

**Audit**



**Report**

OFFICE OF THE INSPECTOR GENERAL

DEFENSE CONTRACT MANAGEMENT COMMAND  
CAPITALIZATION OF FIXED ASSETS

Report No. 97-107

March 10, 1997

19991026 066

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Department of Defense

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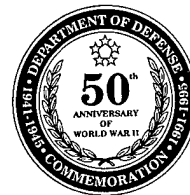
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### **Acronyms**

DCMC	Defense Contract Management Command
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884



March 10, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY  
COMMANDER, DEFENSE CONTRACT MANAGEMENT  
COMMAND

SUBJECT: Audit Report on the Defense Contract Management Command  
Capitalization of Fixed Assets (Report No. 97-107)

This report is one in a series of reports on our assessment of the internal controls and the compliance of the Defense Logistics Agency and the Defense Finance and Accounting Service with laws and regulations relating to financial management at the Defense Logistics Agency (Project No. 6LA-2005). We have issued final reports on the Defense Logistics Agency general fund trial balance, the general fund equipment account, and the preparation of the general fund financial statements. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Director, Defense Logistics Agency either concurred or partially concurred with all recommendations. We request that the Defense Logistics Agency provide the results of the analysis conducted in response to Recommendation 2. by May 9, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Garry A. Hopper, Acting Audit Program Director, at (703) 604-9612 (DSN 664-9612) or Mr. Gerald L. Werking, Acting Audit Project Manager, at (703) 604-9459 (DSN 664-9459). See Appendix D for the report distribution. The audit team members are listed on the inside back cover.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

Office of the Inspector General, DoD

Report No. 97-107  
(Project No. 6LA-2005.03)

March 10, 1997

Defense Contract Management Command  
Capitalization of Fixed Assets

Executive Summary

**Introduction.** This report is one in a series of reports on our assessment of the internal controls and the compliance of the Defense Logistics Agency (DLA) and the Defense Finance and Accounting Service with laws and regulations relating to financial management at DLA (Project No. 6LA-2005). The Chief Financial Officers Act of 1990 (Public Law 101-576) establishes requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. The Government Management Reform Act of 1994 (Public Law 103-356) requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. The consolidated DoD financial statements for FY 1996 will include the financial statements for DLA.

We have issued three final reports on financial management at DLA. The reports covered the general fund trial balance, general fund equipment account, and the preparation of the general fund financial statements. DLA reported total general fund assets of \$1,807 million and general fund fixed assets of \$411 million for yearend FY 1995, which becomes the beginning balance for FY 1996. The Defense Contract Management Command field organizations we visited reported approximately \$48 million in total property for FY 1996.

**Audit Objectives.** The audit objective was to determine whether the Defense Logistics Agency and the Defense Finance and Accounting Service had implemented effective management control procedures and complied with laws and regulations in accounting for and reporting on certain accounting transactions. Specifically, we evaluated the accounting controls over fixed asset acquisition and capitalization.

**Audit Results.** The Defense Contract Management Command did not capitalize fixed assets. As a result, the accounting system general ledger accounts for the Defense Contract Management Command inaccurately accounted for \$6.3 million in fixed assets for financial statement reporting.

The management control program could be improved because we identified a material weakness applicable to the audit objective (Appendix A).

**Summary of Recommendations.** We recommend that the Commander, Defense Contract Management Command, establish appropriate accounting controls to ensure that equipment procurements are analyzed before entering data into the accounting system. We also recommend that the Command record computer systems valued at \$5.5 million and other systems valued at \$0.8 million in the general ledger account.

**Management Comments.** The DLA agreed to establish accounting controls to ensure that equipment acquisitions are analyzed to determine whether the capitalization criteria is met before the transaction is entered into the accounting system. The expected completion date is December 30, 1997. It also partially concurred with the

recommendation to record computer systems and other systems in the fixed assets general ledger account. It further stated that it had not completed its analysis to determine whether the procurements met the capitalization criteria and the definition of a system. The analysis is to be completed by March 31, 1997. Any corrective action will be based on the results of the analysis. See Part I for a summary of management comments and Part III for the complete text of management comments.

**Audit Response.** The DLA comments are partially responsive. DLA agreed that if the computer system meets the capitalization criteria then it should be recorded as a fixed asset. However, DLA has not completed its analysis to determine whether the procurements met the capitalization criteria and the definition of a system. We request that DLA provide the results of that analysis in comments on the final report. We request the comments by May 9, 1997.

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## **Part I - Audit Results**

### Audit Background

**Public Law.** The Chief Financial Officers Act of 1990 (the Act), Public Law 101-576, requires executive departments and agencies to prepare financial statements. The Act also requires inspectors general to audit or arrange for the audit of the financial statements prepared under the Act. The resulting audit reports must include an opinion on the financial statements, an assessment of the adequacy of internal controls of the reporting entity, and the compliance of an agency with laws and regulations that could have a material effect on the financial statements. The Act, as amended by the Federal Financial Management Act of 1994, assigns management the responsibility for the financial statements, internal controls, and compliance with laws and regulations. The Government Management Reform Act of 1994 (Public Law 103-356) required DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year.

**DoD Implementation of Consolidated Financial Statements.** The Under Secretary of Defense (Comptroller) designates agencies and funds for which separate financial statements must be prepared. The preparation of the financial statements is the responsibility of the Defense Finance and Accounting Service (DFAS). In FY 1996, the Under Secretary of Defense (Comptroller) designated the category, "Other Defense Organizations," to prepare consolidated financial statements. General Fund appropriations of the Defense Logistics Agency (DLA) are included in that category.

**DLA General Fund Appropriations.** The DLA General Fund appropriations for FY 1996 consist of Military Construction; Operation and Maintenance; Procurement, Defense-wide; and Research, Development, Test, and Evaluation. The General Fund appropriations are used mainly to support the Defense Contract Management Command (DCMC) and its field organizations, primarily the Defense Contract Management Districts East, South, West, and International Office. The DCMC provides worldwide contract administration services in support of DoD Components, other Federal agencies, and international organizations.

In Inspector General, DoD, Report No. 97-039, "Defense Logistics Agency General Fund Equipment Account," December 5, 1996, we reported that we had visited the Defense Contract Management Districts East, South, and West. We reviewed the custodial equipment records of those organizations, which showed equipment on hand valued at approximately \$48 million.

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD Financial Regulation) provides policies and procedures to ensure compliance with statutory and regulatory

requirements for financial management within DoD. The DoD Financial Regulation, volume 4, chapter 1, "Financial Control of Assets," January 1995, states:

An asset, including computer software, shall be capitalized and reported in financial statements when the following criteria are met: An acquisition cost . . . is equal to, or exceeds, the expense investment funding threshold . . . [and] (a)n estimated useful life to the Department of Defense of two (2) years or more.

## **Audit Objectives**

The audit objective was to determine whether DLA and DFAS had implemented effective management control procedures and complied with laws and regulations in accounting for and reporting on certain accounting transactions. Specifically, we evaluated the accounting controls over fixed assets relating to acquisition and capitalization. Appendix A discusses the scope and methodology and the management control program. Appendix B provides a summary of prior coverage related to the audit objectives.

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## Capitalization of Fixed Assets

The DCMC did not capitalize fixed assets in the accounting system, as required. The condition occurred because DCMC did not adequately analyze procurement transactions to determine whether the equipment should be capitalized as a fixed asset or expensed in the accounting system. As a result, the general ledger accounts for DCMC for FY 1989 through FY 1995 did not reflect \$6.3 million in fixed assets for financial statement reporting. If not corrected, the management control weakness that led to the discrepancies will adversely affect the reliability of the financial statements for FY 1997.

### Fixed Assets Acquired

Fixed assets are real property and equipment that have a useful life of 2 years or more, and an acquisition cost that equals or exceeds the investment funding thresholds. DCMC acquired \$6.3 million in fixed assets, from FY 1989 through FY 1995, that were not capitalized. The fixed assets included computer systems, valued at approximately \$5.5 million, and other systems, valued at approximately \$0.8 million.

**Acquisition Cost.** The acquisition cost includes the cost of equipment, transportation, installation, and other related costs for obtaining the equipment and preparing the equipment for use. For any system, the acquisition cost is based on the cost of a complete system rather than on the unit cost of a system's individual components.

**Investment Funding Threshold.** The annual DoD Appropriation Act establishes the investment funding threshold. In 5 of the past 6 years, the DoD Appropriation Act established a different investment funding threshold for fixed assets. Table 1 shows the established thresholds.

Table 1. Investment Funding Thresholds

<u>Fiscal Year</u>	<u>Threshold Amount</u>
Prior to 1992	\$ 5,000
1992 and 1993	15,000
1994	25,000
1995	50,000
1996	100,000

## Capitalization of Fixed Assets

**General Ledger Account.** The DCMC did not capitalize fixed assets in the accounting system, as required. Specifically, DCMC did not record the acquisition cost of \$6.3 million in fixed assets in the general ledger Fixed Assets accounts. The DoD Financial Regulation provides that an asset meeting the acquisition cost criteria be capitalized, and in the case of computer and other systems, be applied on the basis of the unit cost of a complete system rather than on the individual items of equipment. Instead, DCMC recorded the cost of the fixed assets as an expense in the accounting system. DCMC should have capitalized the fixed assets, because the acquisition cost of assets exceeded the fiscal year investment funding threshold (Appendix C lists the purchased assets). As a result, the general ledger accounts, for the DCMC, did not accurately reflect \$6.3 million in fixed assets for financial statement reporting.

**Computer Systems.** The DCMC Information Resource Management Plan states that DCMC is working on two large scale automated information systems to facilitate contract administration services. The plan has technical initiatives to provide contract administrators with faster, more accurate, and expanded access to data. The initiatives include workstation configuration, network access, and telecommunications. The goal of the workstation configuration initiative for personal computers is to put a workstation on the desk of every DCMC employee who requires it to meet the DCMC mission objectives. The network access and telecommunications initiatives are to improve network access to information by use of *improved communication servers* for local area network and wide area network access.

We reviewed nine purchase orders dating from FY 1989 through FY 1995, valued at approximately \$5.5 million, for computer and network equipment. The nine purchase orders represent equipment that was recorded in the accounting system as individual items of equipment on a unit cost basis rather than as part of a complete system. DCMC purchases were consistent with its need for computer systems. For example, four of the purchase orders, valued at \$2.3 million, were for communication servers.

**Other Systems.** The DCMC acquired \$0.8 million in other systems during FY 1995. We reviewed four purchase orders that represent equipment that was recorded in the accounting system as an expense item rather than capitalized as part of a complete system. For example, two of the purchase orders, valued at \$0.5 million, were for the purchase, design, and installation of workstations. The asset acquisition cost exceeded the FY 1995 investment threshold of \$50,000. Table 2 lists the equipment and the acquisition cost.

## Capitalization of Fixed Assets

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**Table 2. Other Systems Acquired in FY 1995**

<u>Equipment</u>	<u>Amount</u>
Millennium telephone system	\$102,376
Security system	221,436
System workstations - designed	<u>511,807</u>
<b>Total</b>	<b>\$835,619</b>

### Analyzing Equipment Procurement

The DCMC did not establish accounting controls to adequately analyze equipment procurement transactions to determine whether procured equipment should be capitalized as a fixed asset or expensed in the accounting system. DFAS-Columbus Center provided the function codes to use when entering a transaction in the accounting system as a fixed asset. Because DCMC did not identify which equipment being procured should be capitalized, the DCMC personnel entering the transactions into the accounting system assumed that the procurement was for an expense item and charged it as an operating expense in the accounting system.

The DCMC needs to capitalize investment property in the general ledger Fixed Assets accounts to bring the acquisition cost under financial control. In addition, capitalization of fixed assets would provide a reliable basis for preparing financial statement reports on the value of Fixed Assets accounts and operating expenses.

### Materiality and Impact on General Ledger Fixed Assets Account

**Key Accounting Requirement.** The management controls over the general ledger account Fixed Assets were materially deficient. The DoD Financial Regulation, volume 1, chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting," May 1993, includes guidance on what constitutes a material deficiency in an accounting system. The Regulation provides 13 key accounting requirements that systems must reasonably comply with to meet the standards established by the General Accounting Office, the Office of Management and Budget, the Department of Treasury, and DoD. Key accounting requirement 2 states that all property and equipment, including automatic data processing software, which equals or exceeds the acquisition cost threshold and has an estimated useful life of more than 2 years, must be capitalized. The DoD Financial Regulation specifies the measure to use when calculating a material deficiency, which we applied to the Fixed Assets accounts.

**Calculating Material Deficiency.** According to the DoD Financial Regulation, a departure from a key accounting requirement is considered a material deficiency if it could result in a loss of control over 5 percent or more of the measurable resources for which the accounting system is responsible. At September 30, 1995, the custodial equipment records for DCMC field organizations reflected a total property value of approximately \$48 million. Of that amount, \$6.3 million met the capitalization threshold but was not recorded in the Fixed Assets general ledger account. Applying the noted materiality criteria of 5 percent to the \$48 million balance would result in a material deficiency if an imbalance of \$2.4 million or more was identified.

**Material Deficiency in the Fixed Assets Account.** The DCMC did not identify and record balances of \$6.3 million in the Fixed Assets general ledger account. Specifically, the computer systems imbalance was \$5.5 million, and other systems imbalance was \$0.8 million. As a result, the internal control structure was materially deficient.

## **Recommendations, Management Comments, and Audit Response**

We recommend that the Commander, Defense Contract Management Command:

1. Establish appropriate accounting controls to ensure that equipment acquisitions are analyzed to determine whether the procurement of equipment meets the capitalization criteria, before the transaction is entered into the accounting system.

**Management Comments.** The DLA concurred, stating that, with the implementation of the Defense Property Accountability System, the appropriate controls will be established to ensure accountable property is analyzed for capitalization criteria. The estimated completion date is December 30, 1997.

2. Record the computer systems valued at \$5.5 million, and other systems valued at \$0.8 million in the Fixed Assets general ledger account.

**Management Comments.** The DLA partially concurred stating, ". . . we agree that if the computer systems meet the capitalization criteria then the items should be recorded as a fixed asset. We have not yet completed our analysis to determine whether the procurement met the capitalization criteria and definition of a system."

**Audit Response.** The DLA comments are partially responsive. We request that DLA provide the results of its review in response to this final report.

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## **Part II - Additional Information**

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## Appendix A. Audit Process

### Scope and Methodology

We reviewed custodial records reflecting property accountability for Defense Contract Management Districts East, South, West, and International Office, which reported approximately \$48 million of total property in FY 1996. We compared the records to the investment dollar threshold for the fiscal year to determine whether the property equaled or exceeded the threshold. We judgmentally selected purchase orders of property from FY 1989 through FY 1995 for review. For reporting purposes, we limited our examples to purchase orders exceeding \$100,000 to obtain uniformity with the current investment threshold. We obtained the function codes used to input the purchase orders and accounting transactions into the accounting system from the DFAS-Columbus Center. We interviewed operating personnel about the recording, reporting, and capitalizing of fixed assets.

**Use of Computer-Processed Data.** To achieve the audit objective we used computer-processed data contained in the Defense Contract Management District property accountability databases and the Defense Business Management System. We did not establish the reliability of the data because the data were used for comparison, sampling selection, and informational purposes only. However, the audit results were not affected.

**Audit Period and Standards.** We performed this financial related audit from January through October 1996. The audit was performed 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. We did not use statistical sampling procedures to conduct this audit.

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

## Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987\*, requires DoD organizations to implement a comprehensive system of management control programs that provides reasonable assurance that programs are operating as intended and also to evaluate the adequacy of the controls.

**Scope of Review of Management Control Program.** We reviewed the adequacy of management controls over accounting for equipment acquisitions. Specifically, we reviewed management controls over the acquisition and recording of fixed assets in the accounting system. We reviewed management's self-evaluation applicable to those controls.

**Adequacy of Management Controls.** The audit identified a material management control weakness as defined by DoD Directive 5010.38. The DCMC management controls were not adequate to ensure that fixed assets were properly recorded in the accounting system. All recommendations, if implemented, will improve the DCMC recording of fixed assets in the accounting system. A copy of the report will be provided to the senior official responsible for management controls within the DCMC.

**Adequacy of Management's Self-Evaluation.** The DLA officials identified capitalizing fixed assets in the accounting system as part of an assessable unit and, in our opinion, correctly identified the risk associated with capitalizing fixed assets as high. However, in its evaluation, DCMC did not identify the specific material management control weakness identified by the audit because the DCMC evaluation covered a much broader area.

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\*DoD Directive 5010.38 has been revised as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the Directive.

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## **Appendix B. Summary of Prior Audits and Other Reviews**

During the last 5 years, the Office of the Inspector General, DoD, issued the following reports on the general fund and internal controls at DLA, DCMC, and DFAS-Columbus Center.

### **Inspector General, DoD**

**Inspector General, DoD, Report No. 97-073, "Reliability of the FY 1995 Financial Statements for the Defense Logistics Agency General Fund," January 15, 1997.** The report stated that the DFAS-Columbus Center did not prepare reliable FY 1995 financial statements for three DLA General Fund appropriations. Specifically, supporting notes to the financial statements did not provide full disclosure for one asset account, three account balances were questionable, and four account balances contained recording errors. The report recommended that the DFAS-Columbus Center disclose material differences between the summary disbursement and collection reports to the Treasury; use general ledger accounts as data sources for annual financial statements, and fully and clearly disclose adjustments to the account balances; and perform quality control reviews of the annual financial statements. DFAS concurred with all recommendations and stated that general ledger account balances will be used to prepare the annual financial statements. The DFAS-Columbus Center will establish procedures to ensure that adjustments made from the reconciliation process are disclosed in the footnotes to the annual financial statements. DFAS further stated that the completed financial statements are randomly selected for detailed reviews.

**Inspector General, DoD, Report No. 97-039, "Defense Logistics Agency General Fund Equipment Account," December 5, 1996.** The report stated that the DFAS-Columbus Center erroneously reported the DLA General Fund Equipment account on the FY 1995 adjusted trial balances. Also, the DFAS-Columbus Center and DLA did not perform periodic comparisons of the DLA General Fund Equipment account with custodial records. The report recommended that the DFAS-Columbus Center adjust the DLA General Fund account balance to delete Defense Business Operations Fund equipment accounts. The report further recommended that DFAS-Columbus Center and DLA provide equipment account balances to general fund organizations for annual reconciliations with actual custodial records. DFAS concurred with the recommendations stating that the Defense Property Accounting System records were used to validate accounting records to equipment on hand, per the organizations' custodial equipment records. Journal vouchers were prepared and processed before the end of FY 1996. DFAS also stated that it will provide the general fund organizations copies of the account balances annually. DLA

## Appendix B. Summary of Prior Audits and Other Reviews

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also concurred with the recommendation, stating that it will perform an annual reconciliation of custodial records with the proprietary equipment account balance in the Defense Property Accounting System.

**Inspector General, DoD, Report No. 97-024, "General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995," November 15, 1996.** The report stated that the DFAS-Columbus Center did not reconcile the DLA general ledger accounts before preparing and certifying the FY 1995 DLA trial balance. The DFAS-Columbus Center accounting system did not readily permit identification of imbalances. In addition, the DFAS-Columbus Center accounting system did not provide an adequate audit trail to identify the cause and to correct the imbalances. The report recommended that the DFAS-Columbus Center accelerate the schedule for implementing accounting system changes needed to readily identify and correct account imbalances and perform needed reconciliations to ensure that DLA FY 1996 financial statements will be more reliable. DFAS concurred with the recommendations, stating that software would be installed to implement the DoD Standard General Ledger and allow segregation of proprietary accounts. The final report requested DFAS to provide clarification regarding the specific actions to identify and correct imbalances.

**Inspector General, DoD, Report No. 93-174, "The Internal Management Control Program at the Defense Contract Management Command," September 30, 1993.** The report stated that 23 DCMC districts and field offices did not adequately implement the Internal Management Control program. Also, the DCMC did not have a system to track costs for internal control functions, such as risk assessments and control reviews. Of the risk assessments, 36 percent were not properly completed; and 89 percent of the internal management control reviews were not performed, not adequate, or not documented. The automated and manual risk assessment questionnaires for measuring vulnerability were inadequate and ineffective. The report made no recommendations because DCMC was taking corrective action to address the deficiencies disclosed during the audit.

## Appendix C. Fixed Asset Purchases Reviewed

<u>Contract/Purchase Order Number</u>	<u>Date of Delivery Order</u>	<u>Description of Purchase</u>	<u>Amount</u>
GS00K87AGS5831	Aug. 07, 1989	Laser printing systems	\$ 101,970
GS00K-89-AGS-6359	Nov. 06, 1989	Multiplexer	297,340
DAH94-90-D-0012	Sept. 28, 1992	Communication servers	1,196,477
DAH94-90-D-0012	Apr. 15, 1993	Communication servers	408,330
F19630-93-D-0001	Sept. 30, 1993	Super mini-computer	286,606
F19630-93-D-0001	Sept. 30, 1993	Super mini-computer	361,048
DAH94-90-D-0012	Sept. 14, 1994	Communication servers	499,392
GS02F5092A	Aug. 24, 1995	Design system workstations	12,150
DAH94-95-D-0006	Aug. 30, 1995	Personal computers	2,197,864
GS00F5092A	Sept. 18, 1995	Systems workstations	499,657
DAH94-90-D-0012	Sept. 23, 1995	Communication servers	182,142
GS07F5229A	Sept. 25, 1995	Security system	221,436
GS04K91BMS0003	Sept. 26, 1995	Telephone system	102,376
<b>Total</b>			<b>\$6,366,788</b>

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## **Appendix D. Report Distribution**

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  Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense for Policy  
Under Secretary of Defense (Comptroller) and Chief Financial Officer  
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  Deputy Comptroller (Program/Budget)  
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Assistant Secretary of Defense (Public Affairs)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy  
Superintendent, Naval Postgraduate School

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

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Director, Defense Finance and Accounting Service  
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  Commander, Defense Contract Management Command  
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- General Accounting Office
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- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
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- House Subcommittee on National Security, Committee on Appropriations
- House 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

## **Part III - Management Comments**

# Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FT. BELVOIR, VIRGINIA 22060-6221

IN REPLY  
REFER TO

DDAI

10 FEB 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITS  
DEPARTMENT OF DEFENSE

SUBJECT: Defense Contract Management Command Capitalization of Fixed Assets  
(Project No. 6LA-2005.03)

This is in response to the November 29, 1996 Draft Report. If you have any questions, please contact Mrs. LaVaeda Coulter, (703) 767-6261.

Encl

OLIVER COLEMAN  
Acting Chief, Internal Review Office

**SUBJECT:** Draft Report on Defense Contract Management Command Capitalization of Fixed Assets (Project No. 6LA-2005.03)

**FINDING:** The DCMC did not capitalize fixed assets in the accounting system, as required. The condition occurred because DCMC did not adequately analyze procurement transactions to determine whether the equipment should be capitalized as a fixed asset or expensed in the accounting system. As a result, the general ledger accounts for DCMC for FY 1989 through FY 1995 did not reflect \$6.3 million in fixed assets for financial statement reporting. If not corrected, the management control weakness that led to the discrepancies will adversely affect the reliability of the financial statements for FY 1997.

**DLA COMMENTS:** Partially concur. Our specific comments are provided within the context of the recommendations.

**Internal Management Control Weakness:**

Concur; weakness will be reported in the DLA Annual Statement of Assurance.

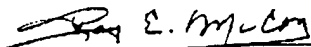
**ACTION OFFICER:** Richard Sninsky, FOXS

**REVIEW/APPROVAL:** B. A. Blackman, FOX

**COORDINATION:** LaVaeda Coulter, DDAI

Oliver Coleman, DDAI

**DLA APPROVAL:** 



RAY E. MCCOY  
Major General, USA  
Principal Deputy Director

## Defense Logistics Agency Comments

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**SUBJECT:** Draft Report on Defense Contract Management Command Capitalization of Fixed Assets (Project No. 6LA-2005.03)

**Recommendation No. 1:** We recommend that the Commander, Defense Contract Management establish appropriate accounting controls to ensure that equipment acquisitions are analyzed to determine whether the procurement of equipment meets the capitalization criteria, before the transaction is entered into the accounting system.

**DLA Comments:** Concur. With the continued implementation of the Defense Property Accountability System (DPAS), the appropriate controls will be established to ensure accountable property is analyzed in terms of the capitalization criteria.

**Disposition:** Action is ongoing. ECD: 30 December 1997

**ACTION OFFICER:** Richard Sninsky, FOXS

**REVIEW/APPROVAL:** B. A. Blackman, FOX

**COORDINATION:** LaVaeda Coulter, DDAI  
Oliver Coleman, DDAI

**DLA APPROVAL:**

*Oliver Coleman 2/7/97*



**RAY E. MCCOY**  
Major General, USA  
Principal Deputy Director

**SUBJECT:** Draft Report on Defense Contract Management Command Capitalization of Fixed Assets (Project No. 6LA-2005.03)

**Recommendation No. 2:** We recommend that the Commander, Defense Contract Management record the computer systems valued at \$5.5 million, and other systems valued at \$0.8 million in the Fixed Assets general ledger account.

**DLA Comments:** Partially concur. While we agree that if the computer systems meet the capitalization criteria then the items should be recorded as a fixed asset. We have not yet completed our analysis to determine whether the procurements met the capitalization criteria and definition of a system.

**Disposition:**

Action is ongoing. ECD: To complete analysis 31 Mar 97. Corrective Action, if any ECD to be determined based on results of the analysis.

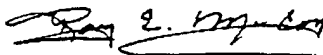
**ACTION OFFICER:** Richard Sninsky, FOXS

**REVIEW/APPROVAL:** B. A. Blackman, FOX

**COORDINATION:** LaVaeda Coulter, DDAI  
Oliver Coleman, DDAI

*Oliver Coleman 2/7/97*

**DLA Approval:**



RAY E. MCCOY  
Major General, USA  
Deputy Chief of Staff

## **Audit Team Members**

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Shelton R. Young  
Garry A. Hopper  
Gerald L. Werking  
Dorothy L. Jones  
Linda A. Garner

## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title:** Defense Contract Management Command Capitalization of Fixed Assets

**B. DATE Report Downloaded From the Internet:** 10/26/99

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-2884

**D. Currently Applicable Classification Level:** Unclassified

**E. Distribution Statement A:** Approved for Public Release

**F. The foregoing information was compiled and provided by:**  
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