

June 22, 2004



# Financial Management

Corps of Engineers Equipment  
Reporting on Financial Statements  
for FY 2003 (D-2004-092)

Department of Defense  
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Article I, Section 9

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### **Acronyms**

CEFMS	Corps of Engineers Financial Management System
IG DoD	Inspector General of the Department of Defense
PP&E	Property, Plant, and Equipment
USACE	U.S. Army Corps of Engineers



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

June 22, 2004

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

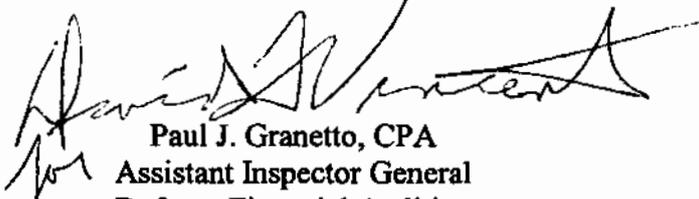
SUBJECT: Report on the Corps of Engineers Equipment Reporting on Financial Statements for FY 2003 (Report No. D-2004-092)

We are providing this audit report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on a 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 staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400 ext. 211 or Mr. John K. Issel at (614) 751-1400 ext. 212. See Appendix B for the report distribution. The audit team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

  
Paul J. Granetto, CPA  
Assistant Inspector General  
Defense Financial Auditing  
Service

## Office of the Inspector General of the Department of Defense

Report No. D-2004-092  
Project No. D2004FJ-0033

June 22, 2004

### Corp of Engineers Equipment Reporting on Financial Statements for FY 2003

#### Executive Summary

**Who Should Read This Report and Why?** U.S. Army Corps of Engineers officials and personnel responsible for financial reporting should read this report. It discusses issues related to the financial reporting of equipment on the financial statements.

**Background.** Equipment comprised approximately \$634 million of the Property, Plant, and Equipment that the U.S. Army Corps of Engineers reported on its June 30, 2003, financial statements. On August 20, 2003, we reported that the amount the U.S. Army Corps of Engineers included for equipment on the financial statements was not complete or adequately supported. In response to the report, the U.S. Army Corps of Engineers revised its policy to comply with the audit recommendations and began to implement the new guidance.

**Results.** U.S. Army Corps of Engineers indicated on 31 October, 2003, that its equipment records were ready for audit. Therefore, we tested the equipment records to determine whether they fully supported the value the Corps claimed for equipment. The Corps had made significant improvements in reporting equipment. Problems with collection and presentation of equipment data were corrected, and supporting documentation was available for the majority of the equipment items that the Corps reported. However, despite significant progress the process still had some weaknesses. The Corps could not provide adequate supporting documentation for all of its equipment assets. The documents were either unavailable or failed to match information in the automated data system. We projected that these deficiencies occurred in equipment valued at \$14.5 million. Although the deficiencies existed, the amounts were not material and we concluded that the value of equipment the U.S. Army Corps of Engineers reported on the FY 2003 financial statements was not materially misstated. However, actions were still needed to ensure that all equipment values are fully supported by the end of FY 2004. Unsupported equipment values can increase the overall materiality of error in the Balance Sheet of the U.S. Army Corps of Engineers Financial Statements. (See the Finding section of the report for the detailed recommendation.)

**Management Comments.** The Commander, U.S. Army Corps of Engineers concurred and stated that he would direct the Director of Civil Works to continue to take action to enforce policy to use all available methods to value equipment for which no historical documentation exists. He set September 30, 2004, as the goal for completing this action.

See the Finding section of the report for a discussion of management comments and the Management Comments section for a complete text of the comments.

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## Background

The audit was performed in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. The Inspector General of the Department of Defense (IG DoD), is required to audit the annual financial statements of the Department of Defense. This report is a result of work performed in support of the audit of the Corps of Engineers FY 2004 Financial Statements.

The U.S. Army Corps of Engineers (USACE) Civil Works mission falls into four broad areas: water infrastructure, environmental management and restoration, response to natural and manmade disasters, and engineering and technical services to the Army, DoD, and other agencies. USACE uses several different types of equipment assets to perform its mission such as forklifts, trucks, cranes, barges, and boats. The equipment portion of property, plant, and equipment (PP&E) generally includes assets with an acquisition value of \$25,000 or more. It does not include land, buildings, structures, and construction-in-progress. The value of Equipment in the USACE principal statements in FY 2003 was \$634 million.

The DoD Financial Management Regulation, Volume 4, chapter 6, August 2000, defines General PP&E, which includes equipment, as tangible assets that:

- have a useful life of two years or more,
- are not intended for sale,
- are acquired or constructed with the intention of being used by the entity, and
- have an initial acquisition cost, book value, or an estimated fair market value that equals or exceeds the DoD capital asset threshold.

The regulation requires that supporting documentation for the assets be maintained by the owner in a readily available location during the required retention period. This permits the validation of information pertaining to the asset, including acquisition cost, acquisition date, and cost of improvements.

## Objective

Our overall audit objective was to determine the reliability of the USACE Civil Works equipment as presented in the General PP&E line item in the financial

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statements. We concentrated this audit on determining whether the USACE had corrected deficiencies related to the universe of data provided for equipment and supporting documentation related to valuation of equipment, that we reported at the end of FY 2002.

We reviewed the management control program as it relates to the objective. See Appendix A for a discussion of the scope and methodology, and our review of the management control program.

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## **Equipment Financial Reporting**

USACE significantly improved the documentation for equipment that it made available for audit. Earlier problems with universe data were corrected, and supporting documentation was available for the majority of equipment items maintained by USACE. Despite the significant progress, USACE did not provide all the documentation needed to support the value of equipment assets it reported in its FY 2003 Civil Works financial statements. Supporting documentation for a projected \$14.5 million of equipment assets was either unavailable or did not match information in the automated data system. We attributed the unsupported amounts to insufficient attention to implementing the improved policy at some USACE activities. Although these valuation problems existed, we concluded that the amount of equipment the USACE reported on its FY 2003 financial statements was not materially misstated. However, actions were still needed to ensure that all of the equipment values are fully supported by the end of FY 2004. Unsupported equipment values can increase the overall materiality of error in the Balance Sheet of the USACE financial statements.

### **Results of FY 2002 Review**

In August 2003, we reported that USACE could not produce adequate information to support the value it reported for equipment in its FY 2002 financial statements (IG, DoD, Report No. D-2003-123, "Corps of Engineers Equipment Reporting on Financial Statements for FY 2002," August 20, 2003). We reported that the equipment universe provided by USACE for the audit was \$49.3 million less than what was reported on its financial statements. Also, of the \$650.8 million disclosed on the FY 2002 financial statements as the value of equipment, about \$47.5 million was not adequately supported. As a result, the total error for FY 2002 was \$96.8 million.

### **Corrective Action Policy**

To improve the quality and amount of documentation being maintained to support the equipment value, USACE issued a corrective action policy in August 2003. The policy required the following:

Every asset on the Corps Balance Sheet must have a historical supporting documentation file that contains all of the documentation through each phase of the asset's life cycle from acquisition to disposal. Therefore, each district needs to provide the necessary supporting documentation and validate or correct the current recorded Corps of Engineers Financial Management System (CEFMS) information. Additionally, these documents in

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conjunction with any funding, acquisition or appraisal documents should be maintained in an asset historical document file for six years beyond disposal.

Equipment values should be adjusted to reflect additions to and retirements of plant in service, either with or without replacement.

If an asset was transferred-in, the transferring entity must timely forward a copy of their asset documentation file to the receiving activity. As a last resort the Internal Equipment Valuation (in Lieu of Supporting Documentation) form should be maintained in the asset file. Districts that have maintained all cost documents for transferred equipment must forward those documents to the appropriate district office.

USACE management implemented this policy intending to improve the financial reporting of equipment for FY 2003 and future years.

Subsequently USACE indicated to us that improvements were in place that rendered its records for equipment ready for audit. To determine if the policy had been implemented and had corrected the deficiencies reported, we statistically selected 40 USACE activities to review supporting documentation.

## **Results of FY 2003 Review**

USACE significantly improved the documentation for equipment that it made available for audit. Problems with inaccurate universe data were corrected and supporting documentation was available for the majority of equipment items maintained by the USACE.

**Universe Information.** In our August 2003 report, we reported that USACE did not provide a complete equipment universe for the audit of the FY 2002 financial statements. At that time, the equipment universe provided by USACE was \$49.3 million less than what was reported on its financial statements. This problem had been corrected for FY 2003. We determined that a complete universe was provided for us to perform the audit work. We verified that USACE had corrected the previous inaccurate calculation of the audit universe, that is, inappropriate omission of capitalized equipment assets.

**Support For Valuation.** In June FY 2003, USACE reported its equipment was valued at \$634 million. To determine the accuracy of the stated value, we statistically selected 316 equipment assets for review at 40 of the 65 USACE reporting activities for review.

The locations sampled and the amount of equipment at each location are shown in Table 1. Where the support column is blank, support was adequate.

**Table 1.**

<u>Location</u>	<u>Number of Sample Items</u>	<u>Value of Sample Items</u> (millions)	<u>Support for Value</u>
Portland	8	\$92.1	
Memphis	16	70.7	
New Orleans	14	67.9	
Vicksburg	37	39.8	Not fully supported
St. Louis	15	36.8	
Rock Island	25	34.5	Not fully supported
Louisville	11	33.6	
Mobile	17	16.9	
Huntington	16	15.9	Not fully supported
Philadelphia	11	12.1	Not fully supported
Pittsburgh	10	10.7	Not fully supported
Detroit	8	10.1	
Walla Walla	9	8.3	
Nashville	13	7.5	
Galveston	9	6.5	Not fully supported
Eng Waterways	22	5.4	
New York	7	3.8	Not fully supported
Little Rock	8	3.7	
St. Paul	6	3.2	
Norfolk	3	2.8	
Tulsa	4	2.4	Not fully supported
Humphreys Eng Center	1	1.7	
New England	2	1.2	
Jacksonville	2	1.2	
Baltimore	4	1.1	
Chicago	1	1.1	
Sacramento	3	0.6	Not fully supported
Seattle	5	0.5	Not fully supported
Savannah	3	0.5	
Omaha	6	0.4	Not fully supported
San Francisco	3	0.3	
Washington Aqueduct	3	0.2	Not fully supported
Charleston	2	0.2	
Honolulu	1	0.1	
Los Angeles	5	0.1	
Kansas City	1	0	
South Atlantic	1	0	
Wilmington	2	0	
Ft. Worth	1	0	
Finance Center	1	0	

In summary, equipment at 28 of the 40 locations with a value of \$366.5 million was fully supported.

There were deficiencies at the remaining 12 activities, which had not fully implemented the policy or where errors were made in data entry. Table 2 identifies the seven activities that had equipment valuation deficiencies because the activities had not fully implemented the new documentation policy.

**Table 2.**

<u>Activity</u>	<u>Number of Sample Items</u>	<u>Items found to be Unsupported</u>	<u>Value Unsupported</u>
Galveston	9	4	\$1,081,712
Huntington	16	6	5,674,961
New York	7	5	420,823
Omaha	6	5	61,269
Philadelphia	11	2	886,811
Rock Island	25	4	270,805
Seattle	5	1	66,938

The other five locations had documentation that showed equipment values that were different from that shown in the automated data system, CEFMS. Table 3 shows the equipment valuation data errors at the remaining five activities. Generally, these deficiencies were the result of input errors. For example, we reviewed CEFMS records that described a patrol boat that the Sacramento District purchased on December 29, 1997. The boat's net book value reported on the FY 2003 financial statements was \$25,538.96. However, the District entered an incorrect purchase date of April 7, 1999, causing an overstatement of the value of the assets by \$10,768.

**Table 3.**

<u>Activity</u>	<u>Number of Sample Items</u>	<u>Number of Errors</u>	<u>Value of Errors</u>
Pittsburgh	10	1	\$ 1,957
Sacramento	3	2	16,248
Tulsa	4	1	51,717
Vicksburg	37	3	44,928
Washington	3	1	22,180

The data entry errors were relatively minor. The greater portion of the deficiencies were caused by not implementing the new policy.

**Statistical Projection of the Results.** Based on a statistical sample of USACE equipment assets, the projected statistical midpoint of equipment values that were not adequately supported was \$14.5 million. (Details on the statistical projection

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are presented in Appendix A.) We concluded that the value of equipment at the majority of the locations was not materially misstated.

## **Improving the Supporting Data**

Even though the \$14.5 million in unsupported values and errors was immaterial in relation to the overall balance reported for equipment, it did indicate activities had not achieved full compliance with the USACE policies.

The USACE personnel indicated that the primary cause for the unsupported values was that the USACE activities did not have sufficient time to adequately estimate and support the value of their equipment assets for which historical cost documentation was no longer available.

Acceptable procedures for valuing assets for which historical cost documentation is no longer available include:

- current working estimates prepared for acquisition,
- appropriation or other Congressional information,
- Plant Replacement and Improvement Program documentation.
- development of an estimate based on the cost of similar assets at the time of original acquisition, and
- current cost of similar assets, discounted for inflation since the time of acquisition.

The USACE policy directed that where an estimating method is used, it should be documented on the USACE “Internal Equipment Valuation” (in Lieu of Supporting Documentation) form, and certified by responsible personnel.

USACE issued this policy in August 2003 and some activities indicated that, at the time of our audit fieldwork early in FY 2004, they did not have sufficient time to fully implement the policy.

At the time of our testing, those activities that had not completed the procedures for developing documentation or for researching historical documentation, had a valid claim that sufficient time had not been available. However, we followed up on those activities 4 months after our initial tests were performed and, as of the end of January 2004, three of the seven activities (Huntington, New York, and Omaha Districts) still had not fully implemented the policy.

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## Conclusion

Although the amounts of unsupported equipment values were not material, The USACE needed to continue to take action to correct the remaining deficiencies to ensure that all of its activities appropriately value all equipment assets. Completion of these actions will prepare USACE for future audits and ensure improvement in documentation of equipment values.

Unsupported equipment values can increase the overall materiality of error in the Balance Sheet of the USACE financial Statements. The aggregate error of all items on the Balance Sheet is used to determine whether the Balance Sheet taken as a whole is materially misstated. The correctable error in the equipment line needs to be addressed to prevent jeopardizing an overall opinion on the USACE Balance Sheet.

## Recommendation and Management Comments

**We recommend that the Commander, U.S. Army Corps of Engineers direct the Director of Civil Works to continue to take action to enforce existing policy that requires that all of its activities use all available methods to properly value equipment for which no historical cost documentation exists by September 30, 2004.**

**Commander, U.S. Army Corps of Engineers Comments.** The Commander, U.S. Army Corps of Engineers concurred and stated that he would direct the Director of Civil Works to continue to take action to enforce policy to use all available methods to value equipment for which no historical documentation exists. He set September 30, 2004, as the goal for completing this action.

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## Appendix A. Scope and Methodology

We reviewed information related to the USACE financial statement reporting of equipment assets valued at \$634 million as of June 30, 2003. We used a statistical sample of capital assets recorded in the CEFMS database. Our sample included 316 items. We also made inquiries of personnel from USACE Headquarters and 40 USACE activities.

We performed this audit from July 2003 through March 2004 in accordance with generally accepted government auditing standards.

At the start of the audit, USACE provided us a database of the capital equipment assets recorded in CEFMS. We decided to statistically select a sample of assets for review from the population of 7,372 assets of capital equipment recorded in CEFMS for FY 2003.

A stratified sample design was used. The first stratum was a census of items valued greater than, or equal to, \$500,000. The second stratum consisted of items greater than \$50,000, and less than \$500,000. The third stratum consisted of items greater than, or equal to, \$0 but less than, or equal to, \$50,000.

The determination of an appropriate sample size was based on information from prior audit work and professional judgment. The statistical selection resulted in a sample of 316 assets located at 40 USACE activities.

Our statisticians calculated the following projections for the \$634 million of capital equipment the USACE reported for FY 2003. The projections were calculated using information we supplied on the equipment assets that we determined had values that were not adequately supported.

We are 95 percent confident the total of dollars not adequately supported is between \$10,894,257 and \$18,099,462. The point estimate (that is, mid-point of the equipment values not supported) was projected to be \$14,496,860.

**Use of Computer-Processed Data.** We relied on computer-processed data from CEFMS to determine which districts to visit and to make the audit sample selections. We did not test the general and application controls of the system, and we considered this in determining our sample selection population. We performed other tests on the data to determine the accuracy and reliability of the Equipment account balances. Nothing came to our attention as a result of specified procedures that caused us to doubt the reliability of the computer-processed data.

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**Use of Technical Assistance.** We received assistance from the Quantitative Methods Division in the Office of the Inspector General of the Department of Defense. Specifically, we had help determining our statistical sampling plan and also in the statistical analysis and projection of our audit results.

**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.

## Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations 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 the Review of the Management Control Program.** We reviewed the adequacy of the USACE management controls over the financial reporting of equipment. Specifically, we reviewed the USACE management controls over data-gathering to provide a complete universe and maintaining supporting documentation for equipment assets records and files. Because we did not identify a material weakness, we did not assess management's self-evaluation.

**Adequacy of Management Controls.** Management controls were adequate as they applied to the objective.

## Prior Coverage

During the last 5 years, the Inspector General, DoD, and Army Audit Agency each published one report on the USACE, Civil Works - equipment. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>. Army Audit reports can be accessed at <https://www.aaa.army.mil/reports/.htm>, which is accessible on the extranet to military domains and GAO only.

## IG DoD

Inspector General, DoD, Report No. D-2003-123, "Corps of Engineers Equipment Reporting on Financial Statements for FY 2002," August 20, 2003

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## **Army**

Army Audit Agency Report No. AA-02-142, "Fiscal Year 2001 Financial Statements US Army Corps of Engineers, Civil Works," February 08, 2002

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## **Appendix B. Report Distribution**

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Commander, U.S. Army Corps of Engineers

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Senate Committee on Governmental Affairs  
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House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont.)**

House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform

House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

# Department of the Army Comments



**DEPARTMENT OF THE ARMY**  
U.S. Army Corps of Engineers  
WASHINGTON, D.C. 20314-1000

REPLY TO  
ATTENTION OF:

MAY 26 2004

CEIR

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,  
400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Draft Audit Report of Corps of Engineers Equipment Reporting on  
Financial Statements for FY 2003 (Proj. No. D2004FJ-0033)-- RESPONSE

CONCUR that the Commander, U.S. Army Corps of Engineers, direct the Director of Civil Works to continue to take action to enforce existing policy that requires that all of its activities use all available methods to properly value equipment for which no historical documentation exists by September 30, 2004.

FOR THE COMMANDER:

  
JOHN E. TEMPLETON  
Chief, Internal Review Office

## **Team Members**

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Defense Financial Auditing Service prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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