

Inspector General

United States
Department of Defense



Independent Auditor's Report on the Examination
of the Existence, Completeness, and Rights of
the Department of the Air Force's Uninstalled
Missile Motors and Spare Engines

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INSPECTOR GENERAL
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January 14, 2013

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

SUBJECT: Independent Auditor's Report on the Examination of the Existence,
Completeness, and Rights of the Department of the Air Force's Uninstalled
Missile Motors and Spare Engines (Report No. DODIG-2013-038)

We are providing this report for information and use. No written response to this report was required. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 664-5945).

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

Lorin T. Venable, CPA
Acting Assistant Inspector General
DoD Payments and Accounting Operations



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ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
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SUBJECT: Independent Auditor's Report on the Examination of the Existence, Completeness, and Rights of the Department of the Air Force's Uninstalled Missile Motors and Spare Engines (Report No. DODIG-2013-038)

We examined management's assertions of audit readiness¹ for the existence, completeness, and rights of the Department of the Air Force's uninstalled missile motors and spare engines, which the Air Force categorized as operating materials and supplies. As a result of our review of the Air Force's assertions, we performed an examination of the existence, completeness, and rights of the Air Force's uninstalled missile motors and spare engines as of June 29, 2012. The Air Force's assertions contained 1,556 uninstalled missile motors and 4,652 spare engines.² The Air Force's assertion packages did not assert audit readiness for any other asset categories; therefore, we excluded all other asset classes from our examination. The Air Force's assertions specifically excluded a reconciliation of the summary schedule of assets to the general ledger. Therefore, our examination solely focused on the assets in the Accountable Property Systems of Record (APSR) and did not determine whether the APSR reconciled to the general ledger. The APSR for spare engines is the Comprehensive Engine Management System (CEMS) and the APSR for uninstalled missile motors is the Integrated Missile Database system.

Air Force management is responsible for its assertions of audit readiness. Our responsibility is to express an opinion on the assertions based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and in compliance with generally accepted government auditing standards. Those standards require examining, on a test basis, evidence supporting the Air Force's assertions of audit readiness of the existence, completeness, and rights of its mission critical assets and performing other procedures we consider necessary. We believe that our examination provides a reasonable basis for our opinion on management's assertions.

¹ Audit readiness per the December 2011 DoD Financial Improvement and Audit Readiness guidance. Specifically, Appendix C, Wave 3 – Mission Critical Asset Existence and Completeness Audit Key Supporting Documents and Appendix D.

² See the Attachment for tables showing the significance of the uninstalled missile motor and spare engine categories the Air Force included in its assertions.

Our examination disclosed deficiencies associated with aircraft and cruise missile engines managed by the 309th Aerospace Maintenance and Regeneration Group (AMARG). AMARG managed 694 (15 percent) of the 4,652 engines that the Air Force included in its spare engine assertion as of June 29, 2012. Our October 2012 site visit testing of 129 engines at AMARG identified 33 existence, completeness, and classification deficiencies. AMARG officials informed us that they conducted their physical inventories of engines using data in their AMARG Business System, MAXIMO Asset and Production management module,³ and that they had recently identified numerous potential discrepancies between engine information in MAXIMO and engine information in CEMS. Specifically, in October 2012 they initiated a reconciliation between CEMS and MAXIMO and identified 383 potential discrepancies, including engines in MAXIMO that were not in CEMS, engines in CEMS that were not in MAXIMO, and engines that CEMS identified as uninstalled but MAXIMO identified as being installed. Because this reconciliation occurred after the June 29, 2012, Air Force assertion date and involved numerous potential discrepancies, we cannot attest to the accuracy of engines at AMARG. On December 7, 2012, the Air Force provided us a detailed corrective action plan to improve the financial reporting of AMARG engines and the estimated completion date is June 2013.

In our opinion, except for the deficiencies associated with the quantities and classification of AMARG engines described in the preceding paragraph, the Air Force's assertion of audit readiness for the existence, completeness, and rights of its uninstalled missile motors and spare engines, as of June 29, 2012, is fairly stated in all material respects.

Internal Controls

Internal controls are important for safeguarding assets. Management designs internal controls to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or detected and corrected in a timely manner. During our examination, we identified internal control issues, but they did not preclude us from reaching an opinion regarding the Air Force's assertion. However, management should consider additional actions to improve the internal controls to ensure the sustainability of its processes in accounting for the existence, completeness, and rights of its uninstalled missile motors and spare engines.

We identified the following internal control issues.

- The Air Force's controls over the completeness and classification of spare engines for the MQ-9 Reaper remotely piloted aircraft needed improvement. Our completeness testing identified 3 engines not reported in CEMS, and our existence testing identified 16 spare engines installed in aircraft before the June 29, 2012, assertion date. The Air Force initiated a corrective action plan to improve the financial reporting of MQ-9 engines and identified an additional 18 engines that it had not loaded in CEMS. There were 111 spare remotely piloted aircraft engines in CEMS as of June 29, 2012, which represented only 2 percent of the total asserted spare engine population.

³ MAXIMO is a module within the AMARG Business System used to track, control, and manage AMARG assets to meet all operational maintenance aspects.

- The Air Force’s controls over updating CEMS for spare engine installations needed improvement. According to Air Force policy,⁴ personnel should report engine installations to CEMS no later than close of business the next business day following the date/time of the occurrence. Our sample testing identified 21 engines installed in aircraft before the June 29, 2012, Air Force assertion date, and the average time from installation until the CEMS update was 67 days.
- The Air Force did not classify any spare engines or uninstalled missile motors as excess, obsolete, or unserviceable in its assertion packages. However, we identified several situations in which spare engines and uninstalled missile motors met DoD criteria for excess, obsolete or unserviceable assets. The DoD Financial Management Regulation, Volume 4, Chapter 4, “Inventory and Related Property,” defines excess operating materials and supplies (serviceable or unserviceable) as items that exceed the amount expected to be used in normal operations and that do not meet management’s criteria to be held in reserve for future use. Obsolete operating materials and supplies include stock no longer needed because of changes in technology, laws, customs, or operations. Unserviceable operating materials and supplies are physically damaged items that cannot be consumed in operations. The Air Force should determine a consistent methodology with respect to classifying spare engines and uninstalled missile motors as excess, obsolete, or unserviceable, considering the following situations:
 - Our sample testing identified 34 engines that the Air Force formally approved for disposal before June 29, 2012, and were awaiting either disposal action or certification of disposal completion through parts reclamation, strategic materials recovery, or demilitarization.⁵
 - Our sample testing identified 11 aircraft engines that the Air Force used as maintenance training spares. These were often older models of engines that were similar enough for training purposes, but the Air Force no longer used them to fly aircraft. The Air Force also converted, or was in the process of converting, 92 cruise missile engines into weapons load and technical school training assets. Air Force personnel informed us that they did not plan to convert the assets back for regular service.
 - The Air Force’s population of spare engines included 628 held in long term storage under Stock Record Account Number 20ST. Air Force personnel informed us that they plan to use a limited number of these engines for future QF-16 aerial targets but would use a majority of them for spare parts or otherwise dispose of them.⁶
 - The June 29, 2012, population of uninstalled missile motors included 991 that the Air Force maintained as part of its Rocket System Launch Program (RSLP). RSLP does not use these motors in weapons systems, and it refers to these motors as rocket

⁴ Air Force Technical Order 00-25-254-1

⁵ Our sample testing also identified an additional 28 engines at AMARG that the Air Force had formally approved for disposal before June 29, 2012.

⁶ In addition to the 628 engines held in long term storage under Stock Record Account Number 20ST, the population of spare engines also included 694 potentially excess engines held in long term storage at AMARG.

motors. The RSLP Program Office provides flight test mission integration, program management, and other support, to include transportation, storage, refurbishment, and launch of excess missile assets⁷ to support national research and development objectives on a cost reimbursable basis. As part of the RSLP, the Air Force assembles assets into a variety of launch vehicle configurations, depending on the mission. RSLP officials informed us that since 2010 they have used only 28 motors for missions, which equates to an average usage of 9 per year. Air Force officials informed us that since 2011, RSLP has identified 475 rocket motors for demilitarization/destruction and that to date RSLP has demilitarized, destroyed or transferred 158 rocket motors. Air Force officials also informed us that they continue to advocate for funding to continue these efforts.

- The June 29, 2012, population of uninstalled missile motors included 81 that the Air Force maintained as part of its Intercontinental Ballistic Missile Program. However, these motors supported decommissioned Intercontinental Ballistic Missile Minuteman II and Peacekeeper platforms.

Improving these internal control processes will help the Air Force repeat and sustain the processes during future financial statement examinations.

This report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Assistant Secretary of the Air Force (Financial Management and Comptroller) and is not intended to be and should not be used by anyone else. However, this report is a matter of public record, and its distribution is not limited.



Lorin T. Venable, CPA
Acting Assistant Inspector General
DoD Payments and Accounting Operations

Attachment:
As stated

⁷ These consist of deactivated missile assets, predominantly from retired Intercontinental Ballistic Missile platforms such as the Minuteman II and Peacekeeper.

Attachment. Significance of Asserted Asset Categories

The tables below show the significance of the total number of assets for all asset categories that the Air Force compiled in its spare engine and uninstalled missile motors assertions as reported in the APSRs as of June 29, 2012. Because the Air Force's assertions specifically excluded a reconciliation of the summary schedule of assets to the general ledger, we compared only the significance of the asserted assets to the total number of all asserted assets reported in the APSRs.

Table A1. Significance of Spare Engine Categories in the Air Force Assertion

Spare Engine Category	Number of Assets in the APSR	Percent of Total
Aircraft - Piloted	4,285	92
Cruise Missile	256	6
Aircraft - Remotely Piloted	111	2
Total	4,652	100

Table A2. Significance of Uninstalled Missile Motor Categories in the Air Force Assertion

Uninstalled Missile Motor Category	Number of Assets in the APSR	Percent of Total
Rocket System Launch Program	991	64
Intercontinental Ballistic Missile	565	36
Total	1,556	100



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