engineering &
Force Protection

Glossary

Absolute value. The value of a number without regard to its sign.

Accountable Property System of Record (APSR). A system that maintains the property records that reflect the current status, location, and condition of an asset.

Adverse Examination Opinion. An examination opinion that essentially states that the entities' financial statements do not present results fairly or are not conforming with the generally accepted accounting principles.

Approved Acquisition Objective. The quantity of an item authorized for peacetime and wartime requirements to equip and sustain U.S. and allied forces, according to current DoD policies and plans.

Combat Ammunition System (CAS). This system is the APSR for Air Force OM&S–Ammunition. It is a single-integrated, web-based system, which provides global munitions-based situational awareness and response capability information to mission planners and the warfighter. CAS provides visibility of location, configuration, and status of all OM&S–Ammunition owned by or in the custody of the Air Force.

Commercial and Government Entity Code. A five-character alpha-numeric identifier assigned to entities located in the United States and its territories.

Condition Code. A one-character alphabetic code that classifies material in terms of readiness for issue and use or identifies action underway to change the classification.

Custodian. Someone who keeps and protects something valuable for another person.

DoD Activity Address Code. A six-character alpha-numeric code that uniquely identifies a unit, activity, or organization that has the authority to requisition, contract for, receive, have custody of, issue, or ship Government-owned assets, or fund or pay bills for materials or services.

Excess Operating Materials and Supplies (OM&S). OM&S stock that exceeds the amount expected to be used in normal operations and that do not meet management's criteria to be held in reserve for future use.

Federal Logistics Information System (FLIS). A list of National Stock Numbers, manufacturers' part numbers, and Commercial and Government Entity Codes supplemented with related data.

General Accounting and Finance System–Re-Engineered (GAFS-R). This Defense Finance and Accounting Service system receives Air Force financial data from a variety of systems, one of which is CAS, which is in turn fed to Defense Departmental Reporting System to be reported on the financial statements.

General Ledger. The main accounting record for the Government that provides financial accountability for budgetary resources, stewardship over assets, reporting of fund resources, and visibility of total costs.

General Ledger Accounts Codes (GLAC). A code used to record, classify, and report balances in an accounting general ledger consistently across the Government.

Logistics Modernization Program (LMP). This system is the APSR for Army OM&S–Ammunition at wholesale sites. LMP is used in the financial reporting process to represent wholesale data and elements not available in WARS-NT, including contractor data.

Manufacturer Part Number. A 32-character field containing the part number assigned by the manufacturer.

National Item Identification Number (NIIN). A nine-character numeric code that identifies a specific item procured by the Government.

Net Realizable Value (NRV). The estimated amount that can be recovered from disposal of an asset less estimated costs of completion, holding, and disposal.

Obsolete Operating Materials and Supplies (OM&S). OM&S stock that is no longer needed due to changes in technology, laws, customs, or operations.

Operating Materials and Supplies (OM&S). Tangible personal property to be consumed in normal operations including Government furnished material and contractor acquired material. For DoD, this includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption.

Ordnance Information System (OIS). This system is the APSR for Marine Corps and Navy OM&S–Ammunition. It is a web-based system that manages all ground conventional ammunition and aviation ordnance within the Department of the Navy.

Ownership Code. A one-character numeric code that provides a means of segmenting inventory balances, accounted for in inventory control records of the Army and other Services, but which are owned by others.

Ownership/Purpose Code (O/P Code). A dual purpose code that is made up of Ownership Codes and Purpose Codes. This is one of the codes (along with RIC) recorded in APSRs used to identify asset ownership rights to provide assurance that assets are reported in the financial statements of the asset owners.

Purpose Code. A one-character alphabetic code that provides the owner with a means of identifying the purpose or reason for which an inventory balance is reserved.

Retail Sites. Installations that supply OM&S–Ammunition to operational units.

Routing Identifier Code (RIC). A three-character alpha-numeric code that uniquely identifies a unit, activity, or organization that requires system ability to route transactions or receive transactions routed to it (e.g., source of supply) within logistics and financial business systems. This is one of the codes (along with O/P Code) recorded in ammunition accounting systems to identify asset ownership rights to provide assurance that assets are reported in the financial statements of the asset owners.

Unit Identification Codes. A six-character code created by the DoD Components to identify an activity in manpower and readiness reporting systems.

Unserviceable Operating Materials and Supplies (OM&S). OM&S stock that is physically damaged and cannot be consumed in operations.

Wholesale Sites. Installations that receive, store, and supply OM&S–Ammunition to retail sites.

Worldwide Ammunition Reporting System–New Technology (WARS-NT). This system is the APSR for Army OM&S–Ammunition at retail sites. It accepts data feeds from systems, such as Standard Army Ammunition System-Modernization, and reconciles all assets managed within these systems to ensure assets are not duplicated across multiple systems.

Acronyms and Abbreviations

APSR	Accountable Property System of Record
CAS	Combat Ammunition System
EOU	Excess, Obsolete, and Unserviceable
FIAR	Financial Improvement and Audit Readiness
FMR	Financial Management Regulation
GAFS-R	General Accounting and Finance System–Re-Engineered
JCAPP	Joint Conventional Ammunition Policies and Procedures
JMC	Joint Munitions Command
JOCG	Joint Ordnance Commanders Group
LMP	Logistics Modernization Program
NAVSUP	Navy Supply Systems Command
NIIN	National Item Identification Number
NRV	Net Realizable Value
OIS	Ordnance Information System
OM&S	Operating Materials and Supplies
O/P Code	Ownership/Purpose Code
OUSD(AT&L)	Office of the Under Secretary of Defense for Acquisitions, Technology, and Logistics
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
RIC	Routing Identifier Code
SFFAS	Statements of Federal Financial Accounting Standards
WARS-NT	Worldwide Ammunition Reporting System–New Technology

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

Congressional Liaison

congressional@dodig.mil; 703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

For Report Notifications

www.dodig.mil/pubs/email_update.cfm

Twitter

www.twitter.com/DoD_IG

DoD Hotline

www.dodig.mil/hotline



DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, VA 22350-1500
www.dodig.mil
Defense Hotline 1.800.424.9098

