



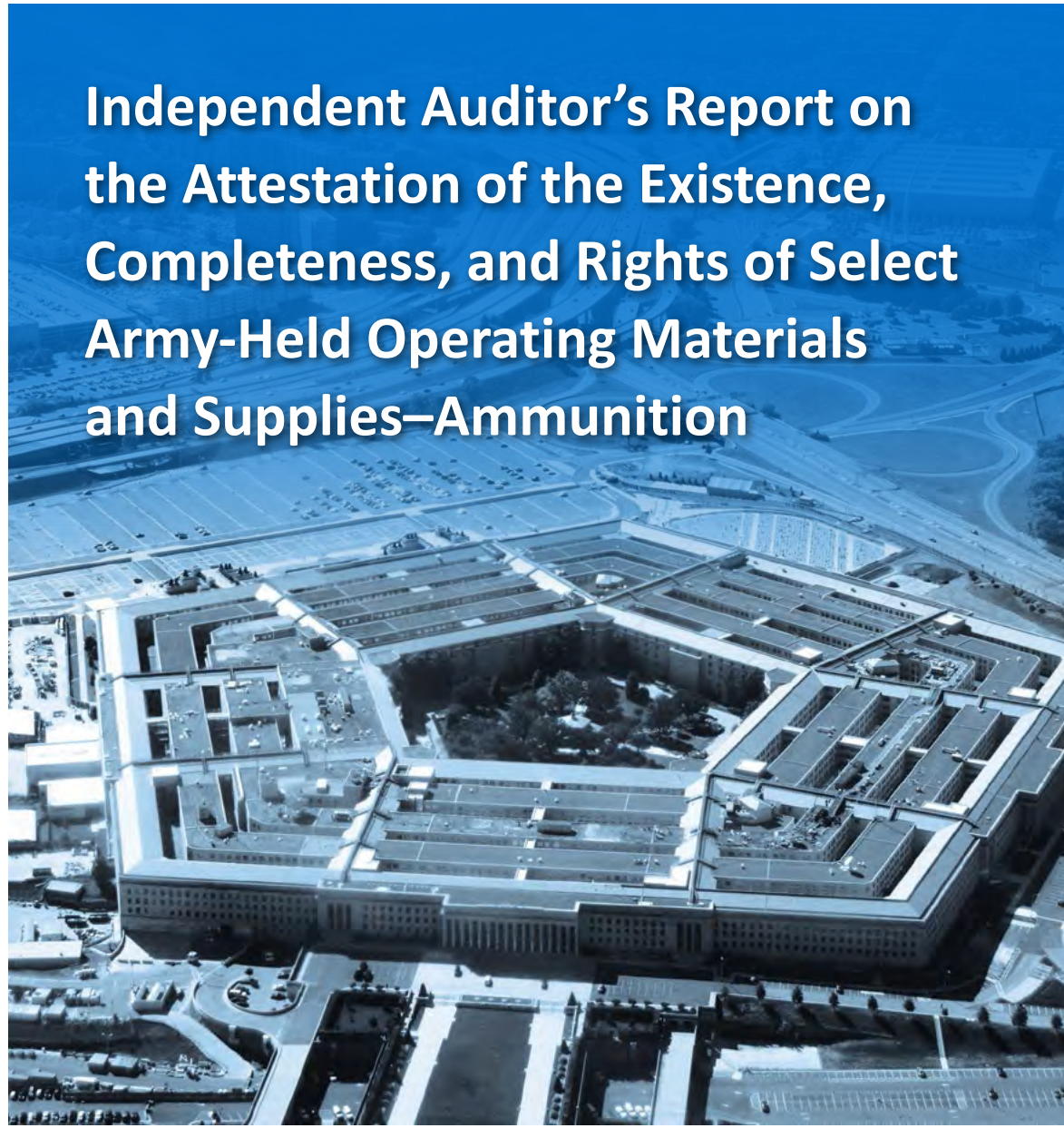
INSPECTOR GENERAL

U.S. Department of Defense

AUGUST 28, 2015



Independent Auditor's Report on the Attestation of the Existence, Completeness, and Rights of Select Army-Held Operating Materials and Supplies—Ammunition



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

August 28, 2015

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

SUBJECT: Independent Auditor's Report on the Attestation of the Existence, Completeness,
and Rights of Select Army-Held Operating Materials and Supplies-Ammunition
(Report No. DODIG-2015-165)

We are providing this report for your information and use. No written response to this report is required. Therefore, we are publishing this report in its final form. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards.

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

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

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

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Audit Opinion

We examined management's assertion of audit readiness¹ in accordance with DoD Financial Improvement and Audit Readiness (FIAR) Guidance for the existence, completeness, and rights of select Department of the Army-held Operating Materials and Supplies (OM&S)–Ammunition² (Ammunition) contained in Logistics Modernization Program and Standard Army Ammunition System–Modernization as of September 30, 2014. While the FIAR Guidance required the Army to assert to the existence, completeness, rights, and portions of presentation and disclosure³ of all OM&S assets, the Army asserted to only the existence and completeness of select Army-held Ammunition owned by the Services⁴ and to the rights of select Army-owned and held Ammunition as of September 30, 2014. Furthermore, the assertion excluded assets in production and at test centers, demilitarized assets, material-in-transit, and assets in the contractors' possession. It also excluded OM&S data from the Munitions Transportation Management System, Property Book Unit Supply–Enhanced, Aviation and Missile

¹ According to November 2013 FIAR Guidance, "Wave 3–Mission Critical Asset Existence and Completeness Audit," audit readiness addresses the existence, completeness, rights, and portions of presentation and disclosure of all assets in one of four asset categories with one of those being OM&S.

² According to the FY 2014 Army General Fund Financial Statements, "OM&S include ammunition, tactical missiles, and their related spare and repair parts." Of which, only ammunition and tactical missiles are included in this assertion.

³ The DoD FIAR Guidance defines the existence assertion as all assets recorded in the reporting entities APSR exist; the completeness assertion as all assets are recorded in the reporting entities APSR; the rights assertion as the reporting entities owned all assets reported; and the presentation and disclosure assertion as assets are consistently categorized, summarized, and reported period to period.

⁴ Army, Marine Corps, Navy, and Air Force.

Command Ammunition Tracking System, Munitions History Program, and National Level Ammunition Capability. While the Army did not exclude prepositioned stock aboard ships from its assertion, it excluded the assets from the existence universe provided. Army management is responsible for its assertion of audit readiness in accordance with FIAR Guidance. Our responsibility is to express an opinion on the assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards, as stated in the Government Accountability Office's "Government Auditing Standards," December 2011. Those standards require us to examine, on a test basis, evidence that supports the Army's audit readiness assertion on the existence, completeness, and rights of select Army-held Ammunition, and perform such other procedures we considered necessary. We believe that our examination provides a reasonable basis for our opinion on management's assertion.

To perform our examination, we interviewed and obtained documentation from Army personnel, observed processes at 5 Army depot sites and 15 Army retail sites,⁵ and obtained and used information from the following systems.

- Logistics Modernization Program
- Standard Army Ammunition System–Modernization⁶
- National Level Ammunition Capability⁷

The Logistics Modernization Program and Standard Army Ammunition System–Modernization are two of the Army's accountable property systems of record (APSRs) for OM&S. Personnel from the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA[FM&C]) provided an October 24, 2014, Ammunition universe that contained 744,603 asset records,⁸ which represented 6.6 billion assets at 105 sites. For the 20 sites selected for review, Army personnel could not provide September 30, 2014, universes for 14 of the 20 sites. At the 20 sites visited, we examined a nonstatistical sample of 2,481 Ammunition asset records for existence, 623 asset records for completeness, and attempted to examine 3,104 asset records for rights. The asset records

⁵ Depot sites conduct typical wholesale operations such as the bulk receipt and storage of ammunition and the supply of ammunition to the retail sites. Retail sites supply the end user, the warfighter, with the ammunition to perform their duties. Depot sites use Logistics Modernization Program, and retail sites use Standard Army Ammunition System–Modernization.

⁶ Standard Army Ammunition System–Modernization data was provided through Worldwide Ammunition Reporting System–New Technology.

⁷ While Army did not assert to National Level Ammunition Capability, Army personnel provided data from that system to select samples for four National Guard sites.

⁸ An asset record is a single asset or group of assets with common attributes, such as lot number, batch number, condition code, storage location, and account code. For example, an asset record could represent a canister of 5,000 5.56 millimeter training bullets, 16,000 feet of detonating cord, or an individual serialized asset, such as a TOW missile.

examined consisted of bulk and serialized Ammunition.⁹ There were 2,382 of the 2,481 Ammunition asset records that passed existence testing and 600 of 623 Ammunition asset records that passed completeness testing. See Appendix for additional details on existence and completeness examination results.

Our examination disclosed material deviations from FIAR Guidance caused by the Army not having effective controls over the OM&S assertion process. Specifically, the FIAR Guidance identifies capabilities that must be achieved and sustained to demonstrate audit readiness, including the requirements to: identify a complete universe that reconciles to the general ledger and financial statements; have effective controls over recording asset acquisitions, disposals, and transfers and over the data in the APSR; and retain and make available supporting documentation. Army personnel did not:

- provide a complete September 30, 2014, OM&S universe that reconciled to the general ledger and financial statements;
- provide rights criteria and supporting documentation necessary to verify which Service owned the assets tested; or
- have effective controls over recording the acquisitions, disposals, and transfers of Ammunition.¹⁰

In our opinion, because of the effect of the material deviations identified above, Army-held ammunition, as of September 30, 2014, is not ready for audit based on the criteria set forth in the FIAR Guidance.¹¹ If the Army complies with FIAR Guidance, it will help the Army meet the FY 2017 auditability deadline and sustain auditable processes for future financial statement examinations.

Internal Controls

According to Office of Management and Budget Circular No. A-123, internal controls assure effective and efficient operations, reliable financial reporting, safeguarding of assets from waste, loss, unauthorized use, or misappropriation, as well as compliance with laws and regulations. We performed limited reviews of controls relevant to objectives of the examination, based on the Army's assertion and the FIAR Guidance. During this examination, we identified internal control weaknesses related to Army's OM&S assertion process and ineffective controls over the Ammunition. We will provide a copy of the report to the senior official in charge of internal controls in the Army to take corrective action to help the Army meet the FY 2017 auditability deadline and obtain a favorable audit opinion.

⁹ Serialized Ammunition is a single Ammunition asset assigned a unique serial number. Bulk Ammunition is a group of Ammunition assets that contain various quantities with common attributes.

¹⁰ We tested cut-off for shipments and receipts, ownership code changes, turn in, inventory adjustments, standard operating procedures, physical inventory, accountable property officer appointment, and physical security.

¹¹ FIAR Guidance, Section 2.C.3, "Wave 3—Mission Critical Asset Existence and Completeness Audit."

Incomplete and Unreconciled Universe

OASA(FM&C) personnel could not provide a complete universe of OM&S assets¹² that reconciled (matched) to the \$33.2 billion reported on the September 30, 2014, Army General Fund Financial Statements and supported its September 30, 2014, assertion as required by the FIAR Guidance. Specifically, OASA(FM&C) personnel did not provide a complete September 30, 2014, universe that included all OM&S assets or demonstrate which nonreportable asset records they excluded from that universe for the Financial Statements. Instead, OASA(FM&C) personnel provided an incomplete October 24, 2014, universe that they could not completely reconcile to the September 30, 2014, financial reporting universe. Throughout the examination, OASA(FM&C) personnel attempted to create a complete and reconciled OM&S universe as of September 30, 2014, but were unsuccessful.

The October 24, 2014, universe contained 1.4 billion more assets than the September 30, 2014, financial reporting universe and Army personnel could not provide the data to support these differences. As of April 28, 2015, they still could not reconcile the difference of 270 million assets. We could not determine the impact of Army's exclusions on the overall assertion to OM&S audit readiness, as required by FIAR, because Army personnel did not provide a complete September 30, 2014, OM&S universe that reconciled to the financial statements and included the total number and dollar value of the OM&S excluded. OASA(FM&C) personnel subsequently provided March 31, 2015, existence and financial reporting universes with an unreconciled difference of 46 million assets.

Inadequate Rights Criteria and Support for Ownership

OASA(FM&C) personnel could not provide adequate rights criteria and supporting documentation. Specifically, they could not provide:

- authoritative criteria for the data fields used to indicate ownership,¹³
- underlying documentation to support those data fields, or
- audit or attestation reports to assure controls over the Army's APSRs were adequate.

¹² A complete universe includes all nonreportable assets (for example, other services, demilitarized assets) and all other assets excluded from the assertion.

¹³ According to the Army General Fund OM&S Assertion Package, routing identifier codes and ownership purpose codes indicate ownership, but the Army also identified assets as potential failures for rights based on the document number. Subsequently, Army personnel stated that ownership purpose codes were only used to indicate ownership at depots. Retail sites used routing identifier codes and account codes to indicate ownership.

Army personnel applied a three-substantive-test approach to test rights¹⁴ and support their assertion, which we could not replicate with sufficient support to validate rights. The three tests included reviewing: asset documentation at the site level, Munition History Program data, and receipt and acceptance transactions.

For testing asset documentation at the site level, we reviewed 100 asset records at Fort Knox, Kentucky. Of the 100 assets records reviewed at Fort Knox, 36 did not have supporting documentation, 20 did not pass because the supporting documentation did not match the APSR, and 44 passed rights testing.

Due to Army personnel acknowledging the lack of supporting documentation as a systemic issue, along with the lack of authoritative criteria for data fields used to indicate ownership, we discontinued this test for the remaining 3,004 assets and attempted to perform alternative testing. Army personnel stated that they relied on the data maintained in the Munition History Program to support the APSR because it was independently populated from the source documentation. However, our review of the Munition History Program found that the data fields used to indicate ownership came directly from the APSR. Therefore, the Munition History Program could not be used to independently validate Army's rights assertion. Finally, we compared the document number to the fields used to indicate ownership for receipt and acceptance transactions. We determined the Army did not have authoritative criteria to support the data fields used to indicate ownership. In addition, the Army's own testing for rights resulted in an 11 percent failure rate.¹⁵

Ineffective Controls Over Ammunition

Army personnel did not maintain effective controls over recording the Ammunition as required by FIAR Guidance. We reviewed the results of Army's monthly internal control testing conducted prior to September 30, 2014, and these results demonstrated that the controls over Ammunition were ineffective. While the Army's assertion stated the controls were not operating effectively, FIAR Guidance requires effective controls over recording asset acquisitions, disposals, and transfers and over financial and management data in the APSR.

¹⁴ Two of those tests involved OM&S assets already in inventory, and the third test involved initial production receipts.

¹⁵ While Army identified these as "potential" failures, we identified them as actual failures because of the lack of causative research to support any reasons why they would not fail.

We tested select Ammunition controls and identified internal control failures, such as:

- A shipment receipt was not posted to the APSR until 2 weeks after the Ammunition was received at the site.
- An Inventory Adjustment Report (DA Form 444) approved in December 2014 for recording a gain of 8,044 units was misstated based on a miscalculation. The correct amount of the gain was 8,040 units.
- A Storage Location or Ownership Change Request (JMC Form 740-3) was not signed by the requestor.
- A Request for Issue and Turn-In of Ammunition (DA Form 581) was not signed in support of an Ammunition turn in.

Furthermore, Army personnel inconsistently accounted for residue¹⁶ turned in. Some Army installation personnel accounted for turned-in residue in their APSR (Standard Army Ammunition System–Modernization) system and documented those assets on a DA Form 581. Other Army installation personnel completed a DA Form 581 for all residue but chose to track those assets outside their APSR. OASA(FM&C) personnel stated that residue should be recorded in an APSR. Since the residue value can be significant, \$1 million per year for one site visited, residue should be accounted for in an APSR and documented on a DA Form 581.

We provided a discussion draft of this report to OASA(FM&C) personnel, and they provided technical comments that we have incorporated as appropriate. This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Assistant Secretary of the Army (Financial Management and Comptroller) and is not intended to be used and should not be used by anyone else.



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

¹⁶ Residue is the left over after ammunition is used (for example, brass bullet casings and packing material). For this report, the term residue did not include residue required to be accounted for and secured as if it were live ammunition (for example, rocket and missile launcher tubes).

Appendix

Existence and Completeness Results

We tested a nonstatistical sample of 2,481 asset records for existence and 623 asset records for completeness at 20 sites. The Table below shows the existence and completeness results by site.

Table. Existence and Completeness Results by Site

Site	Total Asset Records	Existence		Completeness	
		Sample Size	Failed	Sample Size	Failed
Alabama National Guard	205	50	0	11	0
Bluegrass Army Depot, Kentucky	68,550	300	12	62	13
Camp Carroll, Republic of Korea	12,814	100	0	27	0
Camp Humphreys, Republic of Korea	18,183	100	0	25	0
Camp Kwangsari, Republic of Korea	15,405	100	0	28	0
Crane Army Ammunition Activity, Indiana	119,918	121	3	68	0
Florida National Guard	600	50	0	13	0
Fort A.P. Hill, Virginia	1,049	100	5	24	0
Fort Benning, Georgia	4,514	100	0	24	0
Fort Bragg, North Carolina	4,913	100	0	28	0
Fort Campbell, Kentucky	3,072	100	1	28	0
Fort Knox, Kentucky	911	100	4	15	0
Fort Stewart, Georgia	3,979	100	0	28	0
Hawthorne Army Depot, Nevada	39,478	250	28	62	6
Indiana National Guard	594	50	2	10	0
Letterkenny Munitions Center, Pennsylvania	79,109	300	34	65	0
McAlester Army Ammunition Plant, Oklahoma	151,524	300	3	66	0
Nevada National Guard	37	30	3	8	0
North Carolina National Guard	55	30	0	7	0
Virginia National Guard	1,244	100	4	24	4
Total	526,154	2,481	99	623	23

Of the 2,481 asset records tested for existence, 2,382 passed and 99 failed. Of the 99 that failed, 18 asset records could not be verified by physical observation or supporting documentation. The remaining 81 asset records failed due to record-keeping errors. For example, 54 asset records at three depot sites failed because the serial numbers on the assets did not match the APSR. For these assets, the serial numbers were in the incorrect APSR data field. Of the 99 asset records that failed testing, 80 were from depot sites while 19 were from retail sites.

For the 623 asset records tested for completeness, 600 passed and 23 failed. Of the 23 asset records that failed, 10 asset records failed because Army officials did not record it in the APSR. The remaining 13 asset records failed due to record-keeping errors. For example, two asset records failed at one depot site because the lot number on the asset was listed as the serial number in the APSR. Of the 23 asset records that failed testing, 19 asset records were from depot sites while 4 asset records were from retail sites.

Acronyms and Abbreviations

APSR	Accountable Property System of Record
FIAR	Financial Improvement and Audit Readiness Guidance
OASA(FM&C)	Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
OM&S	Operating Materials and Supplies



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