Audit Report

RELIABILITY OF THE DEFENSE COMMISSARY AGENCY
PERSONNEL PROPERTY DATABASE

Report No. D-2000-078 February 18, 2000

Office of the Inspector General
Department of Defense

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Acronyms

CIP	Construction in Progress
DeCA	Defense Commissary Agency
DPAS	Defense Property Accountability System
DRMO	Defense Reutilization Marketing Office
INV	Inventory Holding
PABU	Property Accountability Business Unit
RPC	Region Property Coordinator

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February 18, 2000

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Audit Report on the Reliability of the Defense Commissary Agency Personal Property Database (Report No. D-2000-078)

We are providing this audit report for information and use. We performed the audit to meet the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report 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 Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) (dvincent@dodig.osd.mil) or Ms. Barbara A. Sauls at (703) 604-9129 (DSN 664-9129) (bsauls@dodig.osd.mil). See Appendix B 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. D-2000-078 February 18, 2000
(Project No. 9FH-3001.01)

Audit of the Reliability of the Defense Commissary Agency Personal Property Database

Executive Summary

Introduction. This audit was performed to meet the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. DoD personal property assets represent 40 percent of the Government's personal property assets. Therefore, accurate reporting of the personal property portion of the Property, Plant, and Equipment account is critical to achieving a favorable audit opinion. Personal property consists of items such as vehicles, machinery, tools, and computers. The Office of Management and Budget; the General Accounting Office; the Under Secretary of Defense (Comptroller); and the Inspector General, DoD, jointly developed DoD implementation strategies for accurate reporting. The first implementation strategy addressed the need to conduct tests for existence (to verify that a record in the database has a corresponding item), completeness (to verify that an observed item has a record in the database), and accuracy (to check for documentation supporting the reported value) of the Military Departments' personal property databases. The tests were designed to validate the personal property databases. This report is the second in a series of reports on accounting for property, plant, and equipment. The first report determined that real property databases for the Military Departments contained sufficiently accurate inventories of real property with individual reported values of greater than $100,000. However, the Army had problems with the completeness of its data, and key data elements were not reliable for estimating the historical costs of real property for the Military Departments.

Objectives. The overall audit objective was to determine whether the personal property databases of the Military Departments and Defense agencies contained an accurate inventory of personal property assets. This audit is a part of that overall effort and focuses on the Defense Commissary Agency's personal property database and construction in progress account. We also reviewed the internal controls and the adequacy of the management control program as it applied to the audit objectives.

Results. Since FY 1996, the Defense Commissary Agency has improved personal property accountability through the use of the Defense Property Accountability System. The Defense Commissary Agency also developed two initiatives: the preposting program, begun in FY 1997, and the inventory holding account, begun in FY 1998. Because the two initiatives were not fully implemented, problems remained. The Defense Commissary Agency's personal property database, with a reported value of $326.4 million as of October 1998 and $382.4 million as of October 1999, did not

contain an accurate inventory of personal property. As a result, the Defense Commissary Agency could not account for at least $17.7 million of its personal property, and misstated the equipment expense account by at least $13.5 million and the equipment asset account by at least $4.2 million. See the Finding section of this report for details.

We identified problems with the construction in progress account, which had a reported value of $155.4 million as of February 1999. Because of business rules that required noninstalled equipment to be recorded in the construction in progress account, the Defense Commissary Agency misstated the reported value by an undeterminable amount. Managers at the Defense Commissary Agency stated that the business rules had been changed to correct the problem. The management controls were adequate as they applied to the objectives. See Appendix A for the review of the management control program.

Summary of Recommendations. We recommend that the Director, Defense Commissary Agency, issue standard operating procedures for management accountability and the reporting of personal property and require that additions and deletions to personal property be promptly recorded in the Defense Property Accountability System.

Management Comments. The Director, Defense Commissary Agency, concurred with all recommendations. The Director stated that the Defense Commissary Agency plans to include procedures for the Defense Property Accountability System in the update to Defense Commissary Agency Directive 40-15,"Managing, Accounting, and Reporting of Government Property," May 31, 1996. In addition, the Director is developing Defense Commissary Agency Handbook 40-6, "Defense Property Accountability System Procedures." In the Handbook, the Director plans to establish uniform procedures for the disposition of equipment and procedures to specify the number of days after disposal for the records to be deleted from the Defense Property Accountability System. The Handbook should also address the use of the Inventory Holding Account for missing items only. The Director also commented on the Finding, providing his clarification of the statement concerning the dollar value of unaccountable property. In addition, the Director requested that we revise a portion of the report to more clearly state the problem with the receipt of acquisition information. The complete text of the comments is in the Management Comments section. The comments are summarized and discussed in the Finding section of the report.

Audit Response. Management comments were responsive. The Director's comments on the dollar value of unaccountable property did not affect our conclusions. We still consider the amount to be significant. We revised the portion of the report on the receipt of acquisition information.

Table of Contents

Executive Summary i

Introduction

Background 1
Objectives 2

Finding

Accuracy of the Defense Commissary Agency Personal Property Database 3

Appendixes

A. Audit Process
Scope and Methodology 13
Management Control Program 14
Summary of Prior Coverage 15
B. Report Distribution 16

Management Comments

Defense Commissary Agency Comments 19

Background

This audit was performed to meet the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. On May 15, 1998, the Secretary of Defense issued a memorandum, "Department of Defense Financial Business Practices Reform," which stated a commitment to the administration's goal of obtaining a favorable audit opinion on the FY 1999 Financial Report of the United States Government. Because DoD personal property assets, with a reported value of $33.9 billion, represent 40 percent of the Government's property, plant, and equipment, accurate reporting of the personal property portion of this account is critical to achieving the administration's goal. Personal property consists of items such as vehicles, machinery, tools, and computers. This report is the second in a series of reports on accounting for property, plant, and equipment. The first report determined that real property databases for the Military Departments contained sufficiently accurate inventories of real property with individual reported values of greater than $100,000. However, some of the Military Departments had problems with the completeness of its data, and key data elements were not reliable for estimating the historical costs of real property.

DoD Implementation Strategies for Real and Personal Property. The Office of Management and Budget, the General Accounting Office, the Under Secretary of Defense (Comptroller) and the Inspector General, DoD, jointly developed DoD implementation strategies. The first implementation strategy addressed the need to conduct audit tests for existence (to verify that a record in the database has a corresponding item), completeness (to verify that an observed item has a record in the database), and accuracy (to check for documentation supporting the reported value) of the Military Department personal property databases. The purpose of this effort was to test the management representation that the personal property databases properly reflected the reporting of the entities' personal property holdings on a given date.

Defense Commissary Agency. On October 1, 1991, the Defense Commissary Agency (DeCA) was established and incorporated into the former Defense Business Operations Fund (now the Defense Working Capital Fund). The goals of the Defense Working Capital Fund organizations are to standardize, consolidate, and improve systems and operations. The objective is to focus management attention on the total cost of business operations in order to reduce those costs. The Defense Working Capital Fund organizations operate as private businesses, recovering the costs of their operations through the sale of goods or services to their customers.

The mission of DeCA is to operate a worldwide system of retail grocery stores that provide quality goods at the lowest possible cost to active-duty military personnel, retirees, and their families. DeCA operates more than 295 commissary stores worldwide, with annual sales of about $4.9 billion, and employs about 18,000 people.

DeCA defines accountable personal property as an item with a unit cost of $1,000 or more, or as a property requiring maintenance. Table 1 identifies the number of personal property items per geographic region and the reported dollar

value as of October 1998. Because of the various capitalization thresholds applicable at the time of purchase, DeCA capitalized only 2,200 of the 77,000 items with a reported dollar value of $112.9 million[1].

Table 1. DeCA Personal Property on October 5, 1998 (millions)

Region	Number of Items	Amount
Eastern	28,027	$120.0
Midwest	9,093	35.2
Western Pacific	21,365	85.0
European	11,640	43.4
Headquarters	6,913	42.8
Total	**77,038**	**$326.4**

Objectives

The overall audit objective was to determine whether the personal property databases at the Military Departments and Defense agencies contained an accurate inventory of personal property assets. This audit is part of that effort and focuses on the DeCA personal property database. DeCA identified a problem with the accuracy of the personal property database. We performed limited tests of existence and completeness and concentrated on the internal controls needed to reduce the number of missing items. We also reviewed the adequacy of the management control program as it applied to the audit objectives. See Appendix A for a discussion of the audit scope and methodology, the review of the management control program, and prior coverage related to the audit objectives.

[1] The capitalization threshold varied from $15,000 in FY 1991 to $100,000 in FY 1999. As a result, $213.5 million of the personal property would have been expensed rather than capitalized.

Accuracy of the Defense Commissary Agency Personal Property Database

Since FY 1996, the Defense Commissary Agency has improved personal property accountability by using the Defense Property Accountability System (DPAS) and by developing two initiatives, the preposting program and the inventory holding account (INV). Because the two initiatives were not fully implemented, problems remained. The personal property database at DeCA, with reported values of $326.4 million as of October 1998 and $382.4 million as of October 1999, did not contain an accurate inventory of DeCA personal property. Specifically:

- 56 of the 290 items tested for existence could not be verified;
- 24 of the 100 items selected for completeness testing were not recorded in the personal property database;
- 40 of the 49 newly acquired items were not recorded in the database until an average of 65 days after receipt;
- 54 of 72 items were disposed of or transferred from DeCA and were not removed from the database as required;
- 76 of 171 items placed in the temporary INV account were placed there erroneously; and
- 171 items placed in the INV account remained in the account for an average of 329 days.

The inventory of personal property was inaccurate because DeCA did not update DPAS promptly for additions and deletions. In addition, DeCA did not promptly analyze the status of personal property placed in the INV account and determine whether the items were missing or misplaced. As a result, DeCA did not have accountability for at least $17.7 million of its personal property, and misstated the equipment expense account by at least $13.5 million and the equipment asset account by at least $4.2 million.

The DeCA Personal Property Inventory

DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 4, chapter 1, "Financial Control of Assets," January 1995, requires that accounting control be established for all assets provided to or acquired by DoD. The Regulation also requires physical inventories for personal property every 3 years. DeCA inventory requirements are more stringent, requiring annual inventories, which are rotated through store departments, on a quarterly basis. In addition, DeCA Directive 40-15, "Managing, Accounting, and

Reporting of Government Property," May 31, 1996, requires that all accountable property, whether real or personal, be entered into and accounted for in DPAS within 72 hours of receipt.

DPAS was selected as the migratory system for accumulating and accounting for real and personal property in DoD. The property information in DPAS was intended to feed into an accounting system for the asset value, depreciation value, or expense amount for noncapitalized property. DeCA began using DPAS in 1996 for personal property that met the criteria for being included in the property books. In addition, DeCA added two new initiatives, the preposting program and the INV account.

Before we started our audit, DeCA determined that a problem existed with missing items. Therefore, we modified our audit scope to identify the magnitude of the problem with missing items and the additional improvements needed in internal controls.

We judgmentally selected 10 DeCA locations to test the existence, completeness, additions, and deletions of personal property and the status of missing items placed in the INV account. The locations included the headquarters offices for the Eastern Region, Virginia Beach, Virginia; the Midwest Region, San Antonio, Texas; the Western/Pacific Region, North Highland, California; and DeCA headquarters, Fort Lee, Virginia. In addition, we visited two commissaries in each region. We tested the database for existence and completeness to verify that a problem existed with the accuracy of the database. We tested additions and deletions to determine whether internal control weaknesses existed that may have contributed to the inaccurate database. We tested the INV account to determine whether the items were actually missing and the cause.

Existence of Items in the Personal Property Database

At the 10 locations visited, the personal property database could not be relied on to accurately show item existence. Specifically, we randomly selected 290 items at the various locations to test the database for existence errors. We considered it an existence error when we could not trace the item sampled from the database to the physical item. We allowed 30 days for DPAS to be updated to show disposals, transfers, and trade-ins that could affect item existence.

Of the 290 items selected from the database, with a reported value of $947,916, 56 items could not be traced to the physical item. The items that could not be verified had a reported value of $103,283. Specific problems identified through existence testing were missing assets and items that had been disposed of several months earlier and had not been deleted from the personal property database. Figure 1 shows the results of existence testing.

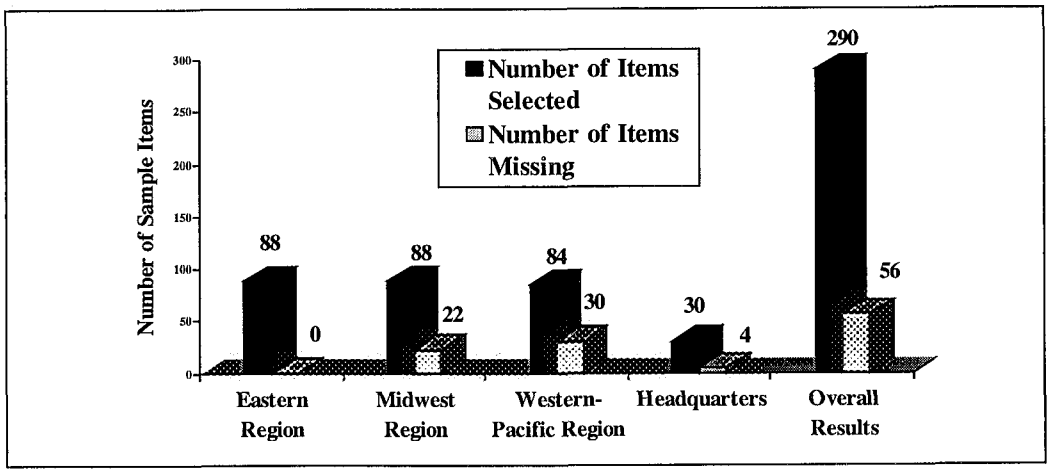

Figure 1. Results of Existence Testing by Region

Completeness of the Personal Property Database

The personal property database at DeCA was unreliable for completeness. For the locations visited, 24 of 100 of the items selected were not found in the personal property database. To test completeness, we judgmentally selected 10 items at each location where existence testing was performed and traced the selected items back to the personal property database to verify that they were included. If the personal property item selected was not included in the personal property database, we considered it a completeness error. Figure 2 shows the results of the completeness testing.

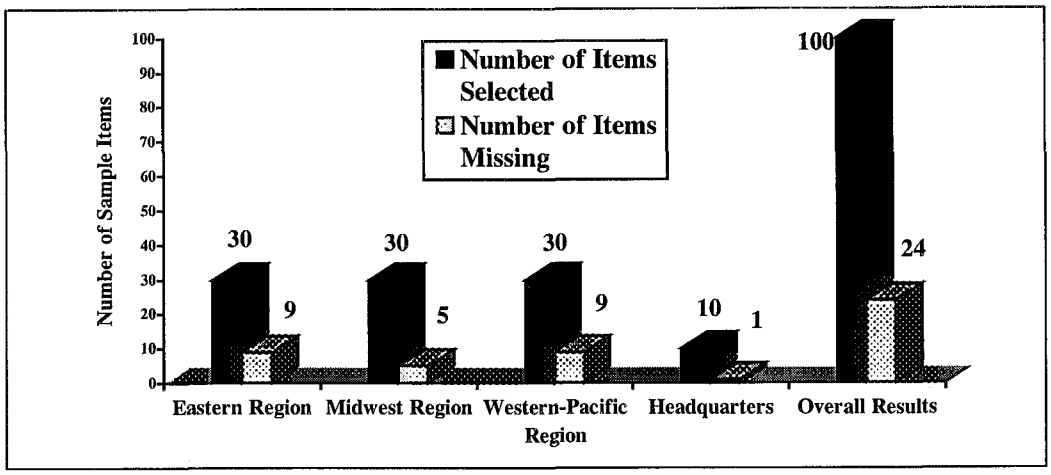

Figure 2. Results of Completeness Testing by Region

Specific problems identified during the completeness testing were:

- documentation for the use of items was missing,
- new property was not entered, and
- records for items transferred were not updated.

By testing for existence and completeness, we identified a larger problem with the accuracy of the personal property database at DeCA; specifically, we identified weak internal controls over adding and deleting items to the personal property database.

Addition of Items to the Personal Property Database

At the 10 locations visited, DPAS had not been updated to include newly acquired items. For our test of additions, we selected equipment purchased from January 1, 1998, through September 30, 1998, from the DeCA Contracting Business Unit's list of procurements for FY 1998. If available, we judgmentally selected a minimum of 10 items, with a reported value of at least $1,000, from each location. If DPAS had not been updated within 3 working days of the receipt of an item, the item did not pass the test for additions.

Test Results. At the locations visited, we judgmentally selected 49 items for testing. Of the 49 items selected, with a reported value of $391,928, 40 items were not updated in DPAS within 3 working days of receipt. Figure 3 shows the results of our test of additions to the personal property database.

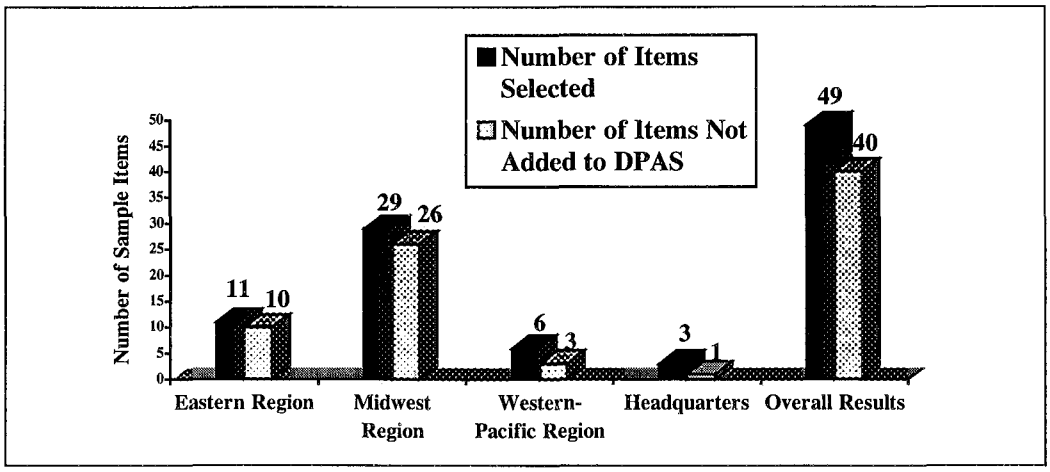

Figure 3. Results of Addition Testing by Region

DeCA Directive 40-15 requires that all accountable property, whether real or personal, be entered and accounted for in DPAS within 72 hours of receipt. The DeCA Property Accountability Business Unit (PABU), located at Headquarters, DeCA, began preposting in January 1998 as a control to ensure that new property items were added to the personal property database. However, this was not done because the control (the preposted record) over the acquisition of personal property had not been fully implemented. For example, the PABU did not always receive the acquisition information needed to prepost all of the records and did not properly followup on overdue preposted records. The regions and commissaries did not promptly update DPAS when the items were received. The inability to promptly establish or update a record for new equipment understates the total value of the equipment in the personal property database and decreases management's ability to control equipment. For the 10 locations visited, the personal property database was understated by at least $292,417, and the average number of days before items were added to DPAS was 65. For example, the number of days taken to update DPAS ranged from 1 day at the Midwest Region headquarters to 107 days at the Fort Sam Houston, Texas, Commissary.

DeCA Initiation of Preposting. The PABU reviewed all DeCA procurement documents to determine whether assets being acquired met the requirements of DeCA for property book accounting. If the asset met that requirement and was lower than the capitalization threshold, the PABU input or preposted the procurement and financial obligation data into the personal property database. Specifically, the PABU input a unique temporary bar code and serial number, the estimated delivery date of the contract, and a Property Book Identification Code for followup and measurement purposes. When the item was delivered to the receiving store, that store (if it was on-line with DPAS) updated the DPAS record to show receipt. If the store was not on-line with DPAS, the store forwarded the information to its Region Property Coordinator (RPC) to update DPAS. The information needed to fully implement preposting, such as acquisition information, was not always available.

Receipt of Acquisition Information. To fully implement preposting, the PABU must have acquisition information such as the contract number, estimated date of delivery, and item description. The purpose of the preposting initiative was to establish a control to ensure that the receiving organization recorded the receipt of the new equipment in DPAS at the time the vendor delivered the property. We tested the database to determine whether the PABU established the preposting record within 3 days of the contract's issuance, and we selected new equipment transactions from lists of transactions for the 10 locations where we performed fieldwork. From the lists, we selected up to 10 property book items. We determined whether a preliminary record (preposting record) was established at the time the equipment was ordered. The PABU only preposted 33 of the 44 items. DeCA personnel said that although the PABU received the necessary acquisition documents from the DeCA contracting activity to allow for the preposting initiative to work properly, information was not always received when contracts were executed by external contracting activities such as the Defense Logistics Agency.

Followup. To ensure proper accountability for items, PABUs also needed to followup on preposting records for overdue equipment. Periodically, the PABU queried DPAS for overdue preposting records and created a list of

overdue equipment. Overdue equipment was equipment that the vendor should have delivered and for which the preposting record should have been changed to a property record. The PABU should have determined why the store had not updated the preposting record to show receipt. Inadequate followup allowed received items to be erroneously excluded from DPAS.

DPAS Update. When the PABU has preposted an item, upon its receipt, the commissary should update DPAS for the item. However, this initiative was not fully implemented within DeCA. The receiving store (if it was on-line with DPAS) updated the DPAS record to show receipt. If the store was not on-line with DPAS, the store was required to forward information about the receipt to its RPC, who updated the record. If the equipment was not preposted, the store or region was required to establish a new record. Our test results showed that the DPAS record for 40 items either had not been updated or had not been established within 3 working days after the equipment was received. The RPCs had backlogs for inputting items into DPAS. For example, at the 10 locations visited, the average length of time for updating DPAS after the receipt of an item was 65 days. When all stores are on-line, these problems should be greatly reduced. However, DeCA needs to provide additional guidance that emphasizes the timely posting of additions to DPAS.

Deletion of Items from the Personal Property Database

At the ten locations visited, DeCA did not promptly enter disposal transactions (deletions) into DPAS. For our test of deletions, we selected 72 items, from the Transaction History Report, that were disposed of from October 1, 1996, to September 30, 1998. An average of 102 days was needed to delete these items from DPAS. Although DeCA had established guidance to authorize the disposition of property, DeCA personnel did not follow the guidance. Consequently, the DPAS personal property database included records for equipment that stores or regions no longer owned and had sent to the DRMO. For example, 54 of 72 items that had been disposed of had not been removed from the database as required. As a result, the database was overstated by at least $131,907.

To dispose of equipment, a store must first obtain authorization from the RPC. Once the authorization is received, the store must fill out and send a DD Form 1348, "DoD Issue Release/Receipt Document" to the DRMO, who will actually dispose of the equipment. The DRMO sent a signed copy of the DD Form 1348, which, along with the disposal authorization, provided the documentation required for deleting the equipment record from DPAS. Although DeCA required the stores to obtain authorization from the region before disposing of property and to maintain documents to support the disposal, it had not formalized the procedures. Stores were obtaining approval by submitting a turn-in document by e-mail to the RPC and receiving an e-mail response, by calling, or by submitting a fax.

After converting to DPAS in June 1996, DeCA has been improving controls over its personal property. However, DeCA had not formalized procedures to ensure that the store or region updated DPAS after the DRMO acknowledged receipt of the equipment. Figure 4 shows the test results.

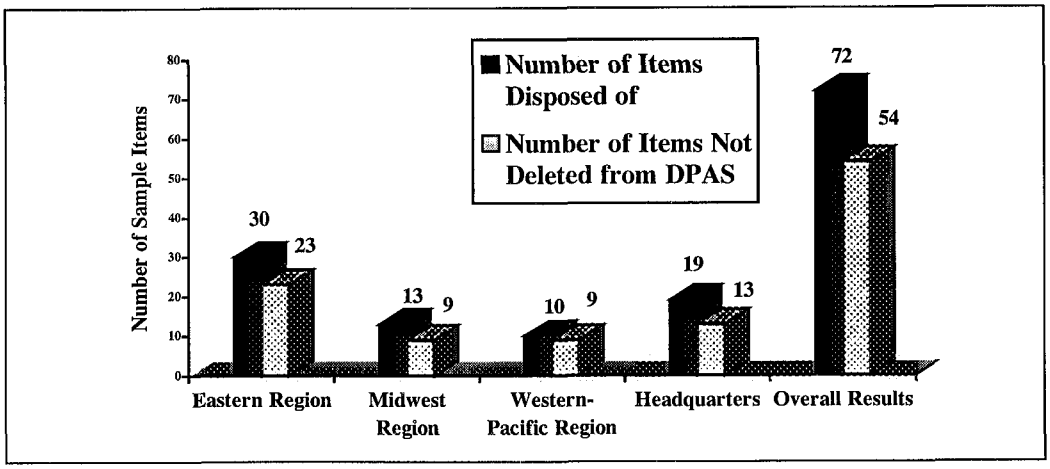

Figure 4. Results of Deletion Testing by Region

Not all activities requested authorization before disposing of an item; and after disposal, not all activities retained the documentation needed to support the deletion of the item. DeCA should establish formal procedures and require proper monitoring of the updating of DPAS.

The test results of additions and deletions highlighted the control weaknesses over the updating of DPAS. The database was found to be inaccurate because newly acquired items had not been added to DPAS, and items that had been disposed of had not been removed from DPAS. These inaccuracies affected the DeCA financial statements. The personal property assets and the equipment expense accounts were both misstated because of these errors.

The Inventory Holding Account

The PABU established the INV account in October 1997 to provide visibility for items missing during the DeCA inventories. The PABU moved items not found during the quarterly inventories into the INV account. The INV account was intended to help DeCA clear old items no longer at DeCA from the personal property database. The PABU requested that regions and commissaries determine the status of those items. If it was determined that the item was lost, previously transferred to another commissary, or disposed, the item was deleted from the database. If the item was found, it was reentered on the property book within 90 days. However, commissaries used the INV account for items transferred within a commissary, although that was not the intent of the INV account. Those items were not missing and should not have been included in the INV account. In addition, property officials did not promptly resolve the status of the missing items.

Table 2 lists the categories of items listed in the INV account for each region.

Table 2. Status of Items in the Inventory Holding Account for More Than 90 Days

Category	Region				Total
	Eastern	Midwest	Western Pacific	DeCA Headquarters	
Within-Store Transfer	7	2	6	12	27
Traded	15	2	15	0	32
Disposal	7	3	5	2	17
Missing and Written Off	22	7	34	0	63
Open	4	0	5	23	32
Total	**55**	**14**	**65**	**37**	**171**

The INV account at DeCA was not working as intended. DeCA did not promptly resolve the status of items placed in the INV. We reviewed a total of 171 items, with a reported value of $461,545, that had been in the INV account for more than 90 days. Of the 171 items, 76 of the items were erroneously placed in the account. The 171 items remained open for an average of 329 days.

The category "Within-Store Transfer," with 27 items, does not include missing equipment, but identifies equipment moved between store departments. The store or region did not update the DPAS record before the inventory to identify the department to which it had reassigned the equipment. DeCA should not have placed the equipment in the INV account. The 32 items of equipment in the "Traded" and the 17 items in the "Disposal" categories should not have been assigned to the INV account if, at the time of the inventory, the store had complete documentation to support the trade or disposal. Rather than changing the record to assign the equipment to the INV account, DeCA should have used the documentation to delete the 76 items.

True missing equipment was in the 63 items in the "Missing and Written Off" category. This equipment was actually lost, or the store did not have adequate documentation to prove that it had disposed of or traded the equipment. Finally, the "Open" category of 32 items was a group of items tested for which the status was not available when we performed our fieldwork. The weaknesses identified in the INV account points to the internal control problems over the acquisition and disposal of personal property at DeCA. As a result, DeCA did

not have accountability for at least $17.7 million of its personal property, and misstated the equipment expense account by at least $13.5 million and the equipment asset account by at least $4.2 million.

Summary

DeCA has improved accountability for personal property. DeCA began in 1996 with DPAS and used that system to develop a database for personal property. The use of DPAS provided support for the information transferred to the financial statements, both for capitalized assets and expensed equipment costs. In addition to implementing DPAS, DeCA developed two initiatives, the preposting record and the INV account, to control assets. The two initiatives were not fully implemented during our review; and therefore, not all of the problems associated with property accountability were alleviated. DeCA still had problems with an inaccurate inventory of personal property. DeCA did not promptly enter transactions for additions and deletions of personal property into the database or resolve the status of personal property placed in the INV account. As a result, DeCA did not have adequate accountability for $17.7 million of its personal property, and may have misstated the equipment expense account by at least $13.5 million and the equipment asset account by at least $4.2 million.

Management Comments on the Finding and Audit Response

Management Comments. The Director, Defense Commissary Agency, stated that DeCA is anxious to improve property accountability and financial reporting. The Director also provided his clarification of a statement in the draft report, "DeCA did not have accountability for at least $17.7 million of its personal property, and misstated the equipment expense account by at least $13.5 million and the equipment asset account by at least $4.2 million." The Director stated that the $17.7 million was the acquisition cost, the $13.5 million of expensed items had no book value, and the $4.2 million of capital assets had a current book value of $0.4 million.

The Director requested that we revise a portion of the report to more clearly state the problem with the receipt of acquisition information. The problem, according to DeCA personnel, is with outside agencies rather than the contracting activity within the agency.

Audit Response. The Defense Commissary Agency has made improvements in its property accountability and we commend the agency for its effort. We agree that the $17.7 million represents the acquisition cost of the assets. The $13.5 million portion of the $17.7 million represents personal property that was not capitalized, but was expensed in the period acquired. The capitalized portion of the $17.7 million, which is $4.2 million, is the acquisition value of the assets before depreciation. However, this is a significant amount of equipment, and the important issue is the lack of accountability and the reasons for it.

We agree with the request made by DeCA to change the sentence on the receipt of acquisition information. Accordingly, we revised this sentence in the final report.

Recommendations and Management Comments

We recommend that the Director, Defense Commissary Agency:

1. Update the Defense Commissary Agency Directive 40-15, "Managing, Accounting, and Reporting of Government Property," May 31, 1996, to include procedures on the Defense Property Accountability System and emphasize the need for prompt recording of additions to the personal property database.

Management Comments. The Director concurred and stated that the Defense Commissary Agency Directive 40-15, "Managing, Accounting, and Reporting of Government Property," May 31, 1996, would be updated by March 31, 2000, to include procedures on the Defense Property Accountability System and updating the database.

2. Establish uniform procedures for obtaining authorization to dispose of equipment.

Management Comments. The Director concurred and stated that the DeCA Handbook 40-6 will address uniform procedures for obtaining authorization to dispose of equipment.

3. Establish procedures that specify the number of days after a disposal action is complete, that the active record should be deleted from the Defense Property Accountability System, and that require the regions to monitor the timeliness of the action.

Management Comments. The Director concurred and stated that procedures for deleting records of disposed items and monitoring the timeliness of the action would be included in the Handbook.

4. Limit the use of the Inventory Holding Account to missing items, and promptly determine the status of the items in the Inventory Holding Account.

Management Comments. The Director concurred and stated that the Handbook would also address the use of the Inventory Holding Account for missing items only.

Appendix A. Audit Process

Scope and Methodology

Work Performed. In this financial-related audit, we assessed the reliability of the DeCA personal property records in DPAS. DeCA used a single database to maintain accountability for its personal property; as of October 1998, the value of personal property reported on the financial statements for both surcharge and working capital funds was $326.4 million. As of October 1999, the reported value was $382.4 million.

We reviewed the costs reported by DeCA for the CIP account, which is used to record the costs of construction until the project is completed and capitalized. Our initial methodology was to verify the accuracy of the amounts reported and to determine whether all appropriate transactions were entered into and the costs removed and capitalized at the completion of the projects. We modified the methodology when we determined that DeCA was erroneously recording noninstalled equipment costs in the CIP account. Because substantial costs were erroneously included, we limited our inquiry to obtaining information about the business processes for the CIP account and the rules used to record transactions. We also inquired into the capability to identify separately, the cost information for construction and for the purchase of noninstalled equipment, whether the equipment is Government- or contractor-furnished. Because DeCA corrected the business rules that caused the erroneous reporting of CIP, we did not address the problem as a finding in this report. As of February 28, 1999, the reported value for the CIP account was $155.4 million. Personal property included commissary equipment, office equipment, vehicles, and computers.

DoD-wide Corporate Level Government Performance and Results Act Goals. In response to the GPRA, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to the following goal, subordinate performance goals, and performance measures.

FY 2001 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- FY 2001 Subordinate Performance Goal 2.5: Improve DoD financial and information management. (01-DoD-2.5)
- FY 2001 Performance Measure 2.5.1: Reduce the number of noncompliant accounting and financial systems. (01-DoD-2.5.1).
- FY 2001 Performance Measure 2.5.2: Achieve unqualified opinions on financial statements. (01-DoD-2.5.2).

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area.

Use of Computer-Processed Data. We reviewed the computer-processed data from DPAS that DeCA used to maintain personal property records for accountability, accounting, and depreciation. At DeCA headquarters, three regions, and six commissaries, we selected records from DPAS to perform tests for the existence of equipment. We also selected records from DPAS for equipment that had been transferred to the INV accounts.

We selected equipment within DeCA headquarters, the three regions, and the six commissaries, and traced the equipment back to DPAS to verify that it had been correctly recorded in the system. In addition to tests for existence and completeness, we also traced transactions for new equipment to DPAS to verify that the equipment received was recorded promptly and the equipment disposed of was removed from DPAS promptly. Although we did not review system controls, we determined that the personal property information in the DeCA database could not be relied on.

Sampling Methodology. Although we judgmentally selected the locations at which to perform existence testing, we drew a random sample with replacement from the universe of personal property records for each of the 10 DeCA organizations at which we performed the tests. We attempted to verify the existence of each sampled item through direct physical observation. When the equipment was not available for observation, we attempted to determine why it was not available. To test for completeness, we judgmentally selected 10 equipment items at each location and traced the selected equipment back to DPAS to verify that it was recorded. If the equipment was not recorded, the auditors interviewed personal property officials to determine the ownership of the equipment.

Audit Type, Dates, and Standards. We performed this financial-related audit from October 1998 to November 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We contacted and visited individuals and organizations within DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive strategy for management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DeCA management controls over the accountability of personal property and the maintenance of the database. Specifically, we reviewed DeCA

management controls over the acquisition and disposal of personal property and the recording of CIP. We also reviewed the DeCA FY 1998 Annual Statement of Assurance. Appendix B of the statement included a milestone for DeCA to revise DeCA Directive 40-15, "Managing, Accounting, and Reporting of Government Property" by March 1999; however, DeCA did not meet the milestone. DeCA has begun initiatives that, when fully implemented, should strengthen management controls. In addition, with the implementation of the recommendations in this report, management controls should also improve. Because we did not identify a material weakness, we did not assess management's self-evaluation.

Adequacy of Management Controls. DeCA management controls over the accountability of personal property and the maintenance of the database were adequate as they applied to the audit objectives.

Summary of Prior Coverage

Inspector General, DoD, Report No. 98-097, "Defense Commissary Agency Financial Reporting of Property, Plant, and Equipment," May 27, 1998.

Appendix B. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
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 Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Columbus Center
  Director, Defense Finance and Accounting Service Indianapolis Center
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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 Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
1300 E AVENUE
FORT LEE, VIRGINIA 23801-1800

REPLY TO
ATTENTION OF:

IR

JAN 28 2000

MEMORANDUM FOR INSPECTOR GENERAL, FINANCE AND ACCOUNTING DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Audit Report on the Reliability of the Defense Commissary Agency Personal Property Database (Project No. 9FH-3001.01)

Reference: DoDIG Memorandum, November 30, 1999, SAB.

Attached is the DeCA reply to the recommendations provided in subject report. If you have any questions, please contact Mr. Ben Mikell at (804) 734-8103.

CROSBY H. JOHNSON
Executive Director for Support

Attachment:
As Stated

Final Report Reference

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Audit Report on the Reliability of the Defense Commissary Agency Personal Property Database (Project No. 9FH-3001.01)

ADDITIONAL COMMENTS TO DRAFT REPORT:

DeCA is anxious to improve property accountability as it translates into improvements in financial reporting. We would like to clarify the statement in the report that "DeCA did not have accountability for at least $17.7 million of its personal property, and misstated the equipment expense account by at least $13.5 million and the equipment asset account by at least $4.2 million." The $17.7 million shown in the report is an acquisition cost. The $13.5 million of expensed items have no book value, and the $4.2 million of capital items have a current book value of $.4 million.

The last sentence in the subparagraph entitled Receipt of Acquisition Information is not completely accurate. We request that the sentence in the final report be revised to the following: According to DeCA personnel, while the PABU did receive the necessary acquisition documents from the DeCA contracting activity to allow for the preposting initiative to work properly, information was not always received when the contracts were executed by external contracting activities (e.g., Defense Logistics Agency). Revised

RECOMMENDATION A.1. Update the DeCA Directive 40-15, "Managing, Accounting, and Reporting of Government Property," May 31, 1996, to include procedures on the Defense Property Accountability System (DPAS) and emphasize the need for prompt recording of additions to the personal property database.

DeCA REPLY. Concur. DeCA Directive 40-15 will be updated to include procedures on DPAS and updating the database. Target date for publication of DeCA Directive 40-15 is March 31, 2000. Also, DeCA Handbook 40-6, "DPAS Procedures," is being developed for Store Processing on the new DPAS client server version. Target date for publication of DeCA Handbook 40-6 is June 30, 2000.

RECOMMENDATION A.2. Establish uniform procedures for obtaining authorization to dispose of equipment.

DeCA REPLY. Concur. DeCA Handbook 40-6 will address uniform procedures for obtaining authorization to dispose of equipment.

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RECOMMENDATION A.3. Establish procedures that specify the number of days after a disposal action is complete, that the active record should be deleted from the DPAS, and require that the regions monitor the timeliness of the action.

DeCA REPLY. Concur. DeCA Handbook 40-6 will establish procedures for the identification of excess equipment, authorization for disposal or other final disposition, and establish day/date delinquency parameters which will emphasize and provide measurement of timely inputs, updates, and follow-ups.

RECOMMENDATION A.4. Limit the use of the Inventory Holding Account to missing items, and promptly determine the status of the items in the Inventory Holding Account.

DeCA REPLY. Concur. DeCA Handbook 40-6 will address the use of the Inventory Holding Account for missing items only.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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