

Audit



Report

REPORTING OF DOD INVENTORY AND OPERATING
MATERIALS AND SUPPLIES ON THE FY 1997 DOD
CONSOLIDATED FINANCIAL STATEMENTS

Report Number 99-032

November 5, 1998

Office of the Inspector General
Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
WCF	Working Capital Fund



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

November 5, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Audit Report on the Reporting of DoD Inventory and Operating Materials
and Supplies on the FY 1997 DoD Consolidated Financial Statements
(Report No. 99-032)

We are providing this report for review and comment. This is the second in a series of reports on the FY 1997 DoD Consolidated Financial Statements. The Under Secretary of Defense (Comptroller) did not respond to the draft report. We request the Under Secretary of Defense (Comptroller) provide comments on this final report that conform to the requirements of DoD Directive 7650.3 by December 7, 1998.

The courtesies extended to the audit staff are appreciated. If you have questions on this audit, please contact Mr. Richard B. Bird at (703) 604-9175 (DSN 664-9175) (rbird@dodig.osd.mil) or Mr. Jack L. Armstrong at (317) 542-3846 (DSN 699-3846) (jarmstrong@dodig.osd.mil). Appendix C lists the planned distribution of this report. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 99-032
(Project No. 7FI-2030.02)

November 5, 1998

**Reporting of DoD Inventory and Operating
Materials and Supplies on the FY 1997 DoD
Consolidated Financial Statements**

Executive Summary

Introduction. This is the second in a series of reports on the FY 1997 DoD Consolidated Financial Statements. The first report discussed internal controls and compliance with laws and regulations for the financial statements.

The Chief Financial Officers (CFO) Act of 1990, as amended by the Federal Financial Management Act of 1994, requires DoD and other Federal agencies to prepare audited financial statements annually. The Defense Finance and Accounting Service performs accounting functions and prepares financial statements for DoD. The Defense Finance and Accounting Service, the Office of the Under Secretary of Defense (Comptroller), and the DoD Components are responsible for the DoD financial statements.

Statements of Federal Financial Accounting Standards, the Office and Management and Budget guidance on form and content, and the DoD guidance on form and content provide guidance to be used in preparing financial statements. All of these documents define Inventory and Operating Materials and Supplies. Inventory is defined as tangible personal property held for sale or used in the process of production of goods for sale; it is material designed to be consumed in the production of goods for sale or used in the provision of services for a fee. Operating Materials and Supplies is defined as tangible personal property to be consumed in normal operations.

The FY 1997 DoD Consolidated Financial Statements consisted of data from 16 separate DoD Components. The Statement of Financial Position reported assets, liabilities, and net position of DoD. DoD assets totaled \$1,330 billion in FY 1997, of which \$61.3 billion was inventory and \$1.5 billion was Operating Materials and Supplies. Total liabilities of \$949 billion were also reported in FY 1997.

Audit Objectives. The overall audit objective was to determine whether the FY 1997 DoD Consolidated Financial Statements were presented fairly in accordance with the Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as supplemented by the Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996. On February 27, 1998, we issued a disclaimer of opinion on the FY 1997 DoD Consolidated Financial Statements. We issued our report on internal controls and compliance with laws and regulations on June 22, 1998.

Our specific audit objective was to determine whether DoD properly classified inventory and operating materials and supplies on the FY 1997 DoD Consolidated Financial Statements. We also evaluated the management control program for the reporting of assets at the DoD consolidated level.

Audit Results. Operating Materials and Supplies were improperly classified as Inventory on the FY 1997 DoD Consolidated Financial Statements. The Defense Finance and Accounting Service prepared the FY 1997 DoD Consolidated Financial Statements by inputting data from the DoD Components' financial statements into a spreadsheet application, adding the corresponding line items together, and applying eliminating entries to the appropriate line items to exclude the effects of financial transactions among the DoD Components. Most assets held as inventory by the individual DoD Components are intended for sale to other DoD activities and were properly classified as Inventory on the DoD Component financial statements. However, when the data are compiled into the DoD Consolidated Financial Statements, these assets no longer meet the definition of Inventory because they are not being held for sale outside DoD. Instead, the assets meet the definition of Operating Materials and Supplies and should be reclassified by making an adjusting entry.

On the FY 1997 DoD Consolidated Financial Statements, inventory was erroneously reported at \$61.3 billion and Operating Materials and Supplies was reported at \$1.5 billion. The Inventory line item on the FY 1997 DoD Consolidated Financial Statements was overstated by approximately \$56.2 billion, and the Operating Materials and Supplies line item was understated by the same amount. See Part I for details of the audit results.

Summary of Recommendation. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," to include procedures for identifying the amount of inventory held for sale as reported on the DoD Components' financial statements, and for reclassifying this amount as Operating Materials and Supplies on the DoD Consolidated Financial Statements.

Management Comments. The Under Secretary of Defense (Comptroller) did not respond to a draft report issued on August 12, 1998. We request the Under Secretary of Defense (Comptroller) provide comments on the final report by December 7, 1998.

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Part I - Audit Results

Audit Background

This is the second in a series of audit reports on the FY 1997 DoD Consolidated Financial Statements. The first report discussed internal controls and compliance with laws and regulations for the financial statements. This report discusses the Inventory and Operating Materials and Supplies (OM&S) line items on the FY 1997 DoD Consolidated Financial Statements.

Public Law. 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, requires DoD and other Federal agencies to prepare audited financial statements annually. The FY 1997 DoD Consolidated Financial Statements consisted of the financial statements for the DoD Components listed in the table below.

DoD Components Included in FY 1997 DoD Consolidated Financial Statements	
Army General Fund	Army Working Capital Fund
Navy General Fund	Navy Working Capital Fund
Air Force General Fund	Air Force Working Capital Fund
Army Corps of Engineers	Defense Logistics Agency
Defense Information Systems Agency	U.S. Transportation Command
Defense Commissary Agency	Military Retirement Trust Fund
National Defense Stockpile Fund	Joint Logistics Systems Center
Defense Finance and Accounting Service	Other Appropriated Fund Defense Agencies*

*Accounting data for Other Appropriated Fund Defense Agencies were included in the FY 1997 DoD Consolidated Financial Statements, but separate statements were not issued. DoD did not include financial data for the Defense Security Assistance Agency in the DoD Consolidated Financial Statements.

Accounting Functions and Responsibilities. The Defense Finance and Accounting Service (DFAS) performs accounting functions and prepares financial statements for DoD. DFAS operates under the direction of the Under Secretary of Defense (Comptroller). The Office of the Under Secretary of Defense (Comptroller) and DFAS jointly prepared the FY 1997 DoD Consolidated Financial Statements.

DFAS is responsible for entering information from DoD Components into the financial systems, operating and maintaining the financial systems, and ensuring the continued integrity of the information entered. The DoD Components are responsible for providing accurate financial information to DFAS.

Statement of Financial Position. The Statement of Financial Position reported the assets, liabilities, and net position of DoD. DoD assets totaled \$1,330 billion in FY 1997, of which \$61.3 billion was inventory and \$1.5 billion was OM&S. Total liabilities of \$949 billion were also reported in FY 1997.

Audit Objectives

The overall audit objective was to determine whether the FY 1997 DoD Consolidated Financial Statements were presented fairly in accordance with the Office of Management and Budget (OMB) Bulletin 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as supplemented by OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," October 16, 1996. These Bulletins incorporate the Statements of Federal Financial Accounting Standards (SFFAS) and Concepts recommended by the Federal Accounting Standards Advisory Board, which are approved by the Secretary of the Treasury; the Director, OMB; and the Comptroller General of the United States. We assessed internal controls and compliance with laws and regulations. On February 28, 1998, we issued a disclaimer of opinion on the FY 1997 DoD Consolidated Financial Statements. We issued our report on internal controls and compliance with laws and regulations on June 22, 1998.

As part of this audit, we determined whether DoD properly classified Inventory and OM&S on the FY 1997 DoD Consolidated Financial Statements. We also evaluated the management control program for the reporting of assets at the DoD consolidated level. Appendix A discusses the scope, methodology, and management control program, and includes a summary of prior audit coverage.

Reclassification of DoD Inventory

OM&S were improperly classified as Inventory on the FY 1997 DoD Consolidated Financial Statements. DFAS did not reclassify Inventory reported on the DoD Components' financial statements as OM&S on the DoD Consolidated Financial Statements. As a result, Inventory on the FY 1997 DoD Consolidated Financial Statements was overstated by approximately \$56.2 billion, and OM&S was understated by the same amount.

Guidance for Financial Statements

Guidance for presenting assets on the financial statements is found in the following publications.

- The SFFAS and Concepts, known as Federal Generally Accepted Accounting Principles when adopted by the Secretary of the Treasury; the Director, OMB; and the Comptroller General of the United States, provide accounting standards to be followed by Federal agencies. SFFAS No. 3, "Accounting for Inventory and Related Property," October 27, 1993, gives accounting standards for several types of tangible property, other than long-term fixed assets, held by Federal agencies.
- OMB No. 94-01, as supplemented by OMB Bulletin No. 97-01, provides a framework for agencies to use in providing financial information to the Congress, agency managers, and the public.
- DoD 7000.14-R, the "DoD Financial Management Regulation," volume 6, January 1998, expands on the OMB guidance and gives specific directions for preparing the DoD financial statements for FY 1997 and beyond.

Each of these publications includes the following definitions of Inventory and OM&S.

- Inventory is tangible personal property that is held for sale, in the process of production for sale, to be consumed in the production of goods for sale, or in the provision of services for a fee.
- OM&S consists of tangible personal property to be consumed in normal operations.

Consolidation of DoD Financial Statements

DoD did not classify Inventory from the DoD Components' financial statements as OM&S on the DoD Consolidated Financial Statements. This reclassification was required by SFFAS No. 3 and OMB and DoD guidance. The DFAS Indianapolis

Center is responsible for preparing the DoD Consolidated Financial Statements. Personnel from the DFAS Indianapolis Center prepare the DoD Consolidated Financial Statements by entering data from the DoD Components' financial statements into a spreadsheet application, adding the corresponding line items together, and applying eliminating entries to the appropriate line items to exclude the effects of financial transactions among the DoD Components. On the FY 1997 DoD Consolidated Financial Statements, Inventory was erroneously reported at \$61.3 billion, and OM&S was erroneously reported at \$1.5 billion.

Most assets held as Inventory by the individual DoD Components are intended for sale to other DoD activities and should be reported as OM&S on the DoD Consolidated Financial Statements. For example, most Inventory items held by the Defense Logistics Agency (DLA) are intended for sale to other DoD Components, such as Army appropriated fund activities. Because the items are held for sale to parties outside of DLA, the amounts reported on the DLA financial statements are properly classified as Inventory. However, when the data are compiled into the DoD Consolidated Financial Statements, these assets no longer meet the definition of Inventory because they are not being held for sale outside DoD. Instead, the assets meet the definition of OM&S and should be reclassified by making an adjusting entry. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," does not provide guidance for reclassifying inventory as OM&S on the DoD Consolidated Financial Statements.

Amount to be Reclassified

Approximately \$56.2 billion of the \$61.3 billion reported as Inventory on the FY 1997 DoD Consolidated Financial Statements should have been reclassified as OM&S. We used a methodology that compared the percentage of revenue generated from sales to activities outside DoD to total revenues shown on selected financial statements of the DoD Components. We developed this methodology because of the relationship between the inventory and revenue line items (when an activity sells inventory, revenue is generated). See Appendix A for a full explanation of our methodology and Appendix C for the details of our calculation.

The results of other DoD financial statement audits may affect the actual amount of Inventory and OM&S to be reported on the FY 1997 DoD Consolidated Financial Statements. Our methodology did not consider the effects of other audit findings related to the OM&S and Inventory line items as reported in the FY 1997 DoD Components or DoD Consolidated Financial Statements.

Summary

The Inventory and OM&S line items on the FY 1997 DoD Consolidated Financial Statements were materially misstated. The FY 1997 DoD Consolidated Financial Statements reported \$61.3 billion of Inventory. Most of these assets were held for sale to other DoD Components, and were properly classified as Inventory on the individual DoD Components' financial statements. However, when data on these

Reclassification of DoD Inventory

assets were combined on the DoD Consolidated Financial Statements, the assets no longer met the definition of Inventory because they were being held for sale within DoD. Assets held for sale within DoD should have been reclassified as OM&S. We estimated that approximately \$56.2 billion of assets that were reported as Inventory on the FY 1997 DoD Consolidated Financial Statements should have been reclassified as OM&S.

If DoD does not take corrective action regarding the classification of Inventory and Operating Materials at the DoD level, the footnotes to the FY 1998 DoD Consolidated Financial Statement will be materially misstated. The format of the financial statements will be modified for FY 1998. OMB Bulletin 97-01, defines the form and content of financial statements beginning in FY 1998. This bulletin modifies the reporting of Inventory and OM&S. For FY 1998 Inventory and Operating Materials and Supplies, along with other line items, will be combined into the Inventory and Related Property line item. However, Note 8 to the financial statements will subdivide these assets into multiple categories including Inventory and OM&S.

Reclassifying Inventory not held for sale outside DoD as OM&S is consistent with the FY 1997 Consolidated Financial Statements of the United States. Note 5 to the FY 1997 Consolidated Financial Statements of the United States reported \$162 billion of OM&S and \$1.7 billion of Inventory.

Recommendations for Corrective Action

We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, "DoD Financial Management Regulation," to include procedures for:

1. Identifying the amount of inventory reported on the DoD Components' financial statements that is held for sale within DoD , and
2. Reclassifying this amount as Operating Materials and Supplies on the DoD Consolidated Financial Statements.

Management Comments Required

The Under Secretary of Defense (Comptroller) did not comment on a draft of this report. We request the Under Secretary of Defense (Comptroller) provide comments on the final report.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed the presentation of Inventory and OM&S line items on the FY 1997 DoD Consolidated Financial Statements and the supporting footnotes. We reviewed SFFAS No. 3 as it applied to the reporting of Inventory and OM&S, as well as form and content guidance issued by OMB and DoD. The FY 1997 DoD Consolidated Financial Statements reported \$63.3 billion for Inventory and \$1.5 billion for OM&S. The sum of Inventory and OM&S is material to the DoD Consolidated Financial Statements.

DoD-wide Corporate Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, the DoD has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

- **Objective:** Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD missions areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Objective:** Reengineer DoD business practices. **Goal:** Standardize, reduce, clarify, and reissue financial management policies. **(FM-4.1)**
- **Objective:** Strengthen internal controls. **Goal:** Improve compliance with the FMFIA. **(FM-5.3)**

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

Methodology

We analyzed the FY 1997 DoD Consolidated Financial Statements, the FY 1997 financial statements of selected DoD Components, and supporting footnotes. We also analyzed accounting data in the FY 1997 DoD Consolidated Financial Statements for Defense agencies receiving appropriated funds. We reviewed the procedures and policies that DFAS used to compile the FY 1997 DoD Consolidated Financial Statements. We interviewed DFAS personnel regarding the compilation of the DoD Consolidated Financial Statements.

Calculation of Amount to be Reclassified as OM&S. We estimated the amount of inventory to be reclassified as OM&S by calculating the revenue generated outside DoD as a percentage of total revenues shown on selected financial statements of the DoD Components. We applied this percentage to the total amount reported on the Inventory line item to obtain the amount that should be reported as Inventory at the DoD Consolidated level; all other amounts should be reclassified as OM&S. We developed this methodology because of the relationship between the Inventory and Revenue line items (when an activity sells inventory, revenue is generated). We included amounts reported for DoD Working Capital Fund (WCF) activities whose general purpose is to sell items to other DoD activities such as the DLA and the Navy WCF. We excluded DoD WCF activities, such as the Defense Information Systems Agency, that generate revenues by providing services to other DoD activities. We also included data from the Army General Fund and Air Force General Fund financial statements. Overall, we reviewed accounting data from DoD Components' financial statements that reported \$60.8 billion of the \$61.3 billion total inventory shown on the FY 1997 DoD Consolidated Financial Statements.

Use of Computer-Processed Data. We could not rely on the computer-processed data used to prepare the FY 1997 DoD Consolidated Financial Statements. Because DoD accounting and related systems were unreliable, the DoD Financial Statements were unauditible. DoD has acknowledged deficiencies in financial management systems in its FY 1997 Annual Statement of Assurance and management representation letter. The unreliable computer-processed data were used in the preparation of the financial statements and in this report because they were the only financial data available. Our reviews of the adequacy of existing and proposed financial management systems are continuing.

Audit Period and Standards. We performed this financial-related audit during the period February through April 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of management controls as were considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD and the General Accounting Office. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires 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 controls.

Scope of Review of the Management Control Program. As part of our overall objective of determining whether the FY 1997 DoD Consolidated Financial Statements were presented fairly, we also reviewed the adequacy of internal controls (including the management control program) for the proper reporting of assets, liabilities, revenues, expenses, and related supplementary information. As part of our review of

Appendix A. Audit Process

internal controls, we examined the adequacy of management controls over the reporting of Inventory and OM&S on the FY 1997 DoD Consolidated Financial Statements. We also examined management's self-evaluation applicable to those controls.

Adequacy of Management Controls. Management controls over the reporting of assets on the FY 1997 DoD Consolidated Financial Statements were not adequate to ensure that all assets were properly classified. DoD did not establish procedures for identifying the amount of inventory held by DoD Components for sale to other DoD activities; therefore, DoD did not make the proper adjusting entry to reclassify these assets as OM&S on the FY 1997 DoD Consolidated Financial Statements. The recommendation in this audit report, if implemented, will correct this material weakness and improve the preparation of the financial statements. A copy of the final report will be provided to the senior official responsible for management controls in DoD.

Adequacy of Management's Self-Evaluation. In its FY 1997 Annual Statement of Assurance, DoD acknowledged material management control weaknesses in its financial accounting processes and systems. These weaknesses prevent DoD from complying with all accounting standards. The Annual Statement of Assurance did not specifically address the proper identification and reporting of the DoD Components' Inventory line item on the DoD Consolidated Financial Statements.

Summary of Prior Coverage

General Accounting Office Report No. AIMD-98-16 (OSD Case No. 1482, "DoD's Fiscal Year 1996 Financial Statements Inventory Reporting Does Not Meet Standards," December 1997.

IG, DoD, Report No. 98-161, "Internal Controls and Compliance With Laws and Regulations for the DoD Consolidated Financial Statements for FY 1997," June 22, 1998.

Appendix B. Calculation of Amounts to be Reclassified as Operating Materials and Supplies

To calculate the amount of inventory reported on the FY 1997 DoD Consolidated Financial Statements, we used data reported on the FY 1997 Financial Statements of the Army, Navy, Air Force, and DLA WCFs, the Department of the Army, and the Department of the Air Force. We calculated the percentage of revenue generated by non-DoD organizations as part of total revenue and multiplied this percentage by total inventory reported on each of these financial statements. This calculation identified the amount of inventory reported on the DoD Components' financial statements that should also be reported as inventory on the DoD Consolidated Financial Statements. We then subtracted this amount from total inventory to calculate the amount that should be reclassified as OM&S.

	(Thousands)
Summary of Amounts to be Reclassified as OM&S	
Army Working Capital Fund	\$10,100,898
Navy Working Capital Fund	12,631,238
Air Force Working Capital Fund	21,740,949
Defense Logistics Agency Working Capital Fund	9,414,132
Department of the Army	1,313,630
Department of the Air Force	<u>993,925</u>
Total Amount to be Reclassified as OM&S	\$56,194,772

Appendix B. Calculation of Amounts to be Reclassified As Operating Materials and Supplies

Army Working Capital Fund	(Thousands)
Revenue: Public	\$ 68,118
+ Revenue: Intragovernmental	<u>9,489,006</u>
Total Revenue	9,557,124
Revenue: Public	68,118
+ Revenue Generated by Other Federal Agencies (Schedule D)	<u>11,713</u>
Total Revenue Generated Outside DoD	79,831
Total Revenue Generated Outside DoD	79,831
÷ Total Revenue	<u>9,557,124</u>
Percentage of Revenue Generated Outside DoD	0.84%
Total Army Working Capital Fund Inventory	10,186,464
X Percentage of Revenue Generated Outside DoD	<u>0.84%</u>
Amount to be Reported as Inventory on DoD Consolidated Financial Statements	85,566
Total Army Working Capital Fund Inventory	10,186,464
- Amount to be Reported as Inventory on DoD Consolidated Financial Statements	<u>85,566</u>
Amount to be Reclassified as OM&S	\$10,100,898

Appendix B. Calculation of Amount to be Reclassified as Operating Materials and Supplies

Navy Working Capital Fund	(Thousands)
Revenue: Public	\$ 101,078
+ Revenue: Intragovernmental	<u>19,012,895</u>
Total Revenue	19,113,973
Revenue: Public	101,078
+ Revenue Generated by Other Federal Agencies (Schedule D)	<u>646,614</u>
Total Revenue Generated Outside DoD	747,692
Total Revenue Generated Outside DoD	747,692
÷ Total Revenue	<u>19,113,973</u>
Percentage of Revenue Generated Outside DoD	3.9%
Total Navy Working Capital Fund Inventory	13,145,216
X Percentage of Revenue Generated Outside DoD	<u>3.9%</u>
Amount to be Reported as Inventory on DoD Consolidated Financial Statements	512,663
Total Navy Working Capital Fund Inventory	13,145,216
- Amount to be Reported as Inventory on DoD Consolidated Financial Statements	<u>512,663</u>
Amount to be Reclassified as OM&S	\$12,632,553

Appendix B. Calculation of Amounts to be Reclassified As Operating Materials and Supplies

Air Force Working Capital Fund	(Thousands)
Revenue: Public	\$ 334,834
+ Revenue: Intragovernmental	<u>12,313,470</u>
Total Revenue	12,648,304
Revenue: Public	334,834
+ Revenue Generated by Other Federal Agencies (Schedule D)	<u>1,103,599</u>
Total Revenue Generated Outside DoD	1,438,433
Total Revenue Generated Outside DoD	1,438,433
÷ Total Revenue	<u>12,648,304</u>
Percentage of Revenue Generated Outside DoD	11.37%
Total Air Force Working Capital Fund Inventory	24,530,011
X Percentage of Revenue Generated Outside DoD	<u>11.37%</u>
Amount to be Reported as Inventory on DoD Consolidated Financial Statements	2,789,062
Total Air Force Working Capital Fund Inventory	24,530,011
- Amount to be Reported as Inventory on DoD Consolidated Financial Statements	<u>2,789,062</u>
Amount to be Reclassified as OM&S	\$21,740,949

Appendix B. Calculation of Amount to be Reclassified as Operating Materials and Supplies

Defense Logistics Agency Working Capital Fund	(Thousands)
Revenue: Public	\$ 364,690
+ Revenue: Intragovernmental	<u>12,263,255</u>
Total Revenue	12,627,945
Revenue: Public	364,690
+ Revenue Generated by Other Federal Agencies (Schedule D)	<u>164,273</u>
Total Revenue Generated Outside DoD	528,963
Total Revenue Generated Outside DoD	528,963
÷ Total Revenue	<u>12,627,945</u>
Percentage of Revenue Generated Outside DoD	4.18%
Total DLA Working Capital Fund Inventory	9,824,808
X Percentage of Revenue Generated Outside DoD	<u>4.18%</u>
Amount to be Reported as Inventory on DoD Consolidated Financial Statements	410,676
Total DLA Working Capital Fund Inventory	9,824,808
- Amount to be Reported as Inventory on DoD Consolidated Financial Statements	<u>410,676</u>
Amount to be Reclassified as OM&S	\$9,414,132

Appendix B. Calculation of Amounts to be Reclassified As Operating Materials and Supplies

Department of the Army	(Thousands)
Revenue: Public	\$ 497,750
+ Revenue: Intragovernmental	<u>5,384,010</u>
Total Revenue	5,881,760
Revenue: Public	497,750
+ Revenue Generated by Other Federal Agencies (Schedule D)	<u>322,705</u>
Total Revenue Generated Outside DoD	820,455
Total Revenue Generated Outside DoD	820,455
÷ Total Revenue	<u>5,881,760</u>
Percentage of Intragovernmental Revenue to Total Revenue	13.95%
Total Department of the Army Inventory	1,526,589
X Percentage of Revenue Generated Outside DoD	<u>13.95%</u>
Amount to be Reported as Inventory on DoD Consolidated Financial Statements	212,959
Total Department of the Army Inventory	1,526,589
- Amount to be Reported as Inventory on DoD Consolidated Financial Statements	<u>212,959</u>
Amount to be Reclassified as OM&S	\$1,313,630

Appendix B. Calculation of Amount to be Reclassified as Operating Materials and Supplies

Department of the Air Force	(Thousands)
Revenue: Public	\$ 181,231
+ Revenue: Intragovernmental	<u>2,906,769</u>
Total Revenue	3,088,000
Revenue: Public	181,231
+ Revenue Generated by Other Federal Agencies (Schedule D)	<u>1,021,710</u>
Total Revenue Generated Outside DoD	1,202,941
Total Revenue Generated Outside DoD	1,202,941
÷ Total Revenue	<u>3,088,000</u>
Percentage of Revenue Generated Outside DoD	38.95%
Total Department of the Air Force Inventory	1,628,051
X Percentage of Revenue Generated Outside DoD	<u>38.95%</u>
Amount to be Reported as Inventory on DoD Consolidated Financial Statements	634,126
Total Department of the Air Force Inventory	1,628,051
- Amount to be Reported as Inventory on DoD Consolidated Financial Statements	<u>634,126</u>
Amount to be Reclassified as OM&S	\$993,925

Appendix C. Report Distribution

Office of the Secretary of Defense

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Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations and Individuals

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

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

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology, Committee
on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice,
Committee on Government Reform and Oversight
House Committee on National Security

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