



United States
General Accounting Office
Washington, D.C. 20548

160570

Accounting and Information
Management Division

B - 280178

May 29, 1998

The Honorable Mark W. Neumann
U. S. House of Representatives

Dear Mr. Neumann:

Subject: Financial Audit: DOD Mission Asset Existence Verification

As requested by your office, enclosed is a description of key aspects of the work that was done throughout the Army, the Navy, and the Air Force to verify the existence of military equipment as part of the fiscal year 1997 financial statement audit. This military equipment represents a key element of the Property, Plant, and Equipment line item, both for DOD as well as the government as a whole. As you know, DOD and each of the military services is required by the Chief Financial Officers Act of 1990, as expanded by the Government Management and Reform Act of 1994, to annually prepare and have audited departmentwide financial statements.

The verification work discussed in the enclosure was very much a cooperative effort involving the Department of Defense Inspector General, the Army Audit Agency, the Air Force Audit Agency, the Naval Audit Service, and the General Accounting Office.

Please contact me at (202) 512-9095 if you have any questions or need additional information.

Sincerely yours,

Lisa G. Jacobson
Director, Defense Audits

Enclosure

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**MISSION ASSET VERIFICATION WORK
FOR FISCAL YEAR 1997**

- In June 1997, the Department of Defense Inspector General (DOD IG), the Army Audit Agency (AAA), the Air Force Audit Agency (AFAA), the Naval Audit Service (NAS), and the General Accounting Office (GAO) began a cooperative effort to test the recorded number of items of military equipment in each of the military services. Based on fiscal year 1996 information, as shown in the following table, this work was deemed to be critical to the fiscal year 1997 financial statements of the military services, DOD, and the U.S. government.

(Dollars in billions)

Total assets for federal government	1,724
Total plant, property, & equipment (PP&E) assets	962
Total PP&E for DOD (80 percent of federal government total)	773
Total federal government mission assets (part of PP&E)	603
DOD mission assets (98 percent of federal government total)	591
Army mission assets	85
Navy mission assets	298
Air Force mission assets	202
Other defense agencies mission assets	5
Working capital funds mission assets	1

- After consultation with the military leaders responsible for the logistics systems, a pass/fail test (with established allowable tolerances) was conducted to test the accuracy of these logistical records. Those officials also agreed to take any necessary actions based on test results. In general, the military leaders agreed that the systems contained information which should be accurate and for which little error tolerance was permitted because of the sensitive nature or mission criticality of the assets. Statistical samples were drawn from military service equipment records which identified, by serial number, specific pieces of military equipment at a specific

location. The job of the auditors was to then verify the existence of (i.e., observe) the equipment, by serial number. Military service officials were fully briefed on and agreed to the testing process and locations to be visited.

- As agreed with military service auditors, GAO's Financial Audit Manual was used to provide guidance on the statistical parameters of the test. Tests were based on a 90 percent confidence level with a 5 percent tolerable rate of deviation. In general, this translated to a sample size of 105 items with a tolerance of up to 2 deviations (errors) per category allowable for the category to "pass" the audit test. For some equipment categories, such as active Navy ships, auditors and military service officials agreed to a smaller sample size of 45 items, but with 0 deviations permitted to "pass" the audit test.
- We participated with AFAA, AAA, and NAS auditors in developing the test approach and in carrying out the test work at selected locations. The DOD IG was involved in the development of the test approach and the review of the test results. At each site visited, auditors were accompanied by military service personnel when the equipment was being viewed, and in many cases, the military service personnel assisted in locating and identifying the specific equipment item, by serial number, for the audit teams.
- The asset verification site visits were conducted from September 1997 through November 1997.
- The results of the tests, by military service, are discussed below.

NAVY

- Tests in the Navy involved seven categories of military equipment: aircraft, ships and submarines, boats, service craft, uninstalled engines, satellites, and missiles. In several cases, asset categories were subdivided between active and inactive items. As a result, NAS conducted tests on 11 categories.
- Items were selected for testing in September 1997 based upon records dated March 1997 through July 1997.
- The asset verification site visits were conducted during the months of September, October, and November 1997.
- As in the Air Force (see page 8), auditors used alternative audit procedures for the Navy's in-orbit satellites.
- Navy missiles involved in the tests were submarine launched ballistic missiles (SLBMs) deployed on the Navy's nuclear ballistic submarines, both in port and deployed. Because sighting serial numbers on these missiles was either not possible or practical, alternative audit procedures were also used for Navy missiles. In these cases, auditors viewed available records and obtained signed certifications from Naval officers that the assets were in the locations indicated on Navy records.
- As the following table shows, 8 of the Navy's 11 asset categories passed the existence test within established tolerances. The remaining three categories had errors which exceeded the pre-established tolerances.

Asset Categories	Sample	Tolerable errors	Actual errors	Test passed	Test failed
Aircraft, active	45	0	0	X	
Aircraft, inactive	100	2	0	X	
Ships and subs, active	45	0	0	X	
Ships and subs, inactive	80	2	1 ^a	X	
Boats, active	45	0	2 ^b		X
Boats, inactive	91	2	2 ^c	X	
Service craft, active	45	0	0	X	
Service craft, inactive	79	2	21 ^d		X
Uninstalled engines	105	2	10 ^e		X
Satellites	7	0	0	X	
Missiles, SLBM	90	2	0	X	
Total items sampled	732				

^aBy February 1998, the Navy had determined that the one inactive ship (the Norwalk-AK 279—a cargo ship) had been sold to a non-Navy activity in 1993. It was still being shown as available on Navy records at the time of the site visit.

^bTwo active boats could not be located by the Navy during the test. By February 1998, the Navy determined that one of the boats (a 22-foot utility boat) had been transferred to the Defense Reutilization Management Office (DRMO) for ultimate disposition/salvage in 1994. The other boat (a 20-foot utility boat) had been sold and transferred to the Department of the Interior in 1996.

^cTwo items listed as inactive boats available to the Navy could not be located by the Navy during the test. By February 1998, the Navy determined that one (a 26-foot motor whaleboat) had been transferred to DRMO in 1996 and the other (a 35-foot work boat) had been sold to the Korean Navy in 1996.

^dTwenty-one items listed as inactive service craft available to the Navy could not be located by the Navy during the 1997 audit test. Between January 1998 and April 1998, the Navy determined that 15 of these service craft had been disposed of prior to the test but were still being shown as available on Navy records at the time of the site visit.

ENCLOSURE

ENCLOSURE

The Navy has not been able to identify the location of the other 6 inactive service craft, which include a medium harbor tug, a range tender, a refrigerated covered lighter, an aircraft transportation lighter, and two special purpose lighters.

Ten uninstalled engines, although indicated in property records as available to the Navy, could not be located by the Navy during the 1997 audit test. As of May 1998, the Navy had not been able to identify where these engines were located, and the Naval Audit Service is continuing audit work. According to the Naval Audit Service, seven of these engines were for the following types of airplanes: P3 Orion, QF-4N Phantom II, QF-4S Drone (3 of this type), Harrier, and A-7 Corsair II. The remaining three engines were for the following types of helicopters: UH-3H Sea King/Pelican, CH-46E Sea Knight, and UH-1 Huey.

ARMY

- Unlike the Air Force and the Navy, the sample of Army equipment was taken from property records at the unit level, not its central logistics system, the Continuing Balance System - Expanded (CBSX),¹ using a two-stage sampling process. Since the tests were designed to identify items by serial number and CBSX does not contain serial numbers, AAA first selected a statistical sample of Army units or activities from a universe of all Army activities from the central system. It then obtained a database of property book records from those units or activities and selected a statistical sample of individual equipment items by serial number from those databases. Using this two-stage sampling process resulted in AAA testing a larger number of items within each asset category than did the other service audit agencies. Tests in the Army involved five categories of military equipment: aircraft, combat tracked vehicles, communication and electronics equipment, missile support equipment, and missiles.
- As the following table shows, each Army asset category passed its existence test within established tolerances at the unit level.

¹ In January 1998, we reported on the Army's central logistics system, the Continuing Balance System-Expanded (CBSX). We identified opportunities to improve the accuracy, timeliness, and completeness of the system. For example, we identified weaknesses with the manner in which the Army calculates its compatibility rate. The compatibility rate is used to measure the extent to which the central system and the property books agree. In addition, we reported that the compatibility rate calculation does not provide a complete indicator of the central system's accuracy because the calculation does not factor in errors associated with equipment in-transit. The report identified errors which would reduce the compatibility rate as reported by the Army from 92 percent to 87 percent. (See Army Logistics Systems: Opportunities to Improve the Accuracy of the Army's Major Equipment Item System, GAO/AIMD-98-17, January 23, 1998.)

Asset Categories	Sample	Tolerable errors	Actual errors	Test passed	Test failed
Aircraft	159	2	0	X	
Combat tracked vehicles	186	2	0	X	
Communication and electronic equipment	176	2	0	X	
Missile support equipment	121	2	2 ^a	X	
Missiles	144	2	0	X	
Total items sampled	786				

^aWithin the Army, two missile support equipment items could not be located by the Army during the audit test. One was an Avenger missile launcher valued at approximately \$1 million. The Army recently reported that it had located it. We are reviewing the paper trail documenting the movement of the launcher to its current location. The other item reported as an error was recorded as missile support equipment for the Tube-Launched, Optically-Tracked, Wire-Guided Weapons System. AAA observed a physical inventory of these items on-hand, which agreed with the records. As a result, AAA concluded that an error probably had been made recording the serial number, and that the item was not lost.

AIR FORCE

- Tests in the Air Force involved four categories of equipment: aircraft, uninstalled engines, satellites, and missiles. The missile category was divided into deployed Intercontinental Ballistic Missiles (ICBMs) and guided cruise missiles.
- As provided for in applicable guidance, AFAA used "alternative audit procedures" to test deployed ICBMs and satellites. Under this approach, existing control procedures over all deployed missiles and the regular inspections as required by the START Treaty were used to confirm the existence of the missiles. An alternative approach was also used for in-orbit satellites. AFAA, accompanied by GAO auditors, visited the Air Force's satellite tracking facility and used information obtained at that location to verify the existence of 100 percent of in-orbit satellites.
- Visits to the Air Force sites to conduct the verification work were conducted during September and October 1997.
- As the following table shows, each Air Force asset category passed its existence test within established tolerances.

Asset Categories	Sample	Tolerable errors	Actual errors	Test passed	Test failed
Aircraft	105	2	1 ^a	X	
Uninstalled engines	105	2	2 ^b	X	
Missiles, ICBM (deployed)	Alternative audit procedure	0	0	X	
Satellites		0	0	X	
Missiles, guided	105	2	0	X	
Total items sampled	315				

^aWithin the Air Force, one aircraft, a C-130B, could not be located by the Air Force at the time of the September 1997 audit test. During the site visit, the Air Force auditor learned that the aircraft had been used for a destructive corrosion test several years prior to this test. While this aircraft was no longer useable, it was still on the property records and shown as an available asset.

^bOne of the two errors in the engine category involved an engine that Air Force auditors learned at the time of the site visit had been installed on a KC-130T aircraft for the Marine Corps in 1989. The engine, however, was still shown on the property records as available for use by the Air Force. The other error in this category involved an engine that Air Force auditors learned had been reclaimed for parts and destroyed in the process several months prior to this test. This engine was also still being shown on the property records as available to the Air Force.

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