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Acronym

DISA Defense Information Systems Agency
June 10, 1996

MEMORANDUM FOR DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY


We are providing this audit report for information and use. We considered comments on a draft of this report in preparing the final report. They conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Mary Lu Ugone, Audit Program Director, at (703) 604-9529 (DSN 664-9529), or Mr. John Donnelly, Audit Project Manager, at (703) 604-9549 (DSN 664-9549). See Appendix L for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General for Auditing
Office of the Inspector General, DoD

Report No. 96-155
(Project No. SRF-6010.12)  June 10, 1996

The Defense Information Systems Agency General Ledger
Military Equipment Account

Executive Summary

Introduction. The purpose of the DoD general ledger account structure for military equipment is to ensure the accurate and consistent recording of military equipment transactions in order to provide reliable information to DoD managers. To achieve this objective, DoD regulations require Components to record military equipment transactions in specific general ledger accounts. In addition, DoD regulations require that DoD Components' official property records support the general ledger by providing the physical location and status of military equipment.

The Defense Information Systems Agency (DISA) recorded all military equipment transactions in one specific general ledger account, account 1762, Equipment in Use. As of October 27, 1995, the balance in account 1762 was $521.1 million. We tested 24 transactions totaling $105.5 million.

Audit Objectives. The audit objective was to evaluate the accuracy of the DISA military equipment general ledger account balance. We also evaluated the management control procedures for recording military equipment transactions in DISA general ledger accounts.

Audit Results. The DISA appropriated fund general ledger asset account 1762, Equipment in Use, improperly included the acquisition cost of:

- military equipment transferred to other DoD Components;
- military equipment loaned or furnished to other DoD Components, Federal Agencies, and DoD contractors;
- computer software that should have been recorded in another asset account; and
- military equipment and other services that should have been expensed.

In addition, DISA did not record military equipment loaned or furnished to other DoD Components, Federal Agencies, and DoD contractors on its official property records.

As a result, account 1762 was overstated by $93.7 million for the sampled transactions, or 89 percent of the total $105.5 million tested, and the following DISA general ledger account balances were misstated:

- appropriated capital was overstated by $43.5 million;
- military equipment loans to other DoD Components was understated by $5.4 million;
o military equipment furnished to other Federal Agencies, DoD contractors,
and others was understated by $37.2 million;

o computer software was understated by about $7.2 million; and

o Equipment (not capitalized) and other expense accounts were understated by
$0.4 million.

In addition, the DISA property records did not include military equipment totaling
$42.6 million loaned or furnished to other DoD Components, Federal Agencies, and
DoD contractors.

The DISA initiated actions during the audit to remove $41 million from account 1762
for military equipment assets transferred to a DISA Defense Business Operations Fund.

The DISA management control program can be improved by correcting the material
weakness related to the lack of effective techniques to ensure that military equipment
assets included in the DISA general ledger were owned by DISA, properly classified,
and recorded in official property book records. Recommendations in the report, if
implemented, will help DISA to accurately maintain military equipment general ledger
account balances and property book records.

Summary of Recommendations. We recommend that DISA analyze military
equipment transactions and make appropriate accounting entries to accurately record
military equipment transactions in the general ledger, record in the official property
book military equipment loaned and furnished to other DoD Components, Federal
Agencies, and contractors, and establish appropriate control techniques to ensure that
military equipment transactions are accurately recorded in the general ledger and
property records.

Management Comments. The DISA concurred with the recommendations and has
initiated needed actions.

Although not required to comment, the Defense Prisoner of War/Missing in Action
Office agreed to assume property accountability over assets totaling $1.6 million.

See Part I for a discussion of management comments and Part III for the complete text
of the comments.
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Part I - Audit Results
Audit Background

The Defense Information Systems Agency (DISA) is a combat support agency of DoD under the direction, authority, and control of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). DISA has global responsibility for providing and managing DoD information systems. DISA operates both appropriated and Defense Business Operation Fund funded activities. The DISA general ledger account 1762, Equipment in Use, totaled about $521.1 million as of October 27, 1995.

Financial Control of Property. DoD Financial Management Regulation 7000.14-R, (the Regulation) volume 1, "General Financial Management Information, Systems, and Requirements," May 1993, states that the financial control provided through accounting records for property gives managers a tool in effectively performing their stewardship function for those resources. The Regulation requires DoD organizations to use the DoD standard general ledger account structure to record all the series of events that occur from the time an appropriation is received until the resources acquired are used or disposed of. The accounting system must account for, in quantitative and monetary terms, the procurement, receipt, issue, and control of plant property, equipment, inventory, and material.

Equipment. Equipment consists of all personal property owned by DoD that is not an integral part of real property,¹ has an initial acquisition cost above DoD established capitalization thresholds, and has an estimated useful life of more than 2 years. The capitalization thresholds, shown in Table 1, have increased substantially since 1985.

Table 1. Capitalization Thresholds for Military Equipment

<table>
<thead>
<tr>
<th>Beginning Fiscal Year</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>1992</td>
<td>15,000</td>
</tr>
<tr>
<td>1994</td>
<td>25,000</td>
</tr>
<tr>
<td>1995</td>
<td>50,000</td>
</tr>
<tr>
<td>1996</td>
<td>100,000</td>
</tr>
</tbody>
</table>

The Regulation, volume 4, "Accounting Policy and Procedures," January 1995, states that all such personal property owned by DoD should be classified by DoD as military equipment. DoD policy further states that the acquisition cost

¹Fixed assets that are composed of land and the rights to land, or buildings to include capitalized additions, alterations, improvements, and rehabilitations. Property is "capitalized" when it is recorded as an asset in financial accounting records.
of military equipment should be recorded as an expense in standard general ledger expense account 6122, Equipment (not capitalized), if the cost and useful life requirements are not met.

**Military Equipment Account Structure.** The DoD general ledger account structure for military equipment includes a summary account and six subsidiary accounts as shown in Table 2. See "Accounting Entries to Accurately Classify Military Equipment Transactions," for descriptions of accounts 1762, 1763, and 1764. Appendix C provides a description of the other military equipment accounts.

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Account Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1760</td>
<td>Military Equipment</td>
</tr>
<tr>
<td>1761</td>
<td>Industrial Property in Layaway</td>
</tr>
<tr>
<td>1762</td>
<td>Equipment in Use</td>
</tr>
<tr>
<td>1763</td>
<td>Equipment with Contractors, Testing</td>
</tr>
<tr>
<td></td>
<td>Agencies, Defense Industrial Facilities and Others</td>
</tr>
<tr>
<td>1764</td>
<td>Equipment on Loan</td>
</tr>
<tr>
<td>1765</td>
<td>Property Awaiting Disposal</td>
</tr>
<tr>
<td>1766</td>
<td>Equipment Not in Use</td>
</tr>
</tbody>
</table>

**DISA General Ledger Account Structure.** The DISA general ledger account structure is maintained on the Washington Headquarters Services Allotment Accounting System, an automated accounting system managed by the Washington Headquarters Services. The DISA general ledger account structure substantially conforms to the DoD Uniform Chart of Accounts as listed in the Regulation, volume 1.

**DoD Property Accountability System.** On December 22, 1994, the Under Secretary of Defense (Comptroller) selected the Defense Property Accountability System as the migratory system for all DoD real and personal property. In February 1995, the Director, DISA, endorsed the Defense Property Accountability System for DISA use. DISA field sites will be brought on line based on a schedule the program personnel for the Defense Property Accountability System and DISA personnel jointly developed. The Defense Property Accountability System will replace the current DISA property accountability system; implementation will begin in May 1996. Although the Defense Property Accountability System has an automated financial accounting interface, DISA and the implementation team for the Defense Property Accountability System did not plan to use the interface because DISA financial

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2An existing or planned and approved automated information system that has been designated to support a functional process on a DoD-wide basis.
Audit Results

accounting is done on the Washington Headquarters Services Allotment Accounting System, a legacy accounting system. As of April 1996, the Office of the Secretary of Defense was evaluating the Washington Headquarters Services Allotment Accounting System to determine whether it should be designated as an interim migratory accounting system rather than a legacy system.

Because DISA was implementing the Defense Property Accounting System, we did not include DISA property accountability records in the scope of the audit (Appendix A). However, we noted a material discrepancy between military equipment costs shown on DISA property records and those shown on DISA accounting records. Appendix B includes further discussion of the discrepancy and its relationship to the audit results.

Audit Objectives

The audit objective was to determine the accuracy of the DISA military equipment general ledger account balance. We also evaluated the DISA management control procedures for recording military equipment transactions in DISA general ledger accounts. See Appendix A for the discussion of the audit scope, methodology, and the review of the management control program. See Appendix D for a list of the sample transactions included in the audit scope.

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3 An automated information system that is a candidate for phaseout, upgrade, or replacement, usually because the system does not comply with data standards or other standards.

4 The accounting system that will be used until a decision is reached to develop a new system or to continue with the current system.
DISA Appropriated Fund Military Equipment General Ledger Account

The DISA appropriated fund military equipment general ledger asset account 1762, Equipment in Use, was significantly overstated. The overstatements occurred because DISA did not analyze financial transactions needed to make appropriate accounting entries to:

- support the transfer of equipment ownership to other DoD Components;
- classify accurately the equipment loans to other DoD Components, other Federal Agencies, and contractors;
- classify accurately the acquisitions of computer software; and,
- expense acquisitions of nonmilitary equipment items and military equipment that did not meet DoD asset capitalization thresholds.

As a result, DISA overstated the Equipment in Use account by about $93.7 million and misstated the following general ledger accounts:

- overstated appropriated capital by about $43.5 million;
- understated military equipment loans to other DoD Components by about $5.4 million;
- understated military equipment furnished to other Federal Agencies, DoD contractors, and others by about $37.2 million;
- understated computer software acquisitions by about $7.2 million; and,
- understated Equipment (not capitalized) and other expense accounts by about $0.4 million.

Military Equipment Ownership and Classification Requirements

Ownership of Military Equipment. The Regulation states that two key issues should be considered in determining ownership of military equipment:

- preponderance of use; and,
- responsibility for asset maintenance, repair, upkeep, and replacement.
The Regulation states that accounting records of the Federal Government evidencing ownership of property should not be duplicative and that the organization responsible for an asset should maintain accountability for the asset. If doubts about ownership exist, the Regulation states that the DoD Component shall reach agreement with the Federal Agency or other DoD Component on which entity shall record the property. If an agreement cannot be reached, the matter should be referred to the Office of the Under Secretary of Defense (Comptroller) for resolution.

Accounting Entries for Equipment Ownership Transfers. When military equipment is transferred from one DoD Component to another, and the transferred equipment meets the capitalization criteria, the receiving Component should record the receipt of property at the transferor's acquisition cost and accumulated depreciation. Conversely, the transferor should delete the asset from its accounting records.

Accounting Entries to Accurately Classify Military Equipment Transactions. For transactions concerning military equipment, the Regulation requires the DoD Component to make general ledger accounting entries that are supported by source documents. The following are three military equipment general ledger subsidiary accounts.

**Equipment in Use (Account 1762).** DoD Components use account 1762 to record the acquisition and related cost of DoD military equipment used in operations.

**Equipment With Contractors, Testing Agencies, Defense Industrial Facilities, and Others (Account 1763).** DoD Components use account 1763 to record the value of DoD military equipment furnished to contractors, other Federal Agencies, testing agencies, defense industrial facilities, and others for the primary benefit of the DoD or the DoD Component that furnishes the equipment. Equipment recorded in this account is usually returned after use or testing, rather than incorporated into an end product, consumed, or expended. Organizations receiving the equipment have custodial responsibility, but do not have property accounting responsibility.

**Equipment on Loan (Account 1764).** DoD Components use account 1764 to record the value of DoD equipment that is loaned for the primary benefit of the borrower. DoD Components who borrow military equipment have custodial responsibility, but do not have property accounting responsibility.

Appendix C includes descriptions of other general ledger military equipment accounts.
DISA Appropriated Fund Military Equipment General Ledger Account

Accounting Entries to Record Computer Software Acquisition. The Regulation requires that DoD Components accumulate acquisition costs for off-the-shelf computer software and for computer software development that meets the DoD capitalization criteria in general ledger account 1830, Automated Data Processing Software. Computer software that does not meet capitalization criteria should be expensed in the period in which costs are incurred. In addition, computer software that is integrated into hardware and is necessary to operate the hardware should be considered part of the hardware and thus be accumulated in the appropriate military equipment account.

Accounting Entries to Record Military Equipment Acquisitions that are not Capitalized. The Regulation, volume 4, "Accounting Policies and Procedures," January 1995, requires that DoD Components record military equipment acquisition costs that do not meet DoD capitalization criteria in general ledger expense account 6122, Equipment (not capitalized).

Inclusion of Military Equipment on Property Book Records. The Regulation, volume 4, requires DoD Component property records to reflect all military equipment included as assets on the general ledger and reported in DoD Components' financial statements. Property records should be based on the same source documents used to record military equipment in accounting records. In addition, the Regulation, volume 4, states that property records are subsidiary records to accounting records and, therefore, should include detailed information on an asset's description, unit cost, location, and condition. The Regulation, volume 4, specifically states that property records should include all owned property even if held by others.

DISA Military Equipment General Ledger Account

The DISA general ledger military equipment account 1762, Equipment in Use, was overstated by about $93.7 million, or about 89 percent of the $105.5 million reviewed. The overstatement of account 1762 occurred because DISA improperly included the following:

- military equipment controlled and used by others;
- military equipment on loan or furnished to other DoD Components, other Federal Agencies, and contractors;
- computer software classified as military equipment; and
- transactions that should have been expensed.

5Not specially designed or custom made.

6To include the salaries and benefits for DoD staff and compensation to others for development and modification of the software.
Military Equipment Controlled and Used by Other DoD Components and Federal Agencies. The DISA military equipment account 1762, Equipment in Use, included military equipment valued at about $43.5 million in the custody of and used by other DoD Components. In addition, the other DoD Components recorded the equipment on their official property records and were responsible for repair and maintenance of the military equipment.

Three sampled transactions included the military equipment. For two of the three transactions, the DoD Component recorded the acquisition cost of the military equipment on its general ledger, thereby duplicating the amounts in the DISA general ledger. Table 3 identifies the sampled transactions, and Appendix E discusses the transactions in more detail.

Table 3. Military Equipment Transferred to Others

<table>
<thead>
<tr>
<th>Transaction Number</th>
<th>General Ledger (millions)</th>
<th>Transferred (millions)</th>
<th>Transferee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$21.4</td>
<td>$21.4</td>
<td>DITCO¹</td>
</tr>
<tr>
<td>7</td>
<td>20.5</td>
<td>20.5</td>
<td>DITCO¹</td>
</tr>
<tr>
<td>15</td>
<td>1.6</td>
<td>1.6</td>
<td>DPMO²</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43.5</strong></td>
<td><strong>$43.5</strong></td>
<td></td>
</tr>
</tbody>
</table>

¹Defense Information Technology Contracting Office, St. Louis, Missouri.
²Defense Prisoner of War/Missing in Action Office, a DoD field activity, Arlington, Virginia.

DISA needs to make appropriate accounting entries to remove the three military equipment acquisitions from its general ledger. As of February 8, 1996, DISA initiated corrective actions for sample transactions 1 and 7; see the section entitled, "Corrective Actions Taken During the Audit," later in the report.

Military Equipment on Loan or Furnished to Other DoD Components, Other Federal Agencies, and Contractors. The DISA military equipment account 1762, Equipment in Use, included military equipment, valued at about $42.6 million, which was loaned or furnished to other DoD Components, other Federal Agencies, and contractors. In addition, even though DISA owned the equipment, DISA did not record the equipment on DISA official property records and annotate that the equipment was on loan or furnished to other organizations.

The following paragraphs discuss military equipment loans to other DoD Components and military equipment furnished to other Federal Agencies and contractors.
Military Equipment Loaned to Other DoD Components. Account 1762 included about $5.4 million for military equipment that was loaned to and used by other DoD Components. DISA retained responsibility for equipment maintenance and repair and, for two transactions, was the designated program manager or agent for the program or function for which the equipment was used. Table 4 summarizes the seven financial transactions, and Appendix F discusses the items in more detail.

Table 4. Military Equipment Loaned to DoD Components

<table>
<thead>
<tr>
<th>Number</th>
<th>General Ledger (millions)</th>
<th>Loan (millions)</th>
<th>Borrower</th>
<th>Type of Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>$3.6</td>
<td>$3.6</td>
<td>Various(^1)</td>
<td>Computer</td>
</tr>
<tr>
<td>9</td>
<td>1.5</td>
<td>.2</td>
<td>DISA(^2)</td>
<td>Communications</td>
</tr>
<tr>
<td>12</td>
<td>.7</td>
<td>.1</td>
<td>Various(^3)</td>
<td>Computer</td>
</tr>
<tr>
<td>13</td>
<td>1.2</td>
<td>.7</td>
<td>Various(^4)</td>
<td>Computer</td>
</tr>
<tr>
<td>17</td>
<td>.6</td>
<td>.6</td>
<td>Air Force</td>
<td>Computer</td>
</tr>
<tr>
<td>18</td>
<td>.2</td>
<td>.1</td>
<td>TMSO(^5)</td>
<td>Computer</td>
</tr>
<tr>
<td>19</td>
<td>.1</td>
<td>.1</td>
<td>Joint Staff</td>
<td>Computer</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7.9</strong></td>
<td><strong>$5.4</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\)Air Force and Army installations.  
\(^3\)Various Military Department organizations.  
\(^4\)Various Military Department, and other DoD Component organizations.  

Military Equipment Furnished to Other Federal Agencies and Contractors. Account 1762, Equipment in Use, included six transactions, totaling about $37.2 million, for military equipment that was furnished to and used by other Federal Agencies, DoD contractors, and others. Four of the six transactions were for loans to other Federal Agencies. DISA executed loan agreements for two transactions, and for the other two transactions, DISA was the designated program manager or agent for the program or function for which the equipment was used. Table 5 summarizes the six financial transactions, and Appendix G discusses the items in more detail.
Table 5. Military Equipment Furnished to Federal Agencies and DoD Contractors

<table>
<thead>
<tr>
<th>Number</th>
<th>General Ledger (millions)</th>
<th>Furnished (millions)</th>
<th>Federal Agency/Contractor</th>
<th>Type of Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>$ 9.0</td>
<td>$ 9.0</td>
<td>USCS¹</td>
<td>Communications</td>
</tr>
<tr>
<td>8</td>
<td>22.7</td>
<td>22.7</td>
<td>INS/DoJ²</td>
<td>Communications</td>
</tr>
<tr>
<td>9</td>
<td>1.5</td>
<td>1.1</td>
<td>OAO³</td>
<td>Communications</td>
</tr>
<tr>
<td>10</td>
<td>5.1</td>
<td>4.6</td>
<td>Various⁴</td>
<td>Computers</td>
</tr>
<tr>
<td>12</td>
<td>.7</td>
<td>.6</td>
<td>Various⁵</td>
<td>Computers</td>
</tr>
<tr>
<td>21</td>
<td>.2</td>
<td>.2</td>
<td>MTI⁶</td>
<td>Computers</td>
</tr>
</tbody>
</table>

Total $39.2 $37.2

¹United States Customs Service.
²Immigration and Naturalization Service, Department of Justice.
³OAO Corporation, Greenbelt, Maryland.
⁴Various Federal Agencies and DoD contractors.
⁵Various Federal Agencies and DoD contractors.
⁶Modern Technologies Incorporated, Riverdale, Maryland.

For the six transactions, DISA needs to:

- record the acquisitions on its official property book records and annotate that the equipment is on loan or furnished to other organizations,

- reclassify the transaction in accounting records as equipment loans or equipment furnished to other organizations, and

- establish controls to ensure feedback from equipment borrowers concerning the status of the military equipment.

Computer Software Classified as Military Equipment. Account 1762, Equipment in Use, included $7.2 million of military equipment that should have been recorded in general ledger account 1830, "Automated Data Processing Software." The acquisitions were for computer application software having an estimated useful life of more than 2 years and exceeding the DoD capitalization threshold. Table 6 provides details on the six financial transactions, and Appendix H discusses the transactions in more detail.
Table 6. Computer Software Classified as Military Equipment

<table>
<thead>
<tr>
<th>Transaction Number</th>
<th>General Ledger (millions)</th>
<th>Software (millions)</th>
<th>Type of Software</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>$6.1</td>
<td>$5.3</td>
<td>Developed</td>
</tr>
<tr>
<td>6</td>
<td>5.2</td>
<td>.2</td>
<td>Off-the-shelf</td>
</tr>
<tr>
<td>9</td>
<td>1.5</td>
<td>1.1</td>
<td>Off-the-shelf</td>
</tr>
<tr>
<td>10</td>
<td>5.1</td>
<td>.4</td>
<td>Developed</td>
</tr>
<tr>
<td>11</td>
<td>1.2</td>
<td>.1</td>
<td>Developed</td>
</tr>
<tr>
<td>16</td>
<td>.8</td>
<td>.1</td>
<td>Developed</td>
</tr>
<tr>
<td>Total</td>
<td>$19.9</td>
<td>$7.2</td>
<td></td>
</tr>
</tbody>
</table>

The DISA needs to make accounting entries to reclassify the $7.2 million from account 1762, Equipment in Use, to general ledger account 1830, Automated Data Processing Software.

Transactions That Should Have Been Expensed. Account 1762 included five transactions, totaling about $.4 million, that should have been expensed. Three transactions were below the dollar threshold established by DoD for capitalizing military equipment. Two transactions were acquisitions for other than military equipment. Appendix I discusses the transactions in more detail. DISA needs to make an accounting entry to remove the financial transactions from account 1762.

Analysis of Military Equipment Transactions

The DISA did not establish adequate management controls to ensure analysis of military equipment financial transactions before the transactions were recorded in the general ledger. The DISA analyzed military equipment transactions according to DoD object classification codes; however, those codes were intended and are used for budgetary not proprietary accounting purposes. For example, the object classification codes DISA assigned to military equipment transactions related to the type and nature of equipment to be acquired; however, the codes did not provide information on asset ownership, asset location, and asset status required by the DoD standard general ledger.

Analysis of the military equipment transactions in our sample would have shown the need for DISA to do the following:

- record certain military equipment acquisitions in different general ledger military equipment subsidiary accounts because the purpose of the transactions was to loan or furnish the equipment to other organizations,
DISA Appropriated Fund Military Equipment General Ledger Account

- record certain transactions as computer software rather than military equipment,

- record certain acquisitions in general ledger expense accounts because the acquisitions either did not meet DoD capitalization criteria for military equipment or were not for military equipment, and

- delete certain military equipment transactions from the DISA general ledger because the military equipment was controlled and used by other organizations.

The DISA procedures for recording military equipment acquisition transactions need to be improved. The DISA should establish appropriate accounting controls to ensure that accounting personnel record:

- military equipment transactions in the appropriate general ledger military equipment subsidiary account;

- transactions for other than military equipment in the appropriate general ledger account;

- military equipment transactions that do not meet DoD capitalization criteria as expenses in the appropriate general ledger expense account; and

- military equipment ownership transfers.

Effects on DISA General Ledger Account Balances

The overstatement of about $93.7 million for the sampled transactions in account 1762, Equipment in Use, consisted of $50.2 million, which was misclassified as equipment in use, and about $43.5 million, which was the cost of equipment transferred to other organizations.

General Ledger Account Misclassifications. The misclassifications of about $50.2 million in account 1762 resulted in understatements in the following general ledger asset and expense accounts:

- asset account 1764, Equipment on Loan, was understated by about $5.4 million;

- asset account 1763, Equipment With Contractors, Testing Agencies, Defense Industrial Facilities, and Others, was understated by about $37.2 million;

- asset account 1830, Automated Data Processing Software, was understated by about $7.2 million; and
DISA Appropriated Fund Military Equipment General Ledger Account

The expense account 6122, Equipment (not capitalized), was understated by about $0.4 million.\(^7\)

**Equipment Transferred.** The overstatement of about $43.5 million in account 1762, caused by not deleting the cost of equipment transfers, directly affected DISA equity. DISA should have reduced general ledger equity account 3100, Appropriated Capital, by the amounts of the transfers.

**Conclusion**

DISA needs to increase visibility over the location, type, and amount of its military equipment, primarily because DISA decision makers may need to access information concerning military equipment loaned and furnished to other DoD Components, other Federal Agencies, and DoD contractors. DISA budget formulation and execution decisions, for example, may hinge on the availability and accuracy of such information.

DISA also needs to maintain an accurate general ledger record of its military equipment and other assets. Computer software assets should be separately accumulated and reported. Those assets have value not only to DISA, but also to other DoD Components. Further, DISA acquisitions of military equipment that do not meet DoD capitalization thresholds and acquisitions of maintenance and services should be expensed; DISA may be incurring unnecessary costs in maintaining financial visibility over those acquisitions.

**Corrective Actions Taken During the Audit**

On February 8, 1996, DISA initiated actions to correct a $41 million overstatement of military equipment. The Inspector General, DISA, concluded that the military equipment acquisitions for the two sampled transactions were properly recorded on the general ledger of the Defense Information Technology Contracting Office, a Defense Business Operation Fund field activity under DISA. The Inspector General, DISA, therefore, notified (Appendix J) the Comptroller, DISA, to make appropriate accounting entries to remove the $41 million in military equipment assets from the DISA appropriated fund general ledger. Therefore, we are not including recommendations to correct the $41 million overstatement of military equipment. We commend the Inspector General, DISA, for helping to correct DISA financial records.

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\(^7\)The expense understatements occurred in the year the transaction was executed.
Recommendations and Management Comments

1. We recommend that the Director, Defense Information Systems Agency:
   
a. Make appropriate accounting entries to remove the $1.6 million military equipment assets transferred to the Defense Prisoner of War/Missing in Action Office from the DISA appropriated fund general ledger.


Management Comments. DISA concurred and stated that the $1.6 million in military equipment assets would be removed from the DISA general ledger and that DISA would request that the Defense Prisoner of War/Missing in Action Office add to their general ledger $1.6 million in military equipment transferred by DISA.

Other Management Comments. Although not required to comment, the Defense Prisoner of War/Missing in Action Office stated that it would add $1.6 million in military equipment assets to its property records.

2. We recommend that the Director, Defense Information Systems Agency, make appropriate accounting entries to reclassify military equipment investments by reducing military equipment subsidiary general ledger account 1762, Equipment in Use, by $49.8 million and by increasing the following military equipment subsidiary accounts and other general ledger asset accounts:

   a. military equipment subsidiary account 1764, Equipment on Loan, by $5.4 million for military equipment owned by the Defense Information Systems Agency, but used and under the custody of other DoD organizations;

   b. military equipment subsidiary account 1763, Equipment With Contractors, Testing Agencies, Defense Industrial Facilities, and Others, by $37.2 million for military equipment owned by the Defense Information Systems Agency, but used and under the custody and control of DoD contractors; and

   c. general ledger account 1830, Computer Software, by $7.2 million representing acquisitions of computer software.

Management Comments. DISA concurred, stating that accounting entries would be made to reclassify the military equipment transactions in the general ledger by July 31, 1996.
3. We recommend that the Director, Defense Information Systems Agency, record in the official property accountability records the following transactions.

   a. The acquisition cost of $5.4 million for military equipment on loan to other DoD Components. The property records should also include equipment nomenclature, location, and name of the DoD Component that borrowed the equipment.

   b. The acquisition cost of military equipment furnished to other Federal Agencies and DoD contractors of $37.2 million. The property records should include equipment nomenclature, location, and name of the Federal Agency or contractor that borrowed the equipment.

Management Comments. DISA concurred, stating that it will add the military equipment on loan to other DoD Components or furnished to other Federal Agencies and DoD contractors to the official DISA property records. Property records will identify the current location of the equipment and the program manager or project office will maintain documentation of the transaction.

4. We recommend that the Director, Defense Information Systems Agency, execute agreements with DoD Components, other Federal Agencies, and contractors that borrowed or were furnished Defense Information Systems Agency military equipment to require that the organizations provide periodic reports on the status of the borrowed or furnished equipment.

Management Comments. DISA concurred, stating that procedures would be established requiring organizations with equipment on loan to periodically report to DISA on the current status of the equipment.

5. We recommend that the Director, Defense Information Systems Agency, make appropriate general ledger accounting entries to reduce military equipment subsidiary account 1762, Equipment in Use, by $0.4 million for acquisitions that should have been expensed.

Management Comments. DISA concurred, stating that the recommended general ledger accounting entries would be made to reduce the military equipment account balance by the acquisition costs of military equipment below the established capitalization threshold.

6. We recommend that the Director, Defense Information Systems Agency, establish appropriate accounting controls to ensure that:

   a. accounting personnel record military equipment transactions in the appropriate general ledger account, and

   b. property book custodians record military equipment loans to other DoD Components, other Federal Agencies, and DoD contractors and include appropriate information needed to monitor the loans.
Management Comments. DISA concurred, stating that it would revise DISA Instruction 170-165-2, "Management of and Accountability for DISA Personal Property," dated April 19, 1995. The revised Instruction will incorporate appropriate accounting controls to ensure that accounting personnel record military equipment in the appropriate general ledger account and that property book custodians record sufficient information to monitor the loans of military equipment to other DoD Components, other Federal Agencies, and DoD contractors.
Part II - Additional Information
Appendix A. Scope and Methodology

Scope

We selected 30 financial transactions, totaling $122.8 million, from the DISA standard general ledger account 1762, Equipment in Use, which totaled $521.1 million as of October 27, 1995. We selected account 1762 because it was the only standard general ledger account in which DISA recorded military equipment (see Table 2 earlier in the report for a complete list of the standard general ledger accounts for "Military Equipment"). We judgmentally selected the initial 10 transactions and statistically selected the remaining 20 transactions. However, due to resource constraints, we audited only 8 of the 10 judgmentally selected transactions and 16 of the 20 statistically selected transactions. The 8 transactions totaled about $91.3 million, and the 16 transactions totaled about $14.2 million.

Judgment Sample. From a universe of 96 transactions totaling about $300 million we judgmentally selected 10 financial transactions, totaling $100.3 million. For sampling purposes, we defined the universe as transactions that exceeded $1 million each. We stratified the universe by the type of documents used to execute the military equipment transactions and selected the largest dollar transactions in each stratum. Because the selection included eight transactions executed from FYs 1989 through 1993, we decided to statistically select additional transactions executed in FYs 1994 and 1995.

Stratified Sample. Using stratified sampling, we selected 20 financial transactions, totaling $22.5 million, from a universe of 181 financial transactions, totaling about $60 million, that were executed in FYs 1994 and 1995. The statistical sample was made because the judgment sample was skewed toward earlier years. We did not project the sample results to the universe because the sample selection contained both judgment and randomly selected samples.

The 24 sampled transactions are in Appendix D.

Limitations to Audit Scope. The audit scope did not include coverage of real property, property accountability, and fund control procedures.

Real Property. The DISA general ledger account structure did not include account balances for real property such as land, construction in progress, buildings, and other fixed assets. DISA officials told us that DISA does not own real property. We did not perform further detailed tests to determine whether DISA should have maintained such real property accounts.

Property Accountability. Because DISA was scheduled to implement the DoD selected migratory system for property accountability in May 1996 (see "DoD Property Accountability System" earlier in the report), we did not:
o determine the accuracy of military equipment property book records,

o observe or perform physical inventory procedures for military equipment, or

o attempt to reconcile financial and property records.

However, we did selectively review DISA property records to determine whether military equipment recorded in the general ledger was also recorded on property book records (see Methodology).

**Fund Control Procedures.** We did not review fund control procedures for awarding contracts, paying vendors, and ensuring that paid for military equipment was received. In addition, we did not review the appropriateness of DISA use of specific documents to execute the 24 financial transactions. The Comptroller, DISA, used the documents to provide budget authority to various DISA and non-DISA acquisition offices to buy military equipment (Appendix D).

**Audit Locations Visited.** The audit was performed at DISA Headquarters; selected DISA appropriated fund field organizations; DISA Defense Business Operations Fund field organizations; selected non-DISA organizations; and the Defense Accounting Office, Defense Finance and Accounting Service, at DISA Headquarters. Appendix K lists the organizations visited or contacted.

**Computer-Processed Data.** To achieve the audit objective of determining the accuracy of the DISA military equipment general ledger account balance, we relied on the computer printout of funding documents from the Washington Headquarters Services Allotment Accounting System. The funding documents support the DISA general ledger account 1762, Equipment in Use. The audit tested the reliability of the printout (see Methodology below).

**Methodology**

To evaluate the accuracy of the DISA general ledger account 1762, Equipment in Use, balance, we did the following.

o We evaluated the roles and responsibilities of the Comptroller, DISA, and of the Defense Finance and Accounting Service in executing financial transactions and in recording the transactions in the DISA general ledger.

o To determine the purpose of the transactions, we interviewed DISA officials from various DISA directorates that initiated the financial transactions.

o To determine the type of equipment acquired and its intended or actual use, we reviewed program and other files.
Appendix A. Scope and Methodology

- We collected and analyzed data supporting the commitment and obligation of funds for each of the 24 transactions.

- We reviewed acquisition records to determine whether the transactions were properly categorized as military equipment in use and whether the transactions met the capitalization thresholds in effect at the time of acquisition.

- We selectively reviewed disbursement records supporting general ledger account 1762 financial transactions.

- We identified the specific DISA or non-DISA organization that received and exercised custodial control of the military equipment.

- We determined, to the extent feasible, whether other organizations duplicated DISA general ledger accounting entries.

Audit Period and Standards. We performed this financial-related audit from September 1995 through March 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of management controls considered necessary.

Prior Audits and Other Reviews

No prior audits or other reviews have been done in the last 5 years on appropriated fund military equipment accounts in the DISA general ledger.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires each DoD organization to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the DISA FY 1995 management control program to determine whether DISA:

- evaluated risk associated with accurate and reliable recording of military equipment transactions in the DISA general ledger;

- had effective management control techniques in place to ensure that military equipment transactions were properly classified and recorded in the general ledger;
Appendix A. Scope and Methodology

- had effective management control techniques in place to ensure that military equipment reported as DISA assets in the general ledger were controlled and owned by DISA and,

- performed a self-evaluation of those techniques to make certain the controls worked.

Adequacy of Management Controls. We identified a material management control weakness as defined by DoD Directive 5010.38. The DISA did not assess the risk associated with the accurate and reliable recording of military equipment transactions and did not establish effective management control techniques to ensure that military equipment assets included in the DISA general ledger were owned by DISA, properly classified, and reconciled to official property book records. Recommendation 6, will improve the accuracy and reliability of military equipment and other DISA general ledger accounts. A copy of the report will be provided to the senior official responsible for management controls within DISA.

Adequacy of Management's Self-Evaluation. The DISA FY 1995 self-evaluation did not identify the specific material management control weakness identified by the audit because DISA did not assess the risk of material misstatements in the DISA general ledger military equipment account.
Appendix B. Other Matters of Interest

We noted a material discrepancy between DISA property records and accounting records. In June 1995, the DISA property records indicated military equipment assets on hand with an acquisition cost of about $43 million, while the May 1995 accounting records indicated military equipment acquired at about $498 million. Even though reconciliation of the property and accounting records was not within the audit scope, the audit results help explain material differences. For example, the audit of accounting records showed that property records were materially understated because DISA loaned or furnished $42.6 million of military equipment to other organizations, but did not include the loaned equipment on DISA property records. Conversely, the audit of accounting records showed that the accounting records were materially overstated because DISA:

- transferred ownership of about $43.5 million of military equipment, but had not reduced its accounting records to reflect the transfers;

- included $7.2 million of computer software in the military account;

and

- included $350,000 in the military equipment account for acquisitions that should have been recorded as an expense.

As requested by DISA personnel, we will give the implementation team for the DoD Property Accountability System the supporting audit working papers for the specific transactions.
Appendix C. Military Equipment Accounts

Military Equipment (Account 1760) is used to record the capitalized value of DoD military equipment that has been issued for use. The account includes the cost of upgrades, rehabilitation, and modifications, which can be capitalized. The account does not include combat-type equipment in inventory, layaway, or not in use.

This account is a summary account used for financial control and reporting purposes. No entries are posted to this account.

Industrial Property in Layaway (Account 1761) is used to record the capitalized value of DoD property that is stored for future use in meeting mobilization purposes.

Sources for entries in this account include documentation from property administrators or other officials charged with determining the need to retain equipment and journal vouchers with supporting documentation (such as reports of survey) for adjustments to the account.

Equipment in Use (Account 1762) is used to record the acquisition cost of military equipment in use by DoD. "Equipment in Use" is exclusive of the following classifications of equipment:

- "Equipment on Loan";
- "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others;" and
- Equipment being incorporated into work or construction in progress.

This account includes the cost of additions, alterations, improvements, and rehabilitations of equipment in use, which can be capitalized.

Sources of entries for this account include contracts, invoices, receiving reports, payment vouchers, issue and shipping documents, transfer documents, documented estimates indicating source of estimates, inventory documents, and documented gains and losses.

Property Awaiting Disposal (Account 1765) is used to record the capitalized value of property officially designated for disposal, recovery, or utilization.

Sources for entries for this account include receiving reports, transfer and shipping documents, sales records, collection and deposit documents, and journal vouchers.
Appendix C. Military Equipment Accounts

Equipment Not in Use (Account 1766) is used to record the acquisition cost or, when applicable, estimated fair market value of equipment held for future use, sale, or transfer, which can be capitalized. The account includes the cost of additions, alterations, improvements, and rehabilitations to equipment not in use, which can be capitalized.

"Equipment Not in Use" includes the following.

- Inventory.
- Equipment that can be capitalized and that is not in the supply system, for example,
  - equipment removed from use for depot maintenance, and
  - equipment that is no longer in use because the item manager has directed that it be placed in layaway. Subsidiary accounts shall be established as necessary to identify the cost of equipment in those categories.

"Equipment Not in Use" does not include equipment in use that is merely down for maintenance or awaiting parts.

Sources for entries for this account include invoices, receiving reports, payment vouchers, sales records, issue and shipping documents, transfer documents, documented estimates indicating source of estimates, inventory documents, and documented gains and losses.
Appendix D. Sample Military Equipment Transactions

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Total $105,549,837

*DISA used various documents to transmit funding authority to contracting offices. For example, DISA used military interdepartmental purchase requests, reimbursable orders, and purchase requests to acquire military equipment.
Appendix E. Sample Military Equipment Financial Transactions: Military Equipment Transferred to Others

For three military equipment transactions, DISA transferred custodial control of the equipment to other organizations that were responsible for the equipment maintenance, repair, and upkeep. The transactions are summarized below.

**Transaction Numbers 1 and 7.** In FYs 1990 and 1991, DISA sent two military interdepartmental purchase requests totaling about $58.8 million to the Defense Information Technology Contracting Office, a DISA Defense Business Operations Fund office, to support the Communications Services Industrial Fund. From June 1991 through August 1995, the Defense Information Technology Contracting Office used about $41.9 million of the funds to acquire equipment and services. The Defense Information Technology Contracting Office recorded the $41.9 million in its general ledger accounts, thereby duplicating the transactions recorded in the DISA general ledger. Because the equipment was controlled and used by the Defense Information Technology Contracting Office and because the equipment was included in the Defense Information Technology Contracting Office property accounting system, we concluded that DISA should delete the equipment from its general ledger account.

On February 8, 1996, DISA initiated corrective actions. See the discussion in Part I, and Appendix J.


The Defense Prisoner of War/Missing in Action Office exercises custodial control over the equipment and includes the equipment on its property book records. DISA officials neither require nor expect the equipment to be returned to DISA. Therefore, the equipment should not appear as a DISA asset. We determined that the equipment was not recorded in the Defense Prisoner of War/Missing in Action Office general ledger.
Appendix F. Sample Military Equipment Financial Transactions: DISA Loans of Equipment to DoD Components

For seven sample financial transactions, DISA loaned equipment to DoD Components. The DoD Component maintained custodial control over and primarily benefited from the use of the equipment. However, DISA retained responsibility for the care, upkeep, and replacement of the equipment. Each transaction is summarized below.

Transaction Number 4. In FY 1995, DISA procured three computer work stations for $3.6 million for the Global Command and Control System. The contractor, Sun Microsystems, delivered the three computer work stations to DISA. Subsequently, DISA transferred one system each to the following components:

- Headquarters, Department of the Army, Washington, D.C.;
- Headquarters Department of the Air Force, Arlington, Virginia; and
- U.S. Army Pacific, Fort Shafter, Hawaii.

DISA retained responsibility to provide maintenance for the computer equipment; therefore, the equipment should have been classified as on loan to other DoD agencies. The other DoD Components maintain accountability over the property. DISA did not record the military equipment in its official property book and indicate that the property was on loan; however, DISA maintained unofficial inventories of the equipment delivered to other DoD Components.

Transaction Number 9. In FY 1995, DISA procured computer hardware and software, costing $1.5 million, in support of a Defense information control center. DISA provided equipment costing $218,926 to DISA Western Hemisphere, Fort Ritchie, Maryland. However, DISA retained the responsibility for maintenance of the equipment. DISA Western Hemisphere recorded the equipment on its property book. The DISA National Capital Region neither recorded the equipment in its official property book nor indicated that the property was on loan. However, DISA maintained an unofficial record of all equipment procured on the financial transaction.

Transaction Number 12. In August 1993, the Joint Staff and the Defense Intelligence Agency formally designated DISA as the executive agent for the Anti-Drug Network, a Federal anti-drug command and control network. As executive agent, DISA was responsible for program management to include acquisition management, configuration management, budget administration, software integration, and day-to-day system operations and maintenance. In FY 1994, DISA procured computer hardware and accessories at a cost of $671,125 for the Anti-Drug Network work station installations. DISA provided equipment costing $86,070 to other DoD Components for the primary benefit of
the borrowers. However, DISA did not record the loaned equipment on its accounting records. Furthermore, DISA did not record the military equipment in its official property book and did not indicate that the equipment was on loan. However, DISA maintained an unofficial record of all equipment procured on the financial transaction.

Transaction Number 13. In FY 1995, DISA procured Global Command and Control System equipment at a cost of $1.2 million. The contractor delivered the equipment to DISA. DISA loaned equipment costing $672,304 to various Army, Air Force, Navy, and other DoD Components for the primary benefit of the borrowers. DISA retained responsibility for maintenance of the equipment; therefore, DISA should record the assets as on loan to other DoD Components. DISA did not record the military equipment in its official property book and indicate that the equipment was on loan; however, DISA maintained unofficial inventories of the equipment delivered to other DoD Components.

Transaction Number 17. In FY 1994, DISA procured computer equipment for the Global Command and Control System. The equipment, costing $648,000, was delivered to DISA and was subsequently transferred to an Air Force training facility at Keesler Air Force Base, Biloxi, Mississippi. Although the Air Force training facility controlled and used the equipment, DISA retained responsibility for maintenance of the equipment. Therefore, DISA should treat the assets as on loan to other DoD Components. DISA did not record the military equipment in its official property book and did not indicate that the equipment was on loan. However, DISA maintained unofficial inventories of the equipment delivered to other DoD Components.

Transaction No. 18. In FY 1995, DISA procured two Sun Microsystems 1000 computer servers and associated peripheral equipment for $217,867. The two servers supported the World Wide On Line System-Replacement, a DISA owned communication system. One server was located at DISA, and the other server was loaned to DISA personnel at Scott Air Force Base for the primary benefit of the Telecommunications Management Support Office. The cost of each server was $108,934. DISA did not record the military equipment in its official property book and did not indicate that the equipment was on loan. However, DISA maintained an unofficial record of all equipment procured on the financial transaction.

Transaction Number 19. DISA was designated the manager for the Nuclear Planning and Execution System, a classified command and control system operated by the Joint Staff. In FY 1994, DISA sent funding authority totaling $69,000 to a Joint Staff operational field office at Offutt Air Force Base, Omaha, Nebraska, to replace older and nonfunctioning computers used in the Nuclear Planning and Execution System.

The Joint Staff operational field activity at Offutt Air Force Base, a non-DISA organization, purchased computer equipment at a cost of $68,671; exercised custodial control over the equipment; accounted for the equipment on its property records; and used the equipment for its primary benefit. Because DISA retained responsibility for operational and technical support of the Nuclear Planning and Execution System, we believe the equipment should be
classified as DISA-owned military equipment on loan to the Joint Staff. DISA neither recorded the equipment on its official property book nor indicated that the property was on loan. The Joint Staff maintained a record of the equipment on its property book.
Appendix G. Sample Military Equipment Financial Transactions: Equipment Furnished to Contractors and Federal Agencies

For six transactions, DISA furnished military equipment to DoD contractors, Federal Agencies, and others. The equipment was in the custody of and used by DoD contractors, Federal Agencies, or others. Of the six transactions, DoD executed formal loan agreements with Federal Agencies for two equipment transactions. DISA was the designated program manager/executive agent for Federal programs related to two other transactions; for the remaining two transactions, DISA furnished the equipment to a contractor. Each of the six transactions is summarized below.

Loan Agreements

Transaction Number 3. In March 1990, DISA signed a formal agreement with the United States Customs Service. The agreement stipulated that DoD would retain ownership of the equipment and that the United States Customs Service would maintain property accountability and report periodically to DISA on the status of the loaned equipment. In FY 1990, DISA sent funding authority totaling $9.0 million to the United States Customs Service. In FY 1989, the United States Customs Service used those funds to purchase communication systems and support equipment. The loaned equipment remained in the custodial control and use of the United States Customs Service as of March 1996. In addition, the United States Customs Service maintained property accountability for the equipment. DISA neither recorded the equipment on the DISA official property book nor annotated that the equipment was on loan to another Federal Agency.

Transaction Number 8. In May 1990, DISA signed a formal agreement with the Immigration and Naturalization Service. The agreement stipulated that DoD would retain ownership of the equipment and that the Immigration and Naturalization Service would maintain property accountability and report periodically to DISA on the status of the loaned equipment. In FY 1990, DISA sent funding authority totaling $22.7 million to the Immigration and Naturalization Service to purchase radios. Between FYs 1990 and 1992, the Immigration and Naturalization Service used the funds to purchase communication systems at a cost of $22.7 million. The Immigration and Naturalization Service recorded the communication systems on its property accountability records. On June 25, 1995, the Immigration and Naturalization Service reported that all the communication systems purchased with DoD funds was in its custody and use. DISA did not record the equipment on the DISA official property book or annotate that the equipment was on loan to another Federal Agency.
Appendix G. Sample Military Equipment Financial Transactions: Equipment Furnished to Contractors and Federal Agencies

Program Manager/Executive Agent

Transaction Number 10. The Southwest Border States Anti-Drug Information System is a computer information system designed to interconnect participant counter-drug information networks. An October 1993 memorandum of understanding between DoD and other system participants designated DISA as the program manager for the system. In FY 1994, DISA procured computer equipment, costing $5.1 million, for the system. DISA furnished computer equipment costing $4.6 million to contractors, various states, and Federal Agencies. DISA did not record the equipment on its official property book or annotate that the equipment had been furnished to other organizations. However, DISA prepared and retained an unofficial inventory of the equipment delivered to contractors, various states, and Federal Agencies.

Transaction Number 12. The Anti-Drug Network is a computer network designed to integrate all the Federal Government’s command, control, communications, and intelligence assets dedicated to the interdiction of illegal drugs entering the United States. In August 1993, the Joint Staff and the Defense Intelligence Agency formally designated DISA as the executive agent for the Anti-Drug Network. As executive agent, DISA was responsible for program management to include acquisition management, configuration management, budget administration, software integration, and day-to-day system operations and maintenance. In FY 1994, DISA procured computer hardware costing $671,125 for Anti-Drug Network work station installations. DISA furnished computer hardware totaling $312,509 as Government-furnished equipment to two DISA contractors: Booze, Allen, and Hamilton, Alexandria, Virginia; and, MITRE Corporation, Reston, Virginia. DISA also furnished computer hardware, costing $267,106, to other Federal Agencies. DISA did not record the equipment on the DISA official property book or annotate that the equipment had been furnished to a contractor or was on loan to other Federal Agencies. However, DISA prepared and retained an unofficial inventory of the equipment delivered to contractors and Federal Agencies.

Military Equipment Furnished to Contractors

Transaction Number 9. In FY 1994, DISA procured computer hardware and software at a cost of $1.5 million to support a Defense information control center. In FY 1995, DISA furnished computer hardware costing $109,463 to a DISA contractor, OAO Corporation, Greenbelt, Maryland, to perform work on contract DCA600-94-G-003. DISA did not record the computer hardware on the DISA official property book or annotate that the equipment had been furnished to a contractor. However, DISA maintained an unofficial inventory of equipment provided to the contractor.

Transaction Number 21. In FY 1994, DISA procured computer hardware at a total cost of $151,298. DISA provided the equipment between April and November 1994 as Government-furnished equipment to Modern Technologies,
Incorporated, Riverdale, Maryland, to use on DISA contract DCA100-94-D-0064. DISA did not record the equipment on the DISA official property book or annotate that the equipment had been furnished to a contractor. However, DISA maintained an unofficial inventory of equipment provided to the contractor.
Appendix H. Sample Military Equipment Financial Transactions: Computer Software Acquisitions Classified as Military Equipment

The Regulation states that account 1830, Automated Data Processing Software, is used to record the value of DoD-owned software that meets the capitalization criteria. Account 1830 shows the acquisition cost of off-the-shelf software or the development cost of purchased software to include the salaries and benefits for DoD staff and compensation to others for development and modification of the software. However, the acquisition cost of computer software that is integrated into hardware and is necessary to operate the hardware is not recorded in account 1830.

We evaluated six transactions concerning the acquisition of computer software that DISA recorded in account 1762, Equipment in Use. Each transaction is summarized below.

Transaction Number 5. In FY 1991, DISA awarded a contract to purchase and install two front-end processors for the White House Communications Agency. Of the total procurement cost of $6.0 million, the cost for development of application software was $5.3 million. Therefore, DISA should have recorded $5.3 million in account 1830 and only $720,243 in account 1762.

Transaction Number 6. In FY 1990, DISA procured computer hardware and software necessary to expand the DISA information management system network. Of the total procurement cost of $5.2 million, $157,397 was for application software. Therefore, DISA should have recorded $157,397 in account 1830 and $5.0 million in account 1762.

Transaction Number 9. In FY 1995, DISA procured computer hardware and software in support of the Defense Information Infrastructure Control Center. Of the total procurement cost of $1.5 million, about $1.1 million was for application software. Therefore, DISA should have recorded $1.1 million in account 1830 and only $400,000 in account 1762.

Transaction Number 10. In FY 1994, DISA procured part of an anti-drug information system. Of the procurement cost of $5.1 million, $429,420 was for application software. Therefore, DISA should have recorded $429,420 in account 1830 and $4.7 million in account 1762.
Appendix H. Sample Military Equipment Financial Transactions: Computer Software Acquisitions Classified as Military Equipment

Transaction Number 11. In FYs 1994 and 1995, DISA procured hardware and application software for the White House Communications Agency's computer network. Of the total procurement cost of $1.2 million, $52,545 was for application software. Therefore, DISA should have recorded $52,545 in account 1830 and $1.1 million in account 1762.

Transaction Number 16. In FY 1994, DISA procured computer equipment, hardware maintenance, and software in support of the Global Command and Control System. Of the total procurement cost of $755,290, $55,101 was for application software. Therefore, DISA should have recorded $55,101 in account 1830 and $700,189 in account 1762.

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Appendix I. Sample Military Equipment Financial Transactions: Acquisitions Not for Military Equipment

For five sample financial transactions, DISA recorded the entire acquisition cost as an asset, even though either a part or all the acquisition cost should have been recorded as an expense. In three instances, DISA acquired equipment below the established capitalization threshold for recording transactions as assets. In two instances, DISA acquired services that clearly were not military equipment; the Regulation requires services to be recorded as expenses.

Equipment Below the Capitalization Threshold

Transaction Number 22. In FY 1995, International Development and Resources, Incorporated, Fairfax, Virginia, procured computer equipment at a cost of $43,653. The equipment was procured with DISA funds in support of DISA contract DCA100-94-D-0078. The acquisition cost of $43,653 was less than the capitalization threshold of $50,000; therefore, the acquisition should have been recorded as an expense, not as an asset.

Transaction Number 23. In FY 1995, DISA purchased modular furniture costing $70,114. No single piece of furniture exceeded the FY 1995 capitalization threshold of $50,000; therefore, the acquisition should have been recorded as an expense, not as an asset.

Transaction Number 24. In FY 1995, DISA procured 17 communication servers and peripheral equipment for a classified communication system at a cost of $111,955. Although this amount exceeded the FY 1995 capitalization threshold of $50,000, the 17 servers can be operated in a stand-alone mode. Furthermore, DISA procured this equipment with Operation and Maintenance funds. For those reasons, we believe this transaction should be recorded as an expense, not an asset.
Contract Services

Transaction Number 10. In FY 1994, DISA acquired components for an anti-drug information system at a cost of $5.1 million. Of the $5.1 million, $44,421 was for training. The Regulation requires training costs to be recorded as expenses, not as assets.

Transaction Number 16. In FY 1994, DISA procured computer hardware, hardware maintenance, and software in support of the Global Command and Control System at a cost of $755,290. Of the $755,290, the $90,768 used to procure hardware maintenance should have been recorded in an expense account, because the Regulation requires maintenance costs to be recorded as operating expenses.
Appendix J. Corrective Action Letter

MEMORANDUM FOR ACCOUNTING AND FINANCE OFFICER, DAO/DISA, DFAS-CO

SUBJECT: DoDIG Recommendation on Equipment Capitalization

Reference: DFAS-CO Memo, DAO/DISA, subject as above, 5 Feb 96

1. We are in agreement with both the DoDIG and the USD(C) with regard to eliminating the double recording of the Property, Plant, and Equipment (PP&E). Our view is that the PP&E should be recognized as an asset on the balance sheet of DITCO and that acquisition cost should be charged to expense through depreciation. This depreciation expense would be accumulated in a contra asset account to General Ledger Account 1750 - Equipment. The draft comment enclosed with the reference establishes the fact that DITCO has already recorded capital equipment acquisitions in Account 1750 on the DBOF-CISA books, maintained on FAMIS and support that balance with detail in their equipment subsidiary maintained in FAACS. The redundant asset recording in DISA GL Account 1762, Military Equipment in Use, simply represents the balancing debit entry equaling the $58.8 million value of the two MPRAs transferred out to DITCO in 1990-91 (DECCO at that time). There is no subsidiary ledger of fixed assets supporting the general ledger account. Since the funds were transferred to DITCO to manage, the responsibility to account for the use of the funds also flows to DITCO. Therefore, the DoDIG's draft recommendation to make correcting entries on DISA's books to back out the balance in Account 1762 is reasonable.

2. On 6 February 1996, I spoke with Mr. Tim Moore, DoDIG, (703) 604-9544, and discerned that the sole issue in his draft comment was to clear up the overstatement of assets caused by the duplicative entries. Mr. Moore surfaced this issue in connection with their CFO audit under Project No. SRF-6010.12.

3. If there are any questions, please call Tom Nicholas, (703) 275-5485.

PHILIP D. LAVIETES
Assistant Inspector General (Audit)

Quality Information for a Strong Defense
Appendix K. Organizations Visited or Contacted

Office of the Secretary of Defense
Under Secretary of Defense (Comptroller), Washington, DC
Washington Headquarters Services, Arlington, VA

Joint Staff
National Airborne Operations Center, Offutt, Air Force Base, Omaha, NE

Department of the Army
Headquarters, Department of the Army, Arlington, VA
Headquarters, 30th Signal Battalion, Fort Shafter, HI

Department of the Air Force
Air Force Pentagon Communications Agency, Arlington, VA
Air Education and Training Command, Keesler, Air Force Base, Biloxi, MS

Other Defense Organizations
Defense Information Systems Agency, Arlington, VA
Defense Accounting Office, Arlington, VA
Defense Information Systems Agency, Western Hemisphere, Fort Ritchie, MD
Defense Information Technology Contracting Office, Scott Air Force Base, IL
Defense Prisoner of War/Missing in Action Office, Arlington, VA

Non-Defense Federal Organizations
National Law Enforcement Communications Center, United States Customs Service, Orlando, FL
Immigration and Naturalization Service, Department of Justice, Washington, D.C.

Non-Government Organizations
LOGICON, Law Enforcement Programs, Reston, VA
Booze, Allen, and Hamilton, Incorporated, Falls Church, VA
Appendix L. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
   Inspector General, National Security Agency
Director, Washington Headquarters Services
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
   General Accounting Office
Non-Defense Federal Organizations and Individuals (cont'd)

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on National Security, Committee on Appropriations
- House Committee on National Security
- House Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
Part III - Management Comments
MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL
ATTN: Director, Readiness and Operation Support Directorate

SUBJECT: DODIG Draft Audit Report, Defense Information Systems Agency General Ledger Military Equipment Account, 10 April 96 (Project No. SRF-6010.12)

Please find enclosed the agency reply to the draft of the proposed DODIG audit report, subject as above. We have reviewed the report and concur with the finding. For additional information, please contact my point of contact Ms. Barbara Nichols, Assistant Audit Liaison on 703-607-6607.

Enclosure a/s

RICHARD T. RACE
Inspector General

Quality Information for a Strong Defense
Draft Audit Report, DISA Appropriated Fund Military Equipment
General Ledger Account, 10 April 96 (Project No. SRP-6020-12)

General Comments:
The Logistics Division and the National Capital Region
Contracting Office (NCRCO) are developing procedures to better
capture equipment as it is delivered off contract. D42 is also
taking actions to clarify guidance on property accountability, to
refine the process for acquiring and receiving accountable
property, and for establishing an Agency-wide property book
through DPAS.

When activities or sites were transferred to DISA from the
Military Departments (MILDEP) or agencies, they brought with them
the property accountability systems of the parent MILDEP or
agency. Until DISA could identify and implement a single
property accountability system for the Agency, each activity was
directed to maintain their existing property accountability
system. The Logistics Division has worked with the Defense
Property Accountability System Program Manager (DPAS) and the
affected DISA activities to develop a DPAS Implementation Plan
for the Agency. This plan has been published, and is now being
implemented. Target date for completion of the conversion of all
DISA activities to DPAS is 31 Oct 96. Once all DISA activities
have converted to DPAS, there will be a single DISA property
record located at the Columbus Megacenter. The designated
accountable property offices will then control the equipment
belonging to their activities within an overall DISA management
structure.

The Logistics Division will work with the DODIG to identify
specific transactions and equipment contained in the report
recommendations. Background information on the specific
transactions is requested from the DODIG audit team to assist the
Accountable Property Officer in the efforts to identify the
equipment and establish accountability for it.

Recommendation 1a: Make appropriate accounting entries to remove
the $1.6 million military equipment assets transferred to the
Defense Prisoner of War/Missing in Action Office from the DISA
appropriated fund general ledger.

Comments: Concur. Comptroller (DCS) will coordinate with the
Defense Accounting Office (DAO)-DISA to remove $1.6 million
military equipment assets from the DISA appropriated fund general ledger. ECD: 31 July 1996

Recommendation 1b: Notify the Director, Defense Prisoner of War/Missing in Action Office, to record on the Defense Prisoner of War/Mission in Action Office general ledger the $1.6 million military equipment assets transferred by the Defense Information Systems Agency.

Comments: Concur. DC5 will coordinate with DAO-DISA and D4, Procurement and Logistics Directorate to notify the Director, Defense Prisoner of War/Missing in Action Office, to record the $1.6 million military equipment assets transferred by DISA. ECD: 31 July 96

Recommendation 2: Make appropriate accounting entries to reclassify military equipment investments by reducing military equipment subsidiary general ledger account 1762, Equipment in Use, by $49.8 million and by increasing the following military equipment subsidiary accounts and other general ledger asset accounts:

a. Military equipment subsidiary account 1764, Equipment on Loan, by $5.4 million for military equipment owned by Defense Information Systems Agency but used and under the custody of other DoD organizations;

b. Military equipment subsidiary account 1763, Equipment With Contractors, Testing Agencies, Defense Industrial Facilities, and Others, by $37.2 million for military equipment owned by Defense Information Systems Agency but used and under the custody and control of DoD contractors;


Comments: Concur. DC5 will coordinate with DAO-DISA to make the recommended accounting entries to reclassify the stated military equipment investments. ECD: 31 July 1996

Recommendation 3a: Record in the official property accountability records the acquisition cost of $5.4 million for military equipment on loan to other DoD Components. The property records should also include equipment nomenclature, location and name of the DoD component that borrowed the equipment.
Comments: Concur. The Logistics Division (D42) will work with the DODIG to identify the specific transactions and equipment contained in this recommendation to insure that it is captured on the DISA property records in the Defense Property Accountability System (DPAS). Where items have been either transferred or loaned to a non-DISA activity, D42 will work the Program Manager or project office to insure they have documented the transaction. Action will be taken by D42 to insure accountability is established on the property accountability records for the appropriate DISA activity. ECD: 120 from receipt of the backup data from the DODIG.

Recommendation 3b: Record in the official property accountability records the acquisition cost of military equipment furnished to other Federal Agencies and contractors of $37.2 million. The property records should include equipment nomenclature, location, and name of the Federal Agency or contractor that borrowed the equipment.

Comments: Concur. D42 will work with the DODIG to identify the specific transactions and equipment contained in this recommendation to insure that it is captured on the DISA property records in DPAS. Where items have been either transferred or loaned to a non-DISA activity, D42 will work with the Program manager or project office to insure they have documented the transactions.

The location and user identification of the equipment is a standard part of the property accountability process. As the Agency converts from a multitude of legacy systems to a single Agency-wide system, this information will be captured by the Accountable Property Officers at each location, with some information going onto the National Capital Region (NCR) property records and some on the property records for those DISA activities located outside the NCR. All of the property should be included in the DPAS records. The Defense Megacenters, the NCR property account, and DISA Europe are in the process of being converted now. All other DISA activities have been scheduled for conversion to DPAS this year. ECD: 120 days from receipt of the backup data from the DODIG.

Recommendation 4: Recommend that the Director, Defense Information Systems Agency execute agreements with DoD Components, other Federal Agencies, and contractors that borrowed or were furnished Defense Information Systems Agency military
equipment to require that the organizations provide periodic reports on the status of the borrowed or furnished equipment.

Comments: Concur. DISA will establish procedures requiring organizations with equipment on loan from DISA to provide appropriate reports and information to include equipment nomenclature, location and name of the Federal Agency or contractor that borrowed the equipment. ECD: DISA will provide a status on this action in the 15 September 96 DODIG quarterly update.

Recommendation 5: Make appropriate general ledger accounting entries to reduce military equipment subsidiary account 152, Equipment in Use, by $0.4 million for acquisitions that should have been expensed.

Comments: Concur. DC5 will coordinate with DAO-DISA to make the recommended general ledger accounting entries to reduce the stated military equipment account. ECD: 31 Aug 96.

Recommendation 6a: Establish appropriate accounting controls to ensure that accounting personnel record military equipment transactions in the appropriate general ledger account.

Comments: Concur. The Property Accountability Working Group will be re-established under the Joint Logistics Management Team to bring together the key players in property accountability. This working group will discuss methods to record military equipment transactions in the appropriate general ledger account using DPAS. In addition, "How-to" guides on property accountability have been published for DISA-wide and DISA NCR activities. Target date for the first meeting is mid-June. Target date for publishing revised guidance is January 1997.

Recommendation 6b: Establish appropriate accounting controls to ensure that property book custodians record military equipment loans to other DoD Components, other Federal Agencies, and contractors and include appropriate information needed to monitor the loans.

Comments: Concur. Conversion of the Agency property records to DPAS is intended to provide a single Agency wide property accountability system. DPAS includes the capability to identify specific activities or locations which have accountability or custody over DISA owned property. This information will be
tracked by the Accountable Property Officers and changes between property custodians will be captured in DPAS.

The NCR property manager is already working with the NCRCO to establish controls over the acquisition and receipt of accountable property. The DISA WESTHEM logistics managers have also established controls over the receipt of accountable property by requiring that all deliveries be done through the property managers at the Megacenters.

The Property Accountability Working Group will be tasked to develop new processes and procedures for appropriate accounting controls to be incorporated into the update of DISA Instruction 170-165-2*, Management of and Accountability for DISA Personal Property. EOD: Jan 97.
3 APR 1996
In reply refer to: I-96/22183

MEMORANDUM FOR INSPECTOR GENERAL
(ATTN: READINESS AND OPERATION SUPPORT
DIRECTORATE)

FROM: DIRECTOR √ 4-15-96

SUBJECT: Draft Audit Report, Project No. 5RP-6010.12 dated 12 April 96

We have reviewed the Draft Audit Report above and agree with the comments regarding the aspects concerning the Defense POW/MIA Office (DPMO). The DPMO Resource Management Directorate is taking action to transfer the computer equipment mentioned in the report to the DPMO property book.
Audit Team Members

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Thomas F. Gimble
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INTERNET DOCUMENT INFORMATION FORM

A. Report Title: The Defense Information Systems Agency General Ledger Military Equipment Account

B. DATE Report Downloaded From the Internet: 11/29/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions) Inspector General, Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by: DTIC-OCA, Initials: __VM__ Preparation Date 11/29/99

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