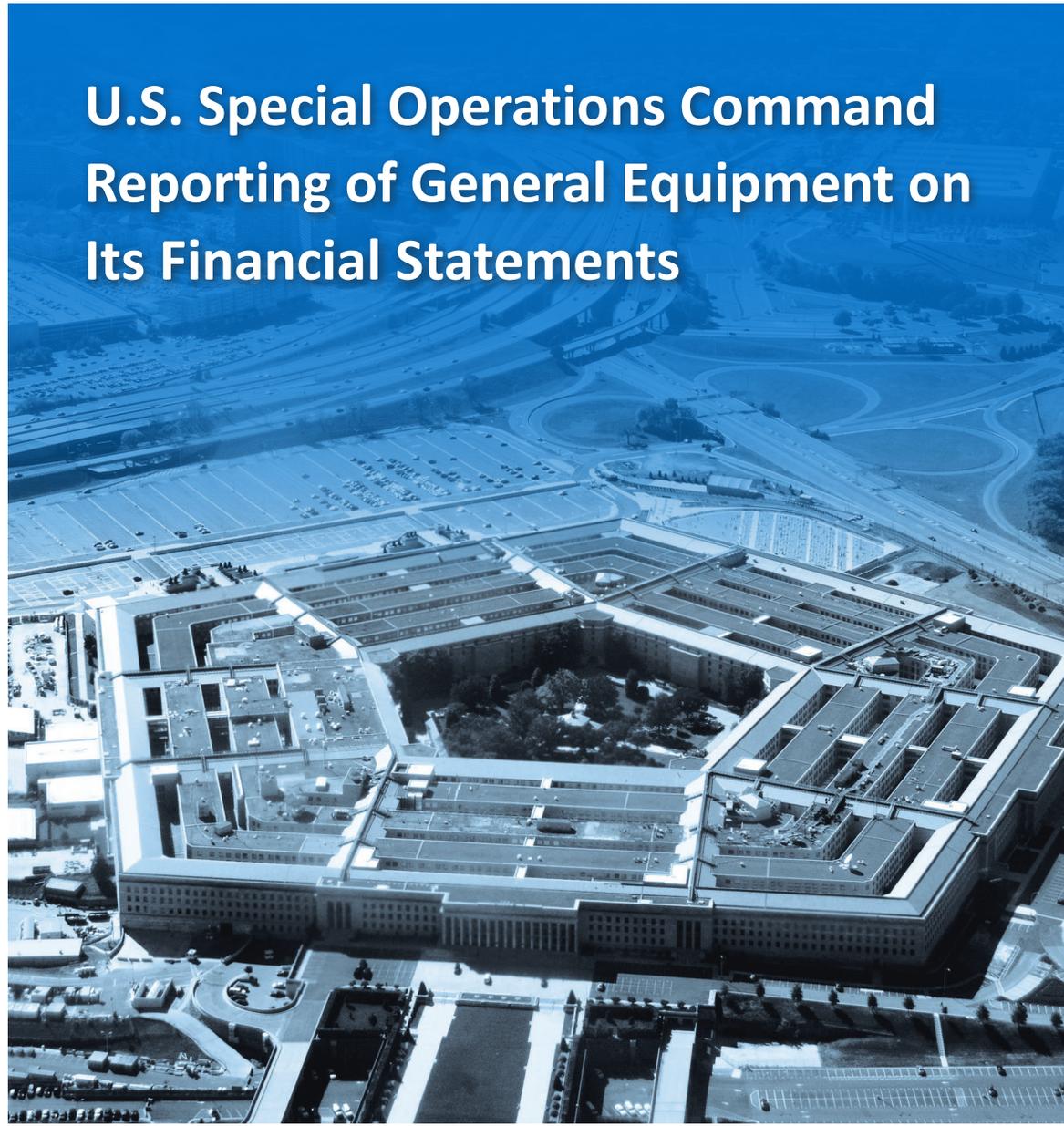




# INSPECTOR GENERAL

*U.S. Department of Defense*

JUNE 4, 2018



## U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements

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# Results in Brief

## *U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements*

June 4, 2018

### Objective

We determined whether U.S. Special Operations Command (USSOCOM) accurately reported general property, plant, and equipment on its financial statements. We reviewed USSOCOM General Equipment because it represented 85 percent of USSOCOM FY 2015 general property, plant, and equipment.

### Finding

USSOCOM overstated its General Equipment account balance by \$5.7 billion and could not support another \$261 million in General Equipment on its FY 2015 financial statements. USSOCOM also understated its General Equipment account balance by \$1.4 billion on its first quarter FY 2016 financial statements. In addition, USSOCOM did not obtain all the critical data elements needed from its Component Special Operations Command (SOC) property systems needed to accurately report its General Equipment and Accumulated Depreciation account balances. Furthermore, the Component SOC property systems did not contain accurate and complete data needed for USSOCOM to correctly report its General Equipment and Accumulated Depreciation account balances. Finally, \$145 million in Marine Corps Forces Special Operations Command (MARSOC) General Equipment was reported on both USSOCOM and Marine Corps financial statements.

This occurred because USSOCOM did not develop adequate standard operating procedures (SOPs) to report its General Equipment and Accumulated Depreciation account balances. In addition, USSOCOM

### Finding (cont'd)

did not successfully coordinate with Component SOC personnel to obtain the information needed to accurately report its General Equipment and Accumulated Depreciation on its financial statements. Furthermore, Component SOC property systems were unable to accurately value General Equipment. Lastly, the Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (OUSD[C]/DCFO) memorandum guidance was not clear regarding which entity should report the General Equipment on its financial statements.

Unless actions are taken, USSOCOM's General Equipment and Accumulated Depreciation account balances will continue to be misstated and unsupported, and its financial statements will continue to be misstated. USSOCOM's inability to produce accurate General Equipment and Accumulated Depreciation account balances may also impact the accuracy of the DoD Agency-Wide financial statements because the USSOCOM General Equipment account balance is significant to the DoD Agency-Wide financial statements. Furthermore, Component SOC General Equipment will continue to be reported on two sets of financial statements, resulting in duplicate reporting.

### Management Comments on the Finding and Our Response

The Chief Financial Officer (CFO)/Comptroller, USSOCOM, stated that USSOCOM management self-identified and communicated to us many of the weaknesses and misstatements that we identified in the report, and that it was in the process of identifying the causes and taking corrective action. In addition, USSOCOM stated that it communicated to the audit team that numerous property system processes had changed during the audit time period. The CFO/Comptroller also stated that the financial reporting of General Equipment continues to evolve across the DoD and that the OUSD(C)/CFO is developing an updated policy on the financial reporting responsibilities for PP&E.

At the start of the audit, we recognized that USSOCOM General Equipment and Accumulated Depreciation account balances may be misstated and that USSOCOM was identifying the



# Results in Brief

## *U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements*

### **Management Comments (cont'd)**

causes and developing corrective action plans to prepare for its FY 2018 financial statement audit. This report shows the pervasive problems that USSOCOM has with accurately reporting its General Equipment and Accumulated Depreciation account balances and makes formal recommendations to improve the reporting of General Equipment and Accumulated Depreciation within USSOCOM and throughout the DoD. We acknowledge in the report that many of the processes and Component SOC property systems that USSOCOM uses to calculate the General Equipment and Accumulated account balances are changing. We also acknowledge that the financial reporting of General Equipment within the DoD is evolving and will continue to change as new reporting requirements are established. However, we conducted this audit using the financial reporting requirements for General Equipment and Accumulated Depreciation that existed at the time of the audit.

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

The Financial Improvement and Audit Remediation Director (FIAR Director), responding for the OUSD(C)/DCFO, agreed with the recommendations to update its accounting policy relating to the transferring and reporting of General Equipment balances between entities and clearly distinguish which entity should maintain the accounting of the General Equipment and Accumulated Depreciation balances and report the balances on the Component's financial statements. Managements comments were responsive and met the intent of the recommendations; therefore, they are resolved but will remain open. We will close these recommendations once we verify that the FIAR Director has updated the policy and incorporated it into the DoD FMR.

The Deputy Assistant Secretary of the Army (Financial Operations), responding for the Assistant Secretary of the Army (Financial Management and Comptroller),

neither agreed nor disagreed with the recommendations to provide accurate and complete data elements to USSOCOM and develop milestones for providing these data elements. However, the Deputy Assistant Secretary stated its working with USSOCOM to identify all the USSOCOM assets that are managed in Army property systems and that its efforts have resulted in the identification of the data elements needed for USSOCOM to report General Equipment on its financial statements. The Army expects to complete these actions by the fourth quarter of FY 2018. The proposed and ongoing actions addressed the intent of our recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once we verify that the Army has identified all of USSOCOM assets in Army property systems and has provided accurate and complete data elements to USSOCOM.

The Deputy Assistant Secretary of the Navy (Financial Operations), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), disagreed with the recommendations to provide accurate and complete data elements to USSOCOM and develop milestones for providing these data elements. Comments from the Deputy Assistant Secretary did not address the specifics of the recommendation; therefore, we request that the Deputy Assistant Secretary reconsider her position on these recommendations and provide additional comments to the final report.

The Associate Deputy Assistant Secretary of the Air Force (Financial Operations), responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed with the recommendations to provide accurate and complete data elements to USSOCOM and develop milestones for providing this information. The Air Force comments were responsive to the intent of the recommendations; therefore, they are resolved but will remain open. We will close these recommendations once we verify that the Air Force has identified all of USSOCOM assets in Air Force property systems and has provided accurate and complete data elements to USSOCOM.



# Results in Brief

## *U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements*

### **Management Comments (cont'd)**

The Audit Coordination Head, responding for the Marine Corps Comptroller, agreed with the intent of the recommendations to provide accurate and complete data elements to USSOCOM and develop milestones for providing this information to the extent property systems can accommodate implementation. The Marine Corps comments only partially addressed the recommendation to provide accurate and complete data elements to USSOCOM. We request the CFO/Comptroller provide additional comments to these recommendations in response to the final report.

The USSOCOM CFO/Comptroller, responding for the Director of Accounting, agreed or partially agreed with the recommendation or the intent of the recommendations to revise USSOCOM SOPs on the reporting of General Equipment and Accumulated Depreciation. The CFO/Comptroller stated that USSOCOM has updated and will continue to update its SOPs to include the following: identify the critical data elements needed from the Component SOC property systems (Recommendation 6.a.1); identify the source of USSOCOM General Equipment (6.a.2); identify the documentation needed to support USSOCOM General Equipment and Accumulated Depreciation journal voucher (6.a.3); identify the staff positions for determining whether the journal voucher is accurate and supported (6.a.4); provide the policies and procedures for calculating Depreciation and Accumulated Depreciation account balances when this information is not provided by the Component SOC property systems (6.a.5); and include procedures for reconciling the USSOCOM General Equipment and Accumulated Depreciation account balances regarding additions and subtraction from these account balances from one reporting period to the next reporting period (6.a.6). The CFO/Comptroller comments to Recommendations 6.a.1 and 6.a.6 addressed all the specifics of the recommendations and no further action is needed. The CFO/Comptroller comments to Recommendations 6.a.3 and 6.a.4 addressed all the specifics of the recommendations and are considered resolved, but additional information is needed to

close these recommendations. The CFO/Comptroller comments for Recommendations 6.a.2 and 6.a.5 only partially addressed the recommendations. We request the CFO/Comptroller provide additional comments to these recommendations in response to the final report.

The CFO/Comptroller agreed or partially agreed with the recommendations to assist Component SOC personnel in identifying all the critical data elements USSOCOM needs (6.b); obtain read only access to Component SOC property systems (6.c); to review and verify that the General Equipment being reported on the USSOCOM Balance Sheet reconciles to the Component SOC property systems (6.d), and request the USD(C)/CFO to make a determination on whether USSOCOM or the Marine Corps should report certain General Equipment (6.e). The CFO/Comptroller comments to Recommendations 6.b addressed all the specifics of the recommendation and is considered resolved, but additional information is needed to close the recommendation. The CFO/Comptroller comments for Recommendations 6.c, 6.d, and 6.e only partially addressed the recommendations. We request the CFO/Comptroller provide additional comments to these recommendations in response to the final report.

We request that the Assistant Secretary of the Navy (Financial Management and Comptroller), the Marine Corps Comptroller, and the USSOCOM Director of Accounting provide additional comments in response to this report. Please see the Recommendations Table on the next page.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer		1.a, 1.b	
Assistant Secretary of the Army (Financial Management and Comptroller)		2.a, 2.b	
Assistant Secretary of the Navy (Financial Management and Comptroller)	3.a, 3.b		
Assistant Secretary of the Air Force (Financial Management and Comptroller)		4.a, 4.b	
United States Marine Corps Comptroller	5.a	5.b	
Director of Accounting, U.S. Special Operations Command	6.a.2, 6.a.5, 6.c, 6.d, and 6.e	6.a.3, 6.a.4, and 6.b	6.a.1 and 6.a.6

Please provide Management Comments by July 5, 2018.

Note: The following categories are used to describe agency management's comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

June 4, 2018

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER, DOD  
THE ASSISTANT SECRETARY OF THE ARMY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
THE ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
THE ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
UNITED STATES MARINE CORPS COMPTROLLER  
COMMANDER, U.S. SPECIAL OPERATIONS COMMAND  
DIRECTOR OF ACCOUNTING, U.S. SPECIAL OPERATIONS COMMAND  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: U.S. Special Operations Command Reporting of General Equipment on  
Its Financial Statements (Report No. DODIG-2018-123)

We are providing this report for your information and use. We conducted this audit in accordance with generally accepted government auditing standards.

We considered comments from the Office of the Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer; Assistant Secretaries (Financial Management and Comptroller) for the Army, Navy, and Air Force; United States Marine Corps Comptroller; and the Director of Accounting for USSOCOM in the draft of this report when preparing the final report. Their comments have been appended to this report.

DoD Instruction 7650.03 requires that all recommendations be resolved promptly. Therefore, we request the Assistant Secretary of the Navy (Financial Management and Comptroller) provide comments on Recommendations 3.a and 3.b, the Marine Corps Comptroller provide comments on Recommendation 5.a, and the USSOCOM CFO/Comptroller provide comments on Recommendations 6.a.2, 6.a.5, 6.c, 6.d, and 6.e on the report by July 5, 2018.

Please send a PDF file containing your comments to [aud-fmr@dodig.mil](mailto:aud-fmr@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5942 (DSN 664-5942).

  
Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting

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## Acronyms and Abbreviations.....

# Introduction

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## Objective

Our objective was to determine whether U.S. Special Operations Command (USSOCOM) accurately reported general property, plant, and equipment (General PP&E) on its financial statements. See Appendix A for a discussion of our scope and methodology.

USSOCOM financial statements include the following types of General PP&E: Buildings, Structures, and Facilities; Construction-in-Progress; General Equipment; and Land. We reviewed USSOCOM General Equipment because it represented 85 percent of USSOCOM FY 2015 General PP&E. General Equipment includes equipment such as aircraft, vehicles, and weapon systems.

## Background

Each Military Service has a Special Operations Command (SOC) that is unique and capable of performing its own operations. However, when different special operation forces need to work together, USSOCOM oversees the operation instead of an individual Military SOC. The mission of USSOCOM includes coordinating the planning of special operations and providing Special Operations Forces to support Component SOCs.

USSOCOM includes its Headquarters and the following Commands:<sup>1</sup>

- U.S. Army Special Operations Command (USASOC),
- Naval Special Warfare Command (WARCOM),
- Air Force Special Operations Command (AFSOC),
- Marine Corps Forces Special Operations Command (MARSOC),
- Joint Special Operations Command (JSOC), and
- Theatre Special Operations Commands (TSOC).<sup>2</sup>

USSOCOM reported a General Equipment balance of \$17.4 billion on its March 31, 2016, financial statements. This General Equipment account balance represented 39.2 percent of USSOCOM total assets. The following table shows the General Equipment balances provided by USSOCOM for each USSOCOM Component as of March 31, 2016.<sup>3</sup>

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<sup>1</sup> Headquarters, USSOCOM, includes Special Operation Forces Acquisition Technology and Logistics (SOF AT&L), which reported General Equipment.

<sup>2</sup> The seven Theatre Commands include SOC Africa, SOC Central, SOC Europe, SOC Korea, SOC North, SOC Pacific, and SOC South.

<sup>3</sup> USSOCOM provided support for \$17.1 billion, which it attributed to its Components. The amount reported on USSOCOM's March 31, 2016, financial statements included an additional \$261 million that USSOCOM could not support.

Table 1. General Equipment Balances by Component as of March 31, 2016<sup>4</sup>

Component*	Dollar Amount	Percent of Total
USASOC	\$ 6,575,285,769	38.4
WARCOM	1,296,723,518	7.6
AFSOC	8,054,238,713	47.1
MARSOC	203,097,827	1.2
SOF AT&L	704,867,547	4.1
TSOC	276,684,585	1.6
<b>Total</b>	<b>\$17,110,897,959</b>	<b>100</b>

Source: USSOCOM FY 2016 2<sup>nd</sup> Quarter General Equipment Schedule.

The \$17.1 billion of General Equipment also represented 1.7 percent of the second quarter FY 2016 DoD Agency-Wide financial statement's General Equipment. DoD Instruction 5000.64 requires heads of DoD Components to track and record General PP&E in Accountable Property Systems of Record.<sup>5</sup> Types of General Equipment used by USSOCOM include AC130 Gunships, Blackhawk Helicopters, Drone Systems, Mine Resistant Vehicles, and specialized communication systems.

### Property Systems

USSOCOM does not have its own property system and relies on equipment data provided by the Component SOC. USSOCOM representatives stated that the equipment data is not always accurate and complete. Therefore, USSOCOM has reported this as an internal control weakness at the USSOCOM and the Component SOC level since 2013. In addition, the USSOCOM Financial Improvement and Audit Readiness (FIAR) team has identified internal control weaknesses relating to a lack of key supporting documentation at the USSOCOM and Component SOC level.

Each Military Service uses its own Accountable Property System of Record (APSR) ("property systems") to account for General Equipment. The Component SOC uses their respective Military Service APSRs. For example,

- USASOC uses the Property Book Unit Supply Enhanced (PBUSE),
- WARCOM uses Defense Property Accountability System (DPAS),
- AFSOC uses both the Air Force Equipment Management System (AFEMS) and the Reliability and Maintainability Information System (REMIS), and
- MARSOC uses Global Combat Support System–Marine Corps (GCSS-MC).<sup>6</sup>

<sup>4</sup> JSOC assets are classified and not included in the scope of our audit or in Table 1.

<sup>5</sup> DoD Instruction 5000.64, "Accountability and Management of DoD Equipment and Other Accountable Property," May 19, 2011.

<sup>6</sup> USASOC representatives stated they also began using the Global Combat Support System–Army property system in November 2015.

USSOCOM uses manual processes and the Joint Force and Asset Search Tool (JFAAST) to obtain General Equipment balances from the Component SOCs' property systems. JFAAST can obtain the information directly from the PBUSE, AFEMS, and GCSS-MC property systems. However, due to system limitations, JFAAST cannot obtain General Equipment balances from DPAS and REMIS. Therefore, WARCOM and AFSOC provide USSOCOM with quarterly equipment listings from their property systems.

The National Defense Authorization Act for Fiscal Year 2010 established September 30, 2017, as the deadline for the DoD to ensure that its financial statements are validated as ready for audit.<sup>7</sup> According to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (OUSD[C]/CFO) April 2016 FIAR Guidance, the DoD approach to achieving full financial statement auditability by the FY 2017 deadline relies on the compliance of each DoD reporting entity to validate that its financial statements are audit ready.<sup>8</sup> The April 2016 FIAR guidance designated USSOCOM as a material entity that is required to undergo an annual stand-alone financial statement audit. USSOCOM must be able to accurately report line items, such as General Property, Plant, and Equipment, to support the accuracy of the DoD Agency-Wide financial statements in FY 2018 and subsequent fiscal years. In May 2017, a contract was awarded to an Independent Public Accounting firm to audit the FY 2018 USSOCOM financial statements.

## Criteria for Property, Plant, and Equipment

Statement of Federal Financial Accounting Standards (SFFAS) No. 6 contains accounting standards for federally owned property, plant, and equipment.<sup>9</sup> SFFAS 6 defines PP&E as tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity. SFFAS 6 establishes the following categories of PP&E.

- General PP&E: Used to provide general government services or goods.
- Heritage Assets: Assets possessing significant cultural, educational, or natural characteristics.
- Stewardship Land: Land not included in General PP&E.

<sup>7</sup> Public Law 111-84, "National Defense Authorization Act For Fiscal Year 2010," October 28, 2009.

<sup>8</sup> The FIAR Directorate is within the OUSD(C)/CFO. We used the April 26, 2016, FIAR guidance because it was in effect when we announced our audit.

<sup>9</sup> SFFAS 6, "Accounting for Property, Plant, and Equipment," November 30, 1995.

These accounting standards apply to all federally owned PP&E. All General PP&E must be recorded at cost.<sup>10</sup> Cost must include all costs incurred to bring the General PP&E to a form suitable for its intended use. See Appendix B for additional information on General PP&E, including recognition of General PP&E, depreciation expense, accumulated depreciation, and establishing accountability over the General PP&E.

## Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.<sup>11</sup> We identified internal control weakness in the reporting of USSOCOM General Equipment and Accumulated Depreciation account balances. Specifically, USSOCOM overstated its General Equipment account balance on its FY 2015 financial statements and could not support General Equipment account balances. USSOCOM also understated its General Equipment account balance on its first quarter FY 2016 financial statements. In addition, USSOCOM did not obtain all the critical elements needed from the Component SOCs' property systems to accurately report its General Equipment and Accumulated Depreciation account balances. Furthermore, the Component SOCs' property systems did not contain accurate and complete data for USSOCOM to correctly report its General Equipment and Accumulated Depreciation account balances. We will provide a copy of the final report to the senior official responsible for internal controls at OUSD(C)/CFO, Departments of the Army, Navy, and Air Force, the USMC, and USSOCOM.

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<sup>10</sup> Cost is the original purchase or acquisition price. We use these terms interchangeably throughout the report.

<sup>11</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding

### **U.S. Special Operations Command Did Not Accurately Report or Support its General Equipment Account Balance**

USSOCOM overstated its General Equipment account balance by \$5.7 billion and could not support another \$261 million in General Equipment on its FY 2015 financial statements. USSOCOM also understated its General Equipment account balance by \$1.4 billion on its first quarter FY 2016 financial statements.

In addition, USSOCOM did not obtain all the critical data elements needed from its Component SOC property systems needed to accurately report its General Equipment and Accumulated Depreciation account balances.

Furthermore, the Component SOC property systems did not contain accurate and complete data for USSOCOM to correctly report its General Equipment and Accumulated Depreciation account balances.

Finally, \$145 million in MARSOC General Equipment was reported on both USSOCOM and Marine Corps financial statements.

This occurred because:

- USSOCOM did not develop adequate Standard Operating Procedures (SOPs) to report its General Equipment and Accumulated Depreciation account balances;
- USSOCOM did not successfully coordinate with Component SOC personnel to obtain the information needed to accurately report its General Equipment and Accumulated Depreciation on its financial statements;
- Component SOC property systems were unable to accurately value General Equipment; and
- OUSD(C)/DCFO memorandum guidance and the DoD FMR did not clearly define the entity that should be considered the primary user of Component SOC's General Equipment and, therefore, report it on its financial statements.<sup>12</sup>

<sup>12</sup> OUSD(C)/DCFO memorandum, "Financial Statement Responsibility for Reporting Military Equipment Under the Operational Control of Another Entity," March 6, 2012; and DoD FMR Volume 4, Chapter 6, "Property, Plant, and Equipment," June 2009.

Unless actions are taken, USSOCOM's General Equipment and Accumulated Depreciation account balances will continue to be misstated, and its financial statements will continue to be misstated. USSOCOM's inability to produce accurate General Equipment and Accumulated Depreciation account balances may also impact the accuracy of the DoD Agency-Wide financial statements because the USSOCOM General Equipment account balance is significant to the DoD Agency-Wide financial statements. Furthermore, Component SOC General Equipment will continue to be reported on two sets of financial statements, resulting in duplicate reporting.

## **USSOCOM Incorrectly Reported and Could Not Support Its General Equipment Account Balance**

USSOCOM personnel incorrectly reported and could not support its FY 2015 General Equipment account balance. USSOCOM personnel also excluded equipment from its first quarter FY 2016 General Equipment account balance. In addition, USSOCOM did not obtain all the critical data elements from its Component SOC property systems needed to accurately report its General Equipment and Accumulated Depreciation account balances.

### ***Inaccurate Account Balances***

USSOCOM incorrectly calculated its General Equipment account balance by \$5.7 billion and reported the incorrect amount on its FY 2015 financial statements. USSOCOM personnel prepared a journal voucher on a quarterly basis to record USSOCOM General Equipment and Accumulated Depreciation account balances. However, USSOCOM personnel incorrectly added the current fiscal year depreciation, accumulated depreciation, and the net book value of General Equipment associated with AFSOC to the USSOCOM General Equipment account balance for FY 2015. USSOCOM accounting personnel should have reviewed the journal voucher prior to posting to ensure it was fully supported. USSOCOM accounting personnel identified and corrected this error in the first quarter of FY 2016.

In addition, USSOCOM reported \$261 million in General Equipment that it could not support on its FY 2015 financial statements. Specifically, USSOCOM reported General Equipment in the amount of \$239 million under the appropriation "Operations and Maintenance" and \$22 million under the appropriation "Research and Development." We requested supporting documentation for the \$261 million in July 2016; however, USSOCOM personnel stated that they could not provide any support. USSOCOM reversed this entry in the first quarter of FY 2017. USSOCOM had reported this unsupported amount every year since FY 2010.

USSOCOM also excluded \$1.4 billion in General Equipment from its first quarter FY 2016 financial statements. We obtained the quarterly General Equipment asset listings for each Component SOC from USSOCOM. We then obtained asset listings from each Component SOC or its respective Military Service and compared the listings to identify any discrepancies. We did not identify material discrepancies for USASOC, WARCOC, and MARSOC. However, we identified that USSOCOM excluded equipment when reporting the AFSOC General Equipment for the first quarter of FY 2016. The omission of the assets resulted in an understatement of \$1.4 billion in USSOCOM General Equipment account balance on the financial statements. USSOCOM representatives stated that they improperly omitted Air National Guard aircraft and air evacuation training equipment on the first quarter FY 2016 financial statements, but corrected the second quarter FY 2016 financial statements by including the equipment. USSOCOM should verify that they obtained a complete listing of all the General Equipment needed to accurately record and report USSOCOM General Equipment and Accumulated Depreciation account balances.

### ***USSOCOM Did Not Obtain Critical Data Elements***

USSOCOM did not obtain critical data elements from its Component SOC's property systems needed to accurately report its General Equipment and Accumulated Depreciation. Specifically, none of the Component SOC's property systems provided USSOCOM all the critical data elements needed to accurately report USSOCOM General Equipment and Accumulated Depreciation account balances. DoD Instruction 5000.64 requires that DoD Components include 14 specific data elements in the Component SOC's property system. We determined that 10 of the data elements were critical to accurately reporting General Equipment and Accumulated Depreciation account balances.<sup>13</sup> See Table 2 for the listing of the 10 critical data elements and the critical data elements not obtained by USSOCOM. Acquisition cost and unique item identifiers are two examples of critical data elements needed to accurately report General Equipment and Accumulated Depreciation account balances.<sup>14</sup> The data element acquisition cost is necessary to show the valuation of the General Equipment, which is also needed to calculate depreciation and accumulated depreciation. The data element unique item identifier is necessary to determine existence.

<sup>13</sup> The remaining four data elements provided information on the status of the asset (active or retired), condition of the asset, transaction type (received, accepted, shipped, etc.), and transaction date.

<sup>14</sup> DoD Instruction 8320.04, "Item Unique Identification (IUID) Standards for Tangible Personal Property," September 3, 2015, defines a unique item identifier as a globally unique and unambiguous identifier that distinguishes an item from all other like and unlike items.

DoD Instruction 5000.64 requires DoD agencies to record all General PP&E at cost. The DoD FMR also states that the acquisition value of General PP&E must be supported with appropriate documentation.<sup>15</sup> If documentation is not available, agencies are required to make reasonable estimates of cost and accumulated depreciation. In addition, the DoD FMR requires agencies to report the acquisition value of assets and the associated depreciation on their financial statements. Furthermore, the DoD FMR states that supporting documentation for General PP&E values must be linked to the appropriate unique item identifiers, such as serial numbers, to differentiate similar assets. DoD agencies must maintain these unique identifiers to locate and report each individual asset.

Table 2. Critical Data Elements and Critical Data Elements Not Obtained by USSOCOM

Data Element	USASOC	WARCOM	AFSOC		MARSOC
			AFEMS	REMIS	
Name, part number, description, model number, and National Stock Number					
Owner of Equipment					
Quantity of Equipment					
General Ledger Classification					
Cost and Depreciation Information	X		X		X
Estimated Useful Life	X		X		X
Unique Item Identifier	X		X		X
Date Placed in Service	X		X		X
Location of Equipment		X			
Posting Reference*	X	X	X	X	X
<b>Totals</b>	<b>5</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>5</b>

Source: USSOCOM 2nd Quarter FY 2016 General Equipment Schedules.

\*Posting reference includes items such as a contract purchase order number or invoice number that provides support for the cost of the asset.

**Critical Data Elements Not Available for the Increase in General Equipment Capitalization Threshold.** USSOCOM personnel stated that they were unable to apply the appropriate thresholds to accurately record depreciation and accumulated depreciation. The OUSD(C)/DCFO issued a memorandum that increased the capitalization threshold for General Equipment

<sup>15</sup> DoD FMR Volume 4, "Accounting Policy," Chapter 6, "Property, Plant, and Equipment," June 2009.

from \$100,000 to \$250,000 for equipment acquired after September 2013.<sup>16</sup> However, USSOCOM personnel were unable to accurately reflect the capitalization threshold change for reporting General Equipment values because they did not have the critical data elements needed. For example, USASOC and MARSOC property systems did not provide the date placed in service, acquisition cost, or useful life for USSOCOM General Equipment, which is needed to report the General Equipment value and calculate depreciation and accumulated depreciation. In addition, Marine Corps Bulletin 4443, "Military Equipment (ME) Financial Useful Life," October 5, 2016, specifically states that the GCSS-MC does not report the estimated useful life of General Equipment, which is necessary for accurate financial reporting. Without the estimated useful life of USASOC and MARSOC General Equipment, USSOCOM cannot determine whether the Component Commands applied the new threshold and calculated the correct annual depreciation expense. Thus, USSOCOM cannot determine the accuracy of its General Equipment and Accumulated Depreciation account balances. As of the second quarter FY 2016, USASOC and MARSOC General Equipment balance was \$6.8 billion and represented 39.6 percent of the USSOCOM total General Equipment account balance.

According to USSOCOM staff, in FYs 2013 and 2014, USSOCOM personnel began using the limited information they had manually entered—for example, the date placed in service, acquisition cost, and useful life of USASOC and MARSOC General Equipment—in the Defense Property Accountability System (DPAS) so they could estimate the depreciation expense and accumulated depreciation. However, because of the large volume of General Equipment information, limited resources, and the lack of supporting documentation for the acquisition cost, USSOCOM personnel were not able to complete the data entry. According to USSOCOM personnel, they continued using the incomplete data because it was the best information available.

**JFAAST Inadequately Designed.** USSOCOM received data directly from WARCOM and AFSOC (REMIS) property systems to report its General Equipment and Accumulated Depreciation account balances. However, USSOCOM obtained data for USASOC, AFSOC (AFEMS), and MARSOC property systems by using JFAAST. While the WARCOM and AFSOC (REMIS) property system data generally included the critical data elements needed, the property system data obtained through JFAAST from USASOC, AFSOC (AFEMS), and MARSOC property systems did not include all the critical data elements needed to report the General Equipment and Accumulated Depreciation account balances. According to USSOCOM personnel, JFAAST was not able to obtain all the critical data elements in accordance with DoD Instruction 5000.64.<sup>17</sup>

<sup>16</sup> Office of the Under Secretary Defense memorandum, "Strategy and Implementation Guide for General Equipment Valuation," March 14, 2016.

<sup>17</sup> In July 2016, USSOCOM made a decision to stop using JFAAST and develop another process to obtain data elements.

**Property System Limitations.** USASOC and MARSOC representatives stated that their respective property systems did not maintain the required critical data elements, such as acquisition cost. In addition, USASOC personnel stated that they are in the process of migrating away from PBUSE to the GCSS-Army, but could not state when USASOC would be fully migrated to GCSS-Army. USASOC personnel also stated that the acquisition cost can be entered into GCSS-Army but that this is not a required field. Furthermore, USASOC personnel stated that even if the acquisition cost is initially entered into GCSS-Army, the acquisition cost is overwritten when the Federal Logistics Information System price is updated.

USSOCOM does not have administrative control over the Component SOCs' property systems. Therefore, the Army, Navy, Air Force, and Marine Corps need to change their property systems to meet the critical data element needs of USSOCOM. In addition, the Army, Navy, Air Force, and the Marine Corps must ensure that these critical data elements are correct and supported to enable accurate reporting of USSOCOM General Equipment and Accumulated Depreciation account balances. Furthermore, having these critical data elements will not only improve financial reporting but may also provide information that is useful to the Army, Navy, Air Force, and the Marine Corps in their overall operation planning for General Equipment.

Lack of the critical data elements, such as the date the equipment was placed in service, the estimated useful life of the equipment, the unique item identifier, and location of the equipment, may adversely impact USSOCOM operational planning for equipment. For example, having these critical data elements may improve their operational planning for equipment by estimating the remaining useful life of the equipment, identifying and locating the equipment that needs to be upgraded or replaced, and scheduling routine maintenance on the equipment.

## **Inadequate Standard Operating Procedures and Lack of Coordination**

USSOCOM did not have adequate SOPs for reporting its General Equipment and Accumulated Depreciation account balances. In addition, critical data elements were not provided to USSOCOM due to a lack of coordination between USSOCOM and Component SOC personnel.

### ***Inadequate SOPs***

USSOCOM did not have adequate SOPs for reporting its General Equipment and Accumulated Depreciation account balances on its financial statements. USSOCOM only had draft SOPs, and we considered the SOPs inadequate because they did not include the procedures necessary to accurately report USSOCOM's General

Equipment and Accumulated Depreciation account balances. USSOCOM's draft SOPs have been under revision for several years. USSOCOM personnel have not finalized their SOPs because they are working with the OUSD(C)/CFO FIAR Directorate to develop a repeatable and sustainable process to report General PP&E on USSOCOM's financial statement. The draft SOPs were also inadequate because they did not identify the required critical data elements that must be obtained from the Component SOCs' property systems to accurately report and support USSOCOM General Equipment and Accumulated Depreciation account balances. Additionally, the draft SOPs did not identify and list the General Equipment categories that should be reported on USSOCOM financial statements from the Component SOCs' property systems. For example, USSOCOM omitted \$1.4 billion of AFSOC General Equipment from its first quarter FY 2016 financial statements because the draft SOPs did not identify Air National Guard and air evacuation training General Equipment being used by AFSOC as a category that should be included on USSOCOM financial statements. Furthermore, the draft SOPs did not list the documentation needed to support the USSOCOM journal voucher to record the General Equipment and Accumulated Depreciation account balances.

The draft SOPs did not assign areas of responsibility and lacked consistent instructions. Specifically, the draft SOPs did not state what staff positions were responsible for performing each task. For example, the only indication in the draft SOPs that a journal voucher review should be performed was a flowchart that showed a "decision box" that stated "JV ending Balance Accurate?." In addition, the written narrative in the draft SOPs did not include any language stating what staff positions were responsible for determining whether the journal voucher was accurate and supported and whether the information was correctly reported on the USSOCOM financial statements.

The draft SOPs did not document USSOCOM policies and procedures for calculating Depreciation and Accumulated Depreciation account balances for General Equipment data obtained through JFAAST, which did not already include this information. In addition, the draft SOPs did not include procedures for reconciling USSOCOM General Equipment and Accumulated Depreciation account balances to the Component SOCs' information. This reconciliation would identify any differences between USSOCOM and Component SOC information and help ensure the accuracy of USSOCOM General Equipment and Accumulated Depreciation account balances and USSOCOM financial statements.

## ***Lack of Coordination Between USSOCOM and Component SOC Personnel Hindered Data Sharing***

USSOCOM and Component SOC personnel did not effectively coordinate with each other to ensure that USSOCOM received all the critical data elements it needed to accurately report and support its General Equipment and Accumulated Depreciation account balances. Specifically, there were differences of opinion between USSOCOM and Component SOC personnel regarding the level of coordination and communication regarding USSOCOM efforts to obtain all the critical data elements that USSOCOM needed to accurately report and support its General Equipment and Accumulated Depreciation account balances. For example, USSOCOM personnel stated that they requested that WARCUM provide the data element “General Ledger Classification.” However, according to WARCUM representatives, USSOCOM did not request this data element. USSOCOM could avoid requesting this information by obtaining read-only access to the Component SOC’s property systems. Obtaining read-only access to Component SOC’s property systems would enable USSOCOM personnel to determine whether the USSOCOM General Equipment account balance has all the critical data elements. It’s also very important that the Component SOC’s property systems contain accurate and supported data elements. According to USSOCOM personnel, the Component SOC stated that they will work with USSOCOM personnel to provide read-only access to their property systems to ensure USSOCOM personnel obtain the critical data elements.

## **Property Systems Did Not Contain Accurate and Complete Data**

The Component SOC property systems did not always contain accurate and complete data to report and support USSOCOM General Equipment and Accumulated Depreciation account balances. For example, Component SOC’s property systems did not accurately contain the value of General Equipment. In addition, the information on the General Equipment in the Component SOC’s property systems did not include the modifications made by USSOCOM.<sup>18</sup> Each Component SOC faced challenges in accurately valuing General Equipment based on the original purchase price. Until each Component SOC can accurately value its General Equipment, USSOCOM cannot correctly report and support its General Equipment and Accumulated Depreciation account balances.

<sup>18</sup> USSOCOM is responsible for funding modifications that make USSOCOM General Equipment unique. An example of these modifications would include modifying a C130 cargo aircraft to an AC 130 Gunship. USSOCOM uses a special appropriation called Major Force Program 11.

## ***USASOC and MARSOC***

USASOC and MARSOC representatives recognized that their respective property systems did not meet DoD property system requirements. In addition, USASOC personnel stated that they are in the process of migrating from PBUSE to the GCSS-Army, but they could not state when USASOC would be fully migrated to GCSS-Army. USASOC personnel also stated that the acquisition cost can be entered into GCSS-Army, but that this is not a required field. Furthermore, USASOC personnel stated that even if the acquisition cost is initially entered into GCSS-Army, the acquisition cost is overwritten when the Federal Logistics Information System price is updated.

USASOC and MARSOC personnel stated that they are unable to accurately value the General Equipment in their property systems because the supporting documentation is no longer available. According to USASOC and MARSOC personnel, the General Equipment value provided to USSOCOM was based on the Federal Logistics Information System catalog instead of the original acquisition cost. The Federal Logistics Information System, which is administered by the Defense Logistics Agency, provides a catalog of prices of General Equipment used by the U.S. Government. According to USSOCOM representatives, this catalog provides the replacement cost for assets. USSOCOM representatives stated that the replacement cost from USASOC and MARSOC's property systems are used instead of the original acquisition cost.

In addition, according to USASOC personnel, in November 2015 USASOC began migrating a small amount of General Equipment records from PBUSE to GCSS-Army. USASOC personnel stated that USSOCOM had read-only access to obtain General Equipment values from PBUSE, but did not have read-only access to GCSS-Army. USASOC personnel also stated that USSOCOM did not obtain the universe and value of assets in GCSS-Army between November 2015 and September 2016. USASOC personnel also stated that, in early FY 2017, USSOCOM began requesting that USASOC provide capitalized General Equipment listings in GCSS-Army. However, because they had not tracked the universe and value of assets in GCSS-Army prior to early FY 2017, USASOC personnel were not able to determine the universe and value of GCSS-Army General Equipment for the period between November 2015 and September 2016.

## **WARCOM**

WARCOM personnel stated that asserting to the valuation of General Equipment is a major challenge. According to WARCOM personnel, although their property system captures and maintains the date placed in service and acquisition cost information for the life cycle of the asset, USSOCOM personnel did not provide the necessary acquisition documentation that supports the date placed in service and acquisition cost to ensure this data was accurate. For example, WARCOM personnel stated that they requested the documentation from USSOCOM personnel that has the original acquisition cost, but that USSOCOM personnel provided documentation that contained the replacement cost instead of the acquisition cost.

## **AFSOC**

AFSOC personnel stated that they could not assert to the accuracy of the General Equipment values in the AFSOC property system. During the course of our audit, the Air Force had only asserted to approximately 50 percent of valuation to ensure that AFSOC's property system contained accurate historical costs for General Equipment. The Air Force did not assert to the valuation, existence, and completeness of its General Equipment until August 2017.

USSOCOM does not have administrative control over the Component SOCs' property systems. However, USSOCOM requires critical data elements from these systems to accurately report its General Equipment and Accumulated Depreciation account balances. In addition, the Army, Navy, Air Force, and the Marine Corps property systems need to be accurate and complete to meet USSOCOM's financial reporting requirements and operation planning for General Equipment.

## **Duplicate Reporting of MARSOC General Equipment**

Both USSOCOM and the Marine Corps reported MARSOC General Equipment valued at \$145 million on their financial statements. USSOCOM reported \$203 million in MARSOC General Equipment on its second quarter FY 2016 financial statements. However, according to Marine Corps personnel, USSOCOM should have reported only \$58 million. Marine Corps personnel stated that USSOCOM incorrectly included the difference of \$145 million on its balance sheet and, therefore, overstated its General Equipment on its second quarter FY 2016 financial statements by \$145 million. This also created duplicate reporting of this General Equipment balance on the DoD Agency-Wide financial statements because it was included in both the USSOCOM and the Marine Corps financial statements.<sup>19</sup>

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<sup>19</sup> Marine Corps financial data is included in the Navy financial statements and the Navy's information is combined and consolidated into the DoD Agency-wide financial statements.

OUSD(C)/DCFO memorandum guidance and the DoD FMR do not clearly define the entity that should be considered the preponderant user of a Component SOC's General Equipment. Therefore, it is unclear which DoD Component should report General Equipment on its financial statements. The OUSD(C)/DCFO policy states that, within the DoD, control is assigned to operational and administrative commanders who use General Equipment to carry out missions assigned to that command. A command that is a financial reporting entity and that controls General Equipment is required to report the equipment on its financial statements. DoD Components should transfer the General Equipment and financial reporting responsibility to the entity with operational control over the General Equipment. However, the OUSD(C)/DCFO accounting policy did not clearly define operational control; consequently, the Marine Corps may have been noncompliant when it reported USSOCOM General Equipment on its financial statements. In addition, this accounting policy was not established in the DoD FMR as required by the OUSD(C)/DCFO memorandum guidance.

The DoD FMR states that, when determining which DoD Component must record General PP&E in its accounting records and report on its financial statements, all four of the following criteria must be met by the recognizing DoD Component.<sup>20</sup>

- The General PP&E asset must embody a probable future benefit that will contribute to the DoD Component's operations. In applying this criterion, the concept of benefit has traditionally been referred to as "service capacity," which is the ability of an asset to directly assist the DoD Component in achieving its mission.
- The DoD Component that reports the General PP&E asset must be able to obtain the benefit and control access to the benefit inherent in the asset.
- The transaction or event giving a DoD Component the right to, and control over, the benefit of a General PP&E asset must have already occurred.
- DoD Components must only report predominately used General PP&E under the accountability of other DoD Components when the cost of those assets, taken as a whole, are material to the predominant user financial statements.

According to Marine Corps personnel, the Army, Navy, and Air Force came to an agreement that all assets used by USSOCOM should be reported by USSOCOM. However, the Marine Corps did not agree with this reporting practice. Marine Corps personnel stated that any assets that are funded or maintained by the Marine Corps should remain on the Marine Corps balance sheet. Marine Corps personnel stated that they receive a request for forces from USSOCOM to staff, train, and equip a specific requirement with a defined timeline. The Marine Corps then provides the capability through MARSOC to fulfill a specific USSOCOM

<sup>20</sup> DoD FMR Volume 4, "Accounting Policy," Chapter 6, "Property, Plant, and Equipment," June 2009.

request, but it is not permanent. MARSOC can recall personnel and equipment at the direction of the Marine Corps Commandant. In addition, MARSOC personnel supporting USSOCOM do not transfer to USSOCOM but are instead assigned to a specific operation; the personnel remain under the command and control of the Marine Corps. Additionally, Marine Corps personnel stated that they control the provisioning of the General Equipment and fund the lifecycle management of the General Equipment. For these reasons, Marine Corps personnel concluded that they have “control” over the General Equipment and they should report the General Equipment and Accumulated Depreciation on their financial statements. However, USSOCOM disagreed with the Marine Corps position. USSOCOM maintains that, based on its understanding of the DoD FMR, it has operational control over the General Equipment and, as a result, is required to report the General Equipment on its financial statements.

The DoD FMR states that it is critical that the overall accounting records of DoD not be duplicative.<sup>21</sup> DoD Components that exchange assets must properly account for and report these assets on the appropriate financial statement. Disagreements about which DoD Component should report the assets are resolved by the OUSD(C)/CFO. The DoD FMR further requires that requests for resolution be submitted, with supporting documentation that justify the reporting of the assets, to assist in the resolution.

## **Actions Taken by USSOCOM**

USSOCOM personnel have been aware of their lack of internal controls over General Equipment and reported this as a material weakness since FY 2013. According to USSOCOM personnel, since September 2016, USSOCOM has coordinated with the Component SOCs to obtain the critical data elements it needs to accurately report General Equipment and Accumulated Depreciation on its financial statements. However, the Component SOCs have not yet been able to provide all the critical data elements needed to accurately report General Equipment and Accumulated Depreciation account balances. In addition, USSOCOM needs to work with the Military Services and Marine Corps to develop milestones for when the Component SOCs can provide the critical data elements.

Furthermore, according to USSOCOM personnel, they no longer obtain asset data from JFAAST, but instead receive property system data directly from all Component SOCs to report USSOCOM General Equipment and Accumulated Depreciation account balances. While these are positive steps towards more accurate reporting of General Equipment, USSOCOM needs to incorporate these steps into clear and detailed SOPs.

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<sup>21</sup> DoD FMR Volume 4, Chapter 6, “Property, Plant, and Equipment.”

## USSOCOM and DoD Agency-Wide Financial Statements May Not Be Accurate

If USSOCOM cannot obtain the critical data elements from its Component SOCs' property systems on a routine and recurring basis, USSOCOM General Equipment and Accumulated Depreciation account balances will continue to be misstated and unsupported, and its financial statements will be misstated. Misstatements and unsupported account balances will also continue if Component SOC property systems do not contain accurate and complete data on USSOCOM General Equipment and Accumulated Depreciation account balances. USSOCOM's inability to produce accurate General Equipment and Accumulated Depreciation account balances may also impact the accuracy of the DoD Agency-Wide financial statements because USSOCOM General Equipment is significant to the DoD Agency-Wide financial statements. Furthermore, if USSOCOM and the Marine Corps continue to report MARSOC assets on their financial statements, it will result in duplicate reporting of General Equipment. In addition, the lack of critical data elements, and inaccurate and incomplete data in the Component SOCs' property systems may also adversely impact the Army, Navy, Air Force, and Marine Corps operational planning for General Equipment. Therefore, it is important that the Army, Navy, Air Force, and Marine Corps obtain all the critical data elements and provide accurate and complete data for General Equipment.

## Management Comments on the Finding and Our Response

The Chief Financial Officer (CFO)/Comptroller, USSOCOM, stated that USSOCOM management self-identified and communicated to us many of the weaknesses and misstatements that we identified in the report. USSOCOM management stated they were already aware that the General Equipment amounts reported on the financial statements were misstated and that they were in the process of identifying the causes and taking corrective actions in accordance with the OUSD(C)/CFO FIAR Guidance. For example, USSOCOM self-identified that it overstated its General Equipment account balance by \$5.7 billion and corrected it in the first quarter of FY 2016, prior to the audit beginning.

In addition, USSOCOM stated that it communicated to the audit team that numerous property system processes had changed during the audit time period, including the phasing out of the PBUSE system and the JFAAST system after the third quarter of FY 2016. The CFO/Comptroller further stated that Component SOCs are required to use their Service's property systems, which do not capture the required data, and that all the Service's property systems need to be changed to meet the DoD requirements outlined in DoD Instruction 5000.64. The CFO/Comptroller

stated that he believes our determination that USSOCOM did not obtain critical data elements from its Component SOC property systems, which were needed to accurately report its General Equipment and Accumulated Depreciation account balances is, therefore, misleading.

Finally, the CFO/Comptroller stated that the financial reporting of General Equipment continues to evolve across the DoD. The Financial Accounting Standards Advisory Board (FASAB) recently released Technical Bulletin 2017-2, "Assigning Assets to Component Reporting Entities," November 1, 2017, which allows greater flexibility in the reporting of assets by Component entities. As a result, the OUSD(C)/CFO is developing an updated policy on the financial reporting responsibilities for PP&E that may change the way General Equipment is financially reported across the DoD. In addition, the OUSD(C)/CFO issued a memorandum, "Data Call Journal Vouchers to Be Migrated into the Accounting Systems," December 17, 2017, which requires that DoD Components begin assessing and developing a transition plan to migrate PP&E journal vouchers recorded in the Defense Departmental Reporting System into the field-level accounting systems. These policy updates will change the manner in which General Equipment is recorded, as well as the materiality of PP&E on USSOCOM's financial statements.

### *Our Response*

At the start of the audit, we recognized that USSOCOM General Equipment and Accumulated Depreciation account balances may be misstated and that USSOCOM was identifying the causes and developing corrective actions plans to prepare for its FY 2018 financial statement audit. We do acknowledge in the report that USSOCOM identified and corrected the \$5.7 billion misstatement in the first quarter of FY 2016.

We reported this internal control weakness and other internal control weaknesses, such as the duplicate reporting of assets, in this report to show the pervasive problems that USSOCOM has with accurately reporting its General Equipment and Accumulated Depreciation account balances and to make formal recommendations to improve the reporting of General Equipment and Accumulated Depreciation within USSOCOM and throughout the DoD. Based partly on these findings and our discussions with USSOCOM and the USD(C)/DCFO FIAR Directorate personnel throughout the audit, the DoD is making changes to its guidance on the recording of General Equipment, the transferring of General Equipment between DoD components, and the reporting of General Equipment in DoD component financial statements. For additional information on these policy updates, see Appendix B as well as the USD(C)/DCFO and USSOCOM comments in the Management Comments section of this report.

We also acknowledge in the report that many of the processes and Component SOC property systems that USSOCOM uses to calculate the General Equipment and Accumulated Depreciation account balances are changing. For example, in the report we state, “USASOC personnel stated that they are in the process of migrating away from PBUSE to the GCSS-Army, but could not state when USASOC would be fully migrated to GCSS-Army.” In addition, in a report footnote we state, “In July 2016, USSOCOM made a decision to stop using JFAAST and develop another process to obtain data elements.” In the report paragraph, “Actions Taken by USSOCOM,” we state that USSOCOM no longer obtains asset data from JFAAST but, instead, receives property system data directly from all Component SOCs to report USSOCOM General Equipment and Accumulated account balances.

However, we disagree with the CFO/Comptroller’s assertion that the statement that USSOCOM did not obtain critical data elements from its Component SOC property systems, which was needed to accurately report its General Equipment and Accumulated Depreciation account balances is misleading. It was, and remains, USSOCOM’s responsibility to obtain the financial information it needs to prepare accurate financial statements with accurate account balances, including the General Equipment and Accumulated Depreciation accounts. We acknowledge that not all of the Component SOC property systems capture all of the required data and that these property systems not only need to meet the critical data element needs of USSOCOM, but that of the Army, Navy, Air Force, and Marine Corps as well. Specifically, the Component SOC property systems need to be changed to meet the requirements of DoD Instruction 5000.64. For these reasons, we made recommendations to the Army, Navy, Air Force, and the Marine Corps to provide accurate and complete data elements to USSOCOM for the reporting of its General Equipment and Accumulated Depreciation account balances and to provide milestones for completing this undertaking. However, there were instances where the Component SOC property systems were capable of collecting the necessary data, but the data was not collected and provided to USSOCOM. For example, MARSOC uses the property system GCSS-MC, and the audit team observed a logistician enter a unique identifier for General Equipment when entering General Equipment information into GCSS-MC. Although USSOCOM stated they requested this information from MARSOC they did not receive it.

Lastly, we acknowledge that the financial reporting of General Equipment within the DoD is evolving and will continue to change as new reporting requirements are established. However, we conducted this audit using the financial reporting requirements for General Equipment and Accumulated Depreciation that existed at the time of the audit.

## Recommendations, Management Comments, and Our Response

### **Recommendation 1**

**We recommend that the Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer:**

- a. Update its accounting policy relating to the transfer and reporting of General Equipment balances between entities and clearly distinguish which entity should maintain the accounting of the General Equipment and Accumulated Depreciation account balances and report the balances on the financial statements.**

### *Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer Comments*

The Financial Improvement and Audit Remediation Director (FIAR Director), responding for the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (DCFO), agreed with the recommendation. The FIAR Director stated that the DCFO is currently developing new guidance governing the accounting and reporting of all PP&E, to include General Equipment. The FIAR Director stated that the Federal Accounting Standards Advisory Board published Technical Bulletin 2017-2, "Assigning Assets to Component Reporting Entities," November 1, 2017. Technical Bulletin 2017-2 provides the DoD flexibility in developing and implementing policy for consistent and auditable reporting of General Equipment. The DCFO is currently collaborating with stakeholders to develop new policy guidance for General Equipment that will provide a standardized approach for the reporting of General Equipment and the transfer of General Equipment between DoD components. The estimated completion date is April 30, 2018.

### *Our Response*

Comments from the FIAR Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we review the guidance and determine that the guidance meets the intent of our recommendation.

- b. Incorporate the updated accounting policy into DoD Financial Management Regulation, Volume 4, Chapter 6, "Property, Plant, and Equipment."**

### *Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer Comments*

The FIAR Director, responding for the DCFO, agreed with the recommendation. The FIAR Director stated that the DCFO has been working to revise the DoD FMR and will incorporate the new policy guidance for PP&E that was discussed in Recommendation 1.a. Specifically, Chapter 6 will be rescinded and replaced with a separate chapter for each major property area. The estimated completion date is September 30, 2018.

### *Our Response*

Comments from the FIAR Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we review the revised DoD FMR and determine whether the revised guidance effectively incorporates the updated DCFO policy guidance for PP&E.

## **Recommendation 2**

**We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller):**

- a. Provide accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.**

### *Assistant Secretary of the Army (Financial Management and Comptroller) Comments*

The Deputy Assistant Secretary of the Army (Financial Operations), responding for the Assistant Secretary of the Army (Financial Management and Comptroller), did not agree or disagree with the recommendation. The Deputy Assistant Secretary stated that the Army is working with USSOCOM to identify all USSOCOM assets that are managed in the Army APSR (Accountable Property System of Record). He further stated that Army and USSOCOM working sessions have resulted in the identification of the data elements needed for USSOCOM to report General Equipment on its financial statements. The Army did not give an estimated completion date, but stated in comments to Recommendation 2.b. that they expect to provide the data elements by the fourth quarter of FY 2018.

### *Our Response*

Comments from the Deputy Assistant Secretary addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the Army has identified all of USSOCOM assets in the Army property systems and has provided accurate and complete data elements to USSOCOM.

- b. Develop milestones for providing accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.**

### *Assistant Secretary of the Army (Financial Management and Comptroller) Comments*

The Deputy Assistant Secretary of the Army (Financial Operations), responding for the Assistant Secretary of the Army (Financial Management and Comptroller), did not agree or disagree with the recommendation. The Deputy Assistant Secretary stated that the Army is committed to working with USSOCOM to provide data from Army APSRs to USSOCOM in a timely manner and at a frequency that supports the management and tracking of the data for USSOCOM reporting purposes. The Army expects to provide data elements by the fourth quarter of FY 2018.

### *Our Response*

Comments from the Deputy Assistant Secretary addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the Army has identified all of the USSOCOM assets in the Army APSR and has provided accurate and complete data elements to USSOCOM.

## **Recommendation 3**

**We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):**

- a. Provide accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.**

### *Assistant Secretary of the Navy (Financial Management and Comptroller) Comments*

The Deputy Assistant Secretary of the Navy (Financial Operations), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), did not agree with the recommendation. The Deputy Assistant Secretary stated that the Navy does not have a role in providing USSOCOM accurate data elements

for asset accountability and accumulated depreciation calculations because the WARCOM uses DPAS and the Navy does not control the configuration of DPAS. She also stated that the Navy does not include the subject assets in the Navy financial statements and that requirements for WARCOM asset reporting should be directed by USSOCOM as the assets are part of those financial statements.

### *Our Response*

Comments from the Deputy Assistant Secretary did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We disagree with the Deputy Assistant Secretary's assertion that the Navy does not have a role in providing USSOCOM accurate data elements for asset accountability and accumulated depreciation calculations. WARCOM is a Special Operations Command under the Navy, and both WARCOM and the Navy use DPAS as their property system. The recommendation does not request that the Navy change DPAS. Rather, we ask that the Navy ensure that the information they are already required to maintain in its property system comply with DoD Instruction 5000.64. DPAS is already capable of providing each of the 10 data elements we identified in DoD Instruction 5000.64 for the accurate reporting of General Equipment and Accumulated Depreciation account balances. We request that the Deputy Assistant Secretary provide additional comments to the final report that discusses how the Navy plans to provide accurate and complete data elements for the reporting of USSOCOM General Equipment and Accumulated Depreciation account balances.

- b. Develop milestones for providing accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.**

### *Assistant Secretary of the Navy (Financial Management and Comptroller) Comments*

The Deputy Assistant Secretary of the Navy (Financial Operations), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), did not agree with the recommendation. The Deputy Assistant Secretary stated that, because she does not agree with Recommendation 3.a., she does not agree with recommendation 3.b. and will not submit milestones.

### *Our Response*

Comments from the Deputy Assistant Secretary did not address the specifics of the recommendation; therefore, the recommendation is unresolved. As previously discussed, DPAS is already capable of providing each of the 10 data elements identified in DoD Instruction 5000.64 for the accurate reporting of General Equipment and Accumulated Depreciation account balances. We request that

the Deputy Assistant Secretary provide additional comments to the final report that provides milestones for providing accurate and complete data elements to USSOCOM for the reporting of its General Equipment and Accumulated Depreciation account balances.

#### ***Recommendation 4***

**We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller):**

- a. Provide accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.**

#### ***Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments***

The Associate Deputy Assistant Secretary (Financial Operations) (SAF/FMF), responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed with the recommendation. The Associate Deputy Assistant Secretary stated that the Air Force would collaborate with appropriate AFEMS personnel to provide USSOCOM with complete and accurate data elements to allow reporting of USSOCOM General Equipment and Accumulated Depreciation account balances. The Air Force expects to complete this by August 31, 2018.

#### ***Our Response***

Comments from the Associate Deputy Assistant Secretary addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the Air Force has identified all of USSOCOM assets in the Air Force property systems and has provided accurate and complete data elements to USSOCOM.

- b. Develop milestones for providing accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.**

#### ***Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments***

The Associate Deputy Assistant Secretary (Financial Operations) (SAF/FMF), responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed with the recommendation. The Associate Deputy Assistant Secretary stated that the Air Force is collaborating with the appropriate AFEMS, AFSOC, and USSOCOM personnel to document business processes, update existing

policies, develop milestones, and strengthen internal controls that will improve the financial reporting accuracy of General Property, Plant, and Equipment on USSOCOM financial statements. The Air Force expects to complete this by August 31, 2018.

### *Our Response*

Comments from the Associate Deputy Assistant Secretary addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the Air Force has identified all of USSOCOM assets in the Air Force property systems and has provided accurate and complete data elements to USSOCOM.

## **Recommendation 5**

**We recommend that the United States Marine Corps Comptroller:**

- a. Provide accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.**

### *United States Marine Corps Comptroller Comments*

The Audit Coordination Head, Office of the Staff Director, responding for the Marine Corps Comptroller, agreed with the intent of the recommendation. The Audit Coordination Head did not agree or disagree with the recommendation. The Audit Coordination Head stated that, to the extent its systems can accommodate implementation, the Marine Corps supports the improvement in the overall accuracy of financial statements across the DoD.

### *Our Response*

Comments from the Audit Coordination Head did not address the specifics of the recommendation; therefore, the recommendation is unresolved. Although the Audit Coordination Head agreed with the intent of the recommendation, he did not state the actions the Marine Corps would take to provide the data elements needed to accurately report General Equipment. We request that the Audit Coordination Head provide additional comments to the final report that discusses how the Marine Corps plans to identify all of the USSOCOM assets in the Marine Corps property systems and provide accurate and complete data elements to USSOCOM.

- b. Develop milestones for providing accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.**

### *United States Marine Corps Comptroller Comments*

The Audit Coordination Head, Office of the Staff Director, responding for the Marine Corps Comptroller, agreed with the intent of the recommendation. The Head of Audit Coordination stated that once the DCFO updates the existing accounting policy related to the transfer and reporting of General Equipment between entities and clearly distinguishes which entity should maintain the accounting records and report General Equipment and Accumulated Depreciation account balances on the financial statements, the Marine Corps will assess the required actions necessary to implement the new accounting policy.

### *Our Response*

Comments from the Audit Coordination Head addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the Marine Corps has identified all of the USSOCOM assets in the Marine Corps property system, provided accurate and complete data elements to USSOCOM, and complied with the new DCFO accounting policy. We also request that the Audit Coordination Head provide an estimated completion date.

## **Recommendation 6**

**We recommend that the Director of Accounting, U.S. Special Operations Command:**

- a. Revise the draft standard operating procedures and then issue a final version for the reporting of the General Equipment and Accumulated Depreciation account balances on the U.S. Special Operations Command financial statements. The revised standard operating procedures should:**
  - 1. Identify the critical data elements that need to be obtained from the Component Special Operation Commands' property systems to accurately report and support U.S. Special Operations Command General Equipment and Accumulated Depreciation account balances.**

### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, agreed with the recommendation. The CFO/Comptroller stated that USSOCOM has updated their SOPs and they have been designed to be a living document, to be kept current as processes or procedures change. The CFO/Comptroller stated that the updated procedures lists the 13 critical data elements that are requested of the Military Service property systems that are used by USSOCOM Component SOCs and TSOCs.

### *Our Response*

Comments from the CFO/Comptroller addressed all specifics of the recommendation. No further action is needed. We consider this recommendation closed.

- 2. Identify all the sources of U.S. Special Operations Command General Equipment to record in its General Equipment and Accumulated Depreciation accounts and report on its financial statements.**

### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, agreed with the recommendation. The CFO/Comptroller stated that the updated SOPs now contain a listing of the property systems for each individual Component SOC and TSOC, which represents the source of the General Equipment balances on USSOCOM's financial statements.

### *Our Response*

Comments from the CFO/Comptroller partially addressed the recommendation; therefore, the recommendation is unresolved. The CFO/Comptroller did not state whether the updated SOPs identified and listed the General Equipment categories used to report USSOCOM General Equipment account balance. For example, in the report we discuss how the draft SOPs did not identify Air National Guard and air evacuation training General Equipment being used by AFSOC as a category that should be included on USSOCOM financial statements, and \$1.4 billion was omitted from their first quarter FY 2016 financial statements as a result. We request that the CFO Comptroller provide additional comments to the final report that revises the SOPs to identify all the categories of USSOCOM General Equipment. We also request that the CFO/Comptroller provide an estimated completion date.

- 3. Identify the documentation needed to support the U.S. Special Operations Command journal voucher for recording its General Equipment and Accumulated Depreciation account balances.**

### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, agreed with the intent of the recommendation. The CFO/Comptroller stated that USSOCOM will update the SOPs and will add the required documentation needed to support the journal voucher used to record General Equipment and Accumulated Depreciation account balances. The CFO/Comptroller also stated that OUSD(C)/CFO issued a memorandum, "Data Call Journal Vouchers to be Migrated into the Accounting Systems," December 14, 2017, that requests journal vouchers be entered

into field-level accounting systems instead of the Defense Departmental Reporting System (DDRS) to the maximum extent possible. Consequently, USSOCOM will no longer compile financial information and create a journal voucher in the DDRS; Component SOC and TSOCs will create journal vouchers in field-level accounting systems. The SOPs will be updated accordingly.

### *Our Response*

Comments from the CFO/Comptroller addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the updated SOPs identify all the documentation needed to support the journal voucher for recording General Equipment and Accumulated Depreciation account balances at the Component SOC and TSOC level. The OUSD(C) expects to revise the DoD FMR by September 30, 2018, which will affect the USSOCOM process for recording General Equipment. We request that the CFO Comptroller provide additional comments to the final report that provides an estimated completion date to revise its SOPs after the OUSD(C) revises the DoD FMR.

- 4. Identify the staff positions that are responsible for determining whether the journal voucher is accurate and supported and whether the information is correctly reported on U.S. Special Operations Command financial statements.**

### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, partially agreed with the recommendation. The CFO/Comptroller stated that the updated SOPs identify the USSOCOM staff positions responsible for reviewing and approving the draft journal voucher prior to posting in DDRS. The CFO/Comptroller added that, based on the OUSD(C)/CFO December 2017 memorandum, the current practice of entering journal vouchers into DDRS has changed; that is, journal vouchers will now be entered into field-level accounting systems.

### *Our Response*

Comments from the CFO/Comptroller addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the updated SOPs identify the staff positions that are responsible for determining whether the journal voucher is accurate and supported and whether the information is correctly reported on USSOCOM financial statements at the Component SOC and TSOC level.

The OUSD(C) expects to revise the DoD FMR by September 30, 2018, which will affect the USSOCOM process for recording General Equipment. We request that the CFO Comptroller provide additional comments to the final report that provides an estimated completion date to revise its SOPs after the OUSD(C) revises the DoD FMR.

- 5. Provide the policies and procedures for calculating Depreciation and Accumulated Depreciation account balances for General Equipment when Component Commands do not provide this information.**

#### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, partially agreed with the recommendation. The CFO/Comptroller stated that criteria pertaining to depreciation calculations will be added to the SOPs. The CFO/Comptroller added that, based on the OUSD(C)/CFO December 2017 memorandum, the current practice of entering journal vouchers into DDRS has changed; that is, journal vouchers will now be entered into field-level accounting systems. Therefore, USSOCOM will no longer calculate depreciation or create a journal voucher in DDRS.

#### *Our Response*

Comments from the CFO/Comptroller partially addressed the recommendation; therefore, the recommendation is unresolved. The CFO/Comptroller agreed to add criteria pertaining to depreciation calculations to the SOPs, but he did not state when this would be done. As a clarification, based on new guidance from OUSD(C)/CFO, the expectation is that USSOCOM Component SOCs and TSOs will now enter journal vouchers into the field-level accounting systems to record General Equipment and depreciation. The OUSD(C) expects to revise the DoD FMR by September 30, 2018, which will affect the USSOCOM process for recording General Equipment. We request that the CFO Comptroller provide additional comments to the final report that provides an estimated completion date to revise its SOPs after the OUSD(C) revises the DoD FMR.

- 6. Include procedures for reconciling U.S. Special Operations Command General Equipment and Accumulated Depreciation account balances to the Component Special Operations Commands' property systems information regarding addition and subtractions from these account balances from one reporting period to the next reporting period.**

### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, agreed with the recommendation. The CFO/Comptroller stated that the updated SOPs include procedures to reconcile General Equipment and Accumulated Depreciation account balances to Component SOCs' property systems.

### *Our Response*

Comments from the CFO/Comptroller addressed all specifics of the recommendation. No further action is needed. We consider this recommendation closed.

- b. Assist Component Special Operations Command personnel in identifying all the critical data elements that U.S. Special Operations Command needs from the Component Special Operations Commands' property systems to accurately report and support U.S. Special Operations Command General Equipment and Accumulated Depreciation account balances.**

### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, agreed with the recommendation. The CFO/Comptroller stated that, starting on March 10, 2016, USSOCOM requested quarterly data calls from the Component SOCs and TSOCs to provide the critical data elements outlined in DoD Instruction 5000.64.

### *Our Response*

Comments from the CFO/Comptroller addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we confirm and review the data calls and see that the Component SOCs and TSOCs are providing the critical data elements needed to accurately report USSOCOM General Equipment and Accumulated Depreciation account balances.

- c. Request Component Special Operations Command personnel provide read-only access to their property systems to confirm that the U.S. Special Operations Command has all the critical data elements it needs to accurately report and support the U.S. Special Operations Command General Equipment and Accumulated Depreciation account balances.**

### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, partially agreed with the recommendation. The CFO/Comptroller stated that they currently have read-only access to two systems, DPAS and REMIS, and he would request read-only access to the remaining property systems. The CFO/Comptroller added that, based on the OUSD(C)/CFO December 2017 memorandum, the current practice of entering journal vouchers into DDRS has changed; that is, journal vouchers will now be entered into field-level accounting systems. The CFO/Comptroller stated the SOPs will be updated accordingly.

### *Our Response*

Comments from the CFO/Comptroller partially addressed the recommendation; therefore, the recommendation is unresolved. The CFO/Comptroller agreed to obtain read-only access for the remaining systems, but he did not state when this would be done. We request that the CFO Comptroller provide additional comments to the final report that discusses when USSOCOM will have read-only access to all the applicable property systems. As a clarification, the statement that USSOCOM will no longer compile data calls and create journal voucher in DDRS is accurate, but USSOCOM is still responsible for ensuring that its Component SOCs and TSOCs have the critical data elements needed to accurately report and support the USSOCOM General Equipment and Accumulated Depreciation account balances.

- d. Review and verify that the General Equipment being reported on U.S. Special Operations Command Balance Sheet reconciles to the component Special Operations Commands' property systems data and listing of assets.**

### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, agreed with the recommendation. The CFO/Comptroller stated that updated SOPs include procedures to reconcile the General Equipment balance on the USSOCOM Balance Sheet to the Component SOCs' property systems.

### *Our Response*

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. Including the reconciliation procedures in the updated SOPs is a good first step. However, we request that the CFO/Comptroller provide additional comments to the final report that

demonstrates that USSOCOM has reconciled the General Equipment being reported on the USSOCOM Balance Sheet to the Component SOCs' property systems data and listing of assets. We also request that the CFO/Comptroller provide an estimated completion date.

- e. **Request the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer make a determination on whether the U.S. Special Operations Command or the Marine Corps should report the Marine Corps Forces Special Operation Command General Equipment as well as other Military Services General Equipment.**

#### *U.S. Special Operations Command Comments*

The CFO/Comptroller, responding for the Director of Accounting, agreed with the recommendation. The CFO/Comptroller stated that OUSD(C)/CFO is currently revising guidance clarifying the reporting responsibility for General Equipment across the DoD. The CFO/Comptroller also stated that USSOCOM will request a meeting with the OUSD(C)/CFO and each of the Military Services to discuss implications of the revised guidance and how to segregate previously reported assets. The CFO/Comptroller stated that he has taken interim steps to update reporting procedures to include SOF-Peculiar MARSOC assets only on USSOCOM financial statements and not on the Marine Corps financial statements.

#### *Our Response*

Comments from the CFO/Comptroller partially addressed the recommendation; therefore, the recommendation is unresolved. The CFO/Comptroller stated that USSOCOM will request a meeting with the OUSD(C)/CFO and each of the Military Services to discuss implications of the revised guidance, but he did not state when this would be done. We request that the CFO Comptroller provide additional comments to the final report that demonstrates an agreement has been reached between all parties on which DoD Component will maintain the accounting records and report General Equipment and Accumulated Depreciation on its financial statements for assets shared by two different DoD Components. We also request that the CFO/Comptroller provide an estimated completion date.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from May 2016 to February 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We interviewed USSOCOM logistics personnel to gain an understanding of their acquisition and accountability process for General Equipment. We also interviewed USSOCOM accounting staff to determine their process for recording General Equipment and Accumulated Depreciation account balances in the accounting records and reporting these accounts on USSOCOM financial statements. In addition, we reviewed USSOCOM's draft SOPs for recording the General Equipment and Accumulated Depreciation accounts in the accounting records and reporting them on the financial statements. Additionally, we reviewed various criteria regarding General PP&E, such as SFFAS No. 6, "Accounting for Property, Plant, and Equipment." We also reviewed DoD Instruction 5000.64, the DoD FMR, OUSD(C)/DCFO memorandums, and OUSD(C)/CFO FIAR Guidance.

We obtained and reviewed the journal vouchers and their supporting documentation for recording USSOCOM General Equipment and Accumulated Depreciation balances on the USSOCOM Balance Sheet for FY 2015 and the first and second quarters of FY 2016. We then compared the journal vouchers and their supporting documentation to Note 10, "General PP&E," of the USSOCOM Balance Sheets for FY 2015 and the first and second quarters of FY 2016 to determine if the information in Note 10 was correct.

We conducted site visits to USASOC, WARCOM, AFSOC, and MARSOC to understand the controls for receiving, accounting, reporting, and disposing of USSOCOM General Equipment. We observed logistics personnel entering General Equipment into Component SOCs' property systems. We also performed tests for existence and completeness of USSOCOM General Equipment account balances. For existence testing, we selected a non-statistical sample of at least five assets from each of the Component SOCs' property systems to determine whether the serial numbers recorded in the property systems were on the General Equipment identification plates. For completeness testing, we selected a non-statistical sample of at least five assets from each of the Component SOCs' assets to determine whether they were properly recorded in the Component SOCs' property systems. These tests

were performed to determine whether the recommendations from the USSOCOM FIAR team's corrective action plans were implemented. We did not review the controls at the Theatre Commands because the amounts reported for these commands were not material. In addition, we did not review the controls at JSOC because its General Equipment is classified.

We interviewed accounting personnel from the Army, Navy, Air Force, and Marine Corps, and obtained General Equipment asset listings from them to review and compare against the General Equipment account balances reported on USSOCOM's Balance Sheets to identify any differences. We also met with OUSD(C)/CFO FIAR Directorate personnel to discuss preponderance of use for determining whether USSOCOM or the Military Services should report USSOCOM General Equipment account balances.

## Use of Computer-Processed Data

To perform this audit, we obtained and used computer-processed data from JFAAST on USSOCOM General Equipment and Accumulated Depreciation. Specifically, we used computer-processed data from JFAAST that was extracted from USASOC, AFSOC, and MARSOC property systems, and PBUSE, AFEMS, and GCSS-MC respectively. In addition, we used computer-processed data from WARCOC and AFSOC property systems and DPAS and REMIS, respectively. We used detailed asset listings from these property systems. We used this computer-processed data to determine USSOCOM General Equipment and Accumulated account balances by Component SOCs. We also used this data to determine whether the journal voucher for recording USSOCOM General Equipment and Accumulated Depreciation agreed with the data from the Component SOCs' property systems and whether the journal voucher was properly supported.

In addition, we used computer-processed data from Component SOCs' property systems to determine whether USSOCOM obtained all the critical data elements it needed from these property systems to accurately report its General Equipment and Accumulated Depreciation account balances. Furthermore, we used computer-processed data from these property systems to select a non-statistical sample of USSOCOM General Equipment to review. While we used this computer-processed data to perform various reviews and tests, we did not rely on this data to support the conditions we identified during our audit. We identified internal control weaknesses on the reporting of USSOCOM General Equipment and Accumulated Depreciation account balances that affected the accuracy of these accounts. Therefore, the computer-processed data we obtained supported the conditions and findings in this report.

## Prior Coverage

During the last 5 years, the DoD OIG issued one report related to USSOCOM General Equipment. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports>.

### ***DoD OIG***

DODIG Report No. DODIG-2017-030, "USSOCOM Needs to Improve Management of Sensitive Equipment," December 12, 2016

USSOCOM officials did not properly account for USSOCOM sensitive equipment valued at a projected amount of \$615.5 million. This occurred because USSOCOM officials did not establish comprehensive materiel management guidance for sensitive equipment. As a result, USSOCOM did not have accurate inventory data that was needed to make timely and informed decisions on sensitive equipment. In addition, USSOCOM did not have the appropriate data available to determine whether a property loss investigation should be initiated for inventory discrepancies.

## Appendix B

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### General Property, Plant, and Equipment

The DoD FMR requires all General PP&E acquired by the DoD to be recognized for accounting and financial reporting purposes.<sup>1</sup> Recognition requires either expensing or capitalizing and depreciating the General PP&E. When acquiring a General PP&E asset, the acquisition cost and other costs necessary to bring the asset to an operable condition are capitalized if the total cost equals or exceeds the applicable DoD capitalization threshold and the asset has an estimated useful life of two or more years.<sup>2</sup> If the General PP&E acquisition costs do not equal or exceed the DoD capitalization threshold, the costs are expensed in the period incurred. The recorded cost, which is the total of the acquisition and ancillary costs, of General PP&E is the basis for computing depreciation.

Depreciation expense must be accumulated in a contra asset account—accumulated depreciation. Amortization expense must be accumulated in a contra asset account—accumulated amortization. Costs which either extend the useful life of existing General PP&E or enlarge or improve its capacity must be capitalized and depreciated or amortized over the remaining useful life of the associated General PP&E.

To establish proper accountability over General PP&E acquired from another DoD Component, the acquiring DoD Component must request from the losing DoD Component the necessary source documents to establish the location, original acquisition cost, cost of improvements, the date the asset was placed in service, the estimated useful life, and the amount of accumulated depreciation. If this information is not available, estimates may be necessary and must be documented.

DoD Instruction 5000.64 establishes policy, assigns responsibility, and provides procedures for DoD-owned equipment and other accountable property.

DoD Instruction 5000.64 requires DoD reporting entities to:

- establish accountability of property upon receipt, delivery, and acceptance;
- maintain accountability of property in property systems;
- report property records in a single property system;
- conduct a physical inventory at least every 3 years; and
- achieve and maintain a 98 percent physical inventory accuracy rate.

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<sup>1</sup> DoD FMR Volume 4, Chapter 6, "Property, Plant, and Equipment," June 2009.

<sup>2</sup> These are known as ancillary costs and include architectural and engineering services, handling and storage costs, and transportation charges to the point of initial use.

In addition, reporting entities must keep accountable property records current and reflect the current status, location, and condition of the assets until authorized disposition of the property occurs. The property records must provide a complete tracking of all transactions for audit and are the authoritative source for validating the existence and completeness of an asset.

## Management Comments

### Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND  
REPORTING, DEPARTMENT OF DEFENSE OFFICE OF  
INSPECTOR GENERAL

SUBJECT: Comments on Draft Audit Report "U.S. Special Operations Command Reporting of  
General Equipment on Its Financial Statements," (Report No. D2016-D000FP-  
0158.000)

This memorandum responds to your request for comments on recommendations 1.a and  
1.b made to the Under Secretary of Defense (Comptroller) and/or Deputy Chief Financial  
Officer. Please reference the attachment for our comments. We have taken action to implement  
the recommendations and would like the audit report to reference the work we have completed as  
detailed in the attached responses.

The Department appreciates the opportunity to comment on the report, and appreciates  
your office's ongoing engagement and support for efforts directed at DoD's financial  
improvement and auditability. My staff point of contact is [REDACTED]. Please reach him  
at [REDACTED].

  
Mobola Kadiri  
Director, Financial Improvement Audit Remediation

Attachment:  
As stated

## Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer (cont'd)

THE OFFICE OF INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
DRAFT AUDIT REPORT DATED FEBRUARY 12, 2018  
PROJECT NO. D2016-D000FP-0158.000

“U.S. SPECIAL OPERATIONS COMMAND REPORTING OF GENERAL EQUIPMENT ON  
ITS FINANCIAL STATEMENTS”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
(OUSDC) RESPONSE TO THE DOD INSPECTOR GENERAL RECOMMENDATIONS

RECOMMENDATION 1.a: The DoD Office of Inspector General (DoD OIG) recommends that the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer update its accounting policy relating to the transfer and reporting of General Equipment balances between entities and clearly distinguish which entity should maintain the accounting of General Equipment and Accumulated Depreciation account balances and report the balances on the financial statements.

OUSDC RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller), Deputy Chief Financial Officer (DCFO) is currently developing new guidance governing the accounting and reporting of all Property, Plant, and Equipment (PP&E), to include General Equipment.

On November 1, 2017, the Federal Accounting Standards Advisory Board published Technical Bulletin 2017-2: Assigning Assets to Component Reporting Entities. This technical guidance gives the DoD additional flexibility in developing and implementing policy to achieve more consistent and auditable reporting of PP&E Assets. DCFO is currently developing new policy guidance for General Equipment reporting in collaboration with the military departments, key agencies and activities, and partners in the Office of the Under Secretary of Defense (Acquisition and Sustainment). This guidance will provide a standardized approach to General Equipment reporting, including standardized transactions for transferring assets between components in implementing this policy. The estimated completion date is April 30, 2018.

RECOMMENDATION 1.b: The DoD OIG recommends that the Under Secretary of Defense (Comptroller)/DCFO incorporate the updated accounting policy into DoD Financial Management Regulation, Volume 4, Chapter 6, “Property, Plant, and Equipment.”

OUSDC RESPONSE: Concur. The DCFO has been working to revise the DoD Financial Management Regulation (FMR) Volume 4, Chapter 6. As a result of these revisions, Financial Management Regulation, Volume 4, Chapter 6, will be rescinded and replaced with a separate chapter for each major property area. The new General Equipment chapter will incorporate the policy memo described in the response to recommendation 1.a above. The estimated completion date is September 30, 2018.

Attachment

## Assistant Secretary of the Army (Financial Management and Comptroller)



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20310-0109

SAFM-FO

27 March 2018

MEMORANDUM FOR Inspector General, Department of Defense, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Army Response to Inspector General Report: U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements (Project No. D2016-D000FP-0158.000) dated 12 February 2018

1. The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)) response to the above subject is attached. The attached enclosure addresses Recommendation 2. These recommendations focus on General Equipment impacting the Army General Fund full financial statement audit, starting in fiscal year 2018, timeline.
2. These responses report the status of activities previously described as being underway. The Army is applying the appropriate resources to ensure this remains a highly visible priority across the organization and will continue to execute the corrective actions documented.
3. The point of contact for this action is [REDACTED] who can be reached at [REDACTED], or by e-mail: [REDACTED].

*Wesley C. Miller* [REDACTED]

Wesley C. Miller  
Deputy Assistant Secretary of the Army  
(Financial Operations)

Encl  
as

## Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

### Enclosure 1

U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements  
(Project No. D2016-D000FP-0158.000) dated 12 February 2018

#### Response for Recommendation 2

**Recommendation 2.a:** We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller): Provide accurate and complete data elements to the U.S. Special Operations Command (USSOCOM) for the reporting of its General Equipment and Accumulated Depreciation account balances.

**Command Comments:** ASA(FM&C) has been working with the USSOCOM to identify all USSOCOM assets that are managed in the Army Accountable Property Systems of Record (APSRs). The working sessions with USSOCOM have resulted in the identification of the data elements needed for USSOCOM to report general equipment on its financial statements.

**Recommendation 2.b:** Develop milestones for providing accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.

**Command Comments:** ASA(FM&C) is committed to working with USSOCOM to establish milestones which provide data from the Army APSRs to USSOCOM in a timely manner and at a frequency that supports the management and tracking of the information for USSOCOM reporting purposes. The Army expects to be able to provide USSOCOM data by Q4, FY18.

## Assistant Secretary of the Navy (Financial Management and Comptroller)



**DEPARTMENT OF THE NAVY**  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, DC 20350-1000

MAR 14 2018

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Response to DoDIG D2016-D000FP-0158.000, "U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements"

Attached are the Department of the Navy's response to subject report regarding the draft report's markings, to include a response to Recommendations 3a and 3b.

My point of contact is [REDACTED]

*Karen L Fenstermacher*  
KAREN L. FENSTERMACHER  
Deputy Assistant Secretary of the Navy  
(Financial Operations)

## Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

### Response to DoDIG D2016-D000FP-0158.000

#### “U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements”

##### **Recommendation 3a:**

The DoDIG recommended that the Assistant Secretary of the Navy (Financial Management and Comptroller) provide accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.

##### **Department of the Navy Response:**

The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN (FM&C)) does not concur with Recommendation 3a that the Assistant Secretary of the Navy (Financial Management and Comptroller) has a role in providing correct data elements for asset accountability and accumulated depreciation calculation to Special Operations Command (SOCOM) for the correct reporting of its assets based on the following determinations:

- The WARCOT uses the Defense Property Accountability System (DPAS). DPAS is a Department of Defense Accountable Property System of Record (APSR). The OASN (FM&C) does not control the DPAS APSR system configuration as it is a Department of Defense-owned system.
- The OASN (FM&C) does not include the subject assets in Navy Financial Statements. Requirements for WARCOT asset reporting should be directed by SOCOM as the assets are part of those financial statements.

##### **Recommendation 3b:**

The DoDIG recommended that the Assistant Secretary of the Navy (Financial Management and Comptroller) develop milestones for providing accurate and complete data elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.

##### **Department of the Navy Response:**

The OASN (FM&C) does not concur with Recommendation 3a and subsequently shall not submit milestones.

## Assistant Secretary of the Air Force (Financial Management and Comptroller)



DEPARTMENT OF THE AIR FORCE  
WASHINGTON DC  
OFFICE OF THE ASSISTANT SECRETARY

16 April 2018

MEMORANDUM FOR DoD OIG, Follow-Up and Quality Assurance Division

FROM: SAF/FMF

SUBJECT: Department of Defense Office of Inspector General (DoD OIG), Draft Report of Audit, U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements (Project No. D2016-D000FP-0158.000)

We concur with the audit results and recommendation from the DoD OIG Draft Report of Audit, U.S. Special Operations Command Reporting of General Equipment on its Financial Statements. Specific management comments are attached.

If you have any questions or concerns with our comments, please contact [REDACTED]

A handwritten signature in black ink that reads "Fredrick E. Carr".

Fredrick E. Carr  
Associate Deputy Assistant Secretary  
(Financial Operations)

Attachment:  
Management Comments

BREAKING BARRIERS...SINCE 1947

## Assistant Secretary of the Air Force (Financial Management and Comptroller) (cont'd)

2

Department of Defense Office of Inspector General (DoD OIG)  
Report of Audit, U.S. Special Operations Command Reporting of General Equipment on It's  
Financial Statements  
(Project No. D2016-D000FP-0158.000)

**Audit Results:** Concur

**Recommendation 4.a** Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide accurate and complete data elements to the U. S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.

**Assistant Deputy Assistant Secretary (Financial Operations) (SAF/FMF) Comments:**  
Air Force is collaborating with AFEMS Program Management Office (PMO) and AF/A4LR to provide U. S. Special Operations Command (USSOCOM), with complete and accurate data elements to allow reporting of its General Equipment and Accumulated Depreciation account balances. (Estimated completion date is 31 August 2018)

**Recommendations 4.b** Assistant Secretary of the Air Force (Financial Management and Comptroller) to develop milestones for providing accurate and complete elements to the U.S. Special Operations Command for the reporting of its General Equipment and Accumulated Depreciation account balances.

**Assistant Deputy Assistant Secretary (Financial Operations) (SAF/FMF) Comments:**  
Air Force is collaborating with AF/A4LR, AFEMS Program Management Office (PMO), Air Force Special Operations Command (AFSOC) and U. S. Special Operations Command (USSOCOM) to document business processes, develop milestones, update existing policies and strengthen internal controls that improves financial reporting accuracy of general property, plant and equipment on USSOCOM financial statements. (Estimated completion date is 31 August 2018)

## United States Marine Corps Comptroller



**DEPARTMENT OF THE NAVY**  
HEADQUARTERS, UNITED STATES MARINE CORPS  
3000 MARINE CORPS PENTAGON  
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:  
7500  
DMCS-A  
15 Mar 18

From: Head, Audit Coordination, Office of the Staff Director  
To: Program Director for Financial Management and Reporting,  
Office of the Inspector General, Department of Defense

Subj: U.S. SPECIAL OPERATIONS COMMAND REPORTING OF GENERAL  
EQUIPMENT ON ITS FINANCIAL STATEMENTS (REPORT PROJECT  
NO. D2016-D000FF-0158.000)

Ref: (a) PD (FM&R) Memorandum of February 12, 2018

1. Reference (a) requested U.S. Marine Corps management comments to recommendations 5.a. and 5.b. of the subject audit report.
2. The Office of the Comptroller, Marine Corps Forces Special Operations Command, reviewed the report.
3. To the extent that Marine Corps financial management systems, property management systems, and supply/logistics management systems can accommodate implementation, the Marine Corps concurs with the intent of DODIG's recommendations 5.a. and 5.b. to support improvement in the overall accuracy of financial statements across the Defense Department.
4. When the Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Management Officer updates existing accounting policy related to the transfer and reporting of General Equipment balances between entities and clearly distinguishes which entity should maintain the accounting of the General Equipment and Accumulated Depreciation account balances on the financial statements, the Marine Corps will assess required actions necessary to implement the promulgated guidance and will provide DODIG with updates on Marine Corps actions completed and/or planned.
5. I am your primary contact for this response, and can be reached at [REDACTED].

  
CHARLES K. DOVE

Copy to:  
Distribution

## Director of Accounting, U.S. Special Operations Command



### UNITED STATES SPECIAL OPERATIONS COMMAND

7701 TAMPA POINT BLVD.  
MACDILL AIR FORCE BASE, FLORIDA 33621-5323

MAR 14 2018

SOFM

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 4800 MARK CENTER DRIVE, ALEXANDRIA, VIRGINIA 22350-1500

SUBJECT: U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements (Project No. D2016-D000FP-0158.000)

1. U.S. Special Operations Command (USSOCOM) appreciates the opportunity to review and provide management comments to the draft report, *U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements* (Project No. D2016- D000FP-0158.000). As USSOCOM management conveyed to the Department of Defense (DoD) Office of Inspector General (OIG) during the announcement of this project and throughout the audit, the general equipment amounts reported on the financial statements were misstated and the causes and corrective actions were being identified and remediated as USSOCOM executed the Office of the Under Secretary of Defense-Comptroller (OUSD(C)) Financial Improvement Audit Readiness (FIAR) Guidance. USSOCOM self-identified many of the weaknesses and misstatements noted throughout the report during the initial site visit and Entrance Conference held at MacDill Air Force Base the week of 27 June 2016. Specifically, the first DoD OIG finding that USSOCOM overstated its General Equipment account balance by \$5.7 billion was self-identified, communicated to DoD OIG on 27 June 2016, and was already corrected in quarter (Q) 1 fiscal year (FY) 2016, six months before the start of the audit.
2. The financial reporting of general equipment continues to evolve across the DoD. The Financial Accounting Standards Advisory Board (FASAB) recently released Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*, which allows greater flexibility in the reporting of assets by component entities. As a result, OUSD(C) is developing an updated policy on the financial reporting responsibilities for general property, plant, and equipment (GPP&E) that may change the way general equipment is financially reported across DoD. A separate OUSD(C) memorandum titled, *Data Call Journal Vouchers to Be Migrated into the Accounting Systems*, requires that DoD Components begin assessing and developing a transition plan to migrate journal vouchers (JV) from recordation into the Defense Departmental Reporting System (DDRS) and instead into the field-level accounting systems. These policy updates will change the manner in which general equipment is recorded as well as the materiality of the GPP&E line item on USSOCOM's financial statements. USSOCOM will continue to work with OUSD(C) and the Services to ensure a unified implementation of new or updated policies.

## Director of Accounting, U.S. Special Operations Command (cont'd)

SOFM

SUBJECT: U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements (Project No. D2016-D000FP-0158.000)

**3. Points of Clarification.** This section provides additional information or further clarifies points within the report.

a. Property Systems

(1) DoD OIG Audit Report, Pg. 2-3: This portion of the background is written entirely in the present tense.

(2) While the background is accurate for the time referenced in the scope of the DoD OIG audit, Q4 FY2015 and Q2 FY2016, many details are no longer accurate. USSOCOM communicated to DoD OIG throughout their audit that numerous processes had changed, including but not limited to the sunset of the Property Book Unit Supply Enhanced (PBUSE) system and that Joint Force And Asset Search Tool (JFAAST) was not in use for financial reporting after Q3 FY2016.

b. FY2015 Financial Statement Misstatement and Correction

(1) DoD OIG Audit Report, Pg. 6: "USSOCOM Incorrectly calculated its General Equipment account balance by \$5.7 billion and reported the incorrect amount on its FY2015 financial statements."

(2) USSOCOM self-identified this misstatement and corrected it in Q1 FY2016, prior to the start of the audit. The misstatement and correction was communicated to DoD OIG on 27 June 2016 during the initial OIG site visit to USSOCOM. At the guidance and direction of Defense Finance and Accounting Service (DFAS), USSOCOM did not complete a prior period adjustment for this misstatement since USSOCOM has not asserted to audit readiness of the GPP&E line item.

c. USSOCOM Did Not Obtain Critical Data Elements

(1) DoD OIG Audit Report, Pg. 7: "USSOCOM did not obtain critical data elements from its Component SOCs' [Special Operations Command] property systems needed to accurately report its General Equipment and Accumulated Depreciation."

(2) The audit report wording is misleading. The root cause is that the Service APSRs, which the Component SOCs are required by their Service to use, do not capture the required data. The wording choice misleads the reader by not appropriately identifying the root cause.

## Director of Accounting, U.S. Special Operations Command (cont'd)

SOFM

SUBJECT: U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements (Project No. D2016-D000FP-0158.000)

d. Property System Limitations

(1) DoD OIG Audit Report, Pg. 10: "the Army, Navy, Air Force, and U.S Marine Corps need to change their property systems to meet the critical data element needs of USSOCOM."

(2) The systems need to be changed to meet the requirements of Department of Defense Instructions (DoDI) 5000.64, which outlines the critical data elements needed by all DoD entities. The system changes are not solely for the needs of USSOCOM. Recommendations to the Services should reflect the required APSR changes.

e. Scope and Methodology

(1) DoD OIG Audit Report, Pg. 22: "We conducted this performance audit from May 2016 to February 2018 in accordance with generally accepted government auditing standards."

(2) Per the DoD OIG Entrance Conference brief dated 28 June 2016, the scope of the audit was USSOCOM's financial reporting of general equipment as of Q4 FY 2015 and Q2 FY 2016. By not mentioning the scope, it misleads the reader and implies that all issues and findings identified are still valid through February 2018. USSOCOM has been diligently working on financial improvement efforts since the beginning of the OUSD(C) FIAR program and have continued throughout the DoD OIG audit. A majority of the issues identified within this report were resolved.

**4. Recommendation 6.** USSOCOM's response to the DoD OIG recommendations.

a. Concur-The USSOCOM Financial Reporting Standard Operating Procedures (SOP) manual was updated on 2 November 2017. This SOP has been designed to be a living document, to be kept current as processes or procedures change.

(1) Concur-The current USSOCOM Financial Reporting SOP lists the 13 critical data elements that are requested of the Service APSRs used by the Component SOCs and Theatre Special Operations Command (TSOC) per the DoDI 5000.64.

(2) Concur-The current USSOCOM Financial Reporting SOP contains a table listing the APSRs for each individual Component SOC and TSOC, which represents the source of the general equipment balances on USSOCOM's financial statements.

## Director of Accounting, U.S. Special Operations Command (cont'd)

SOFM

SUBJECT: U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements (Project No. D2016-D000FP-0158.000)

(3) Concur with Intent-The USSOCOM will add reference documentation needed to support the journal voucher to the Financial Reporting SOP. Under the OUSD(C) mandated JV transition memorandum dated 14 December 2017, Component SOC and TSOCs will enter JVs directly into the field-level accounting systems. Consequently, USSOCOM will no longer compile APSR data and create a JV entry into DDRS. The USSOCOM Financial Reporting SOP will be updated accordingly.

(4) Partially Concur-The current USSOCOM Financial Reporting SOP details the USSOCOM staff positions responsible for reviewing and approving the draft JVs prior to posting in DDRS. However per the OUSD(C) mandated JV transition memorandum, the JVs will be required to be posted in the field-level accounting systems and the appropriate staff positions responsible for review and approval at the Component SOC and TSOCs will need to be identified. The USSOCOM Financial Reporting SOP will be updated accordingly.

(5) Partially Concur-USSOCOM will add references to the pertinent DoD regulations, policies, and guidance pertaining to depreciation calculation in the Financial Reporting SOP. Under the OUSD(C) mandated JV transition memorandum dated 14 December 2017, Component SOC and TSOCs will enter JVs directly into the field-level accounting systems. Consequently, USSOCOM will no longer calculate depreciation and create a JV entry into DDRS. The USSOCOM Financial Reporting SOP will be updated accordingly.

(6) Concur-The current USSOCOM Financial Reporting SOP includes procedures to reconcile General Equipment and accumulated depreciation account balances to the Component SOC property systems.

b. Concur-In the quarterly data calls starting 10 March 2016, USSOCOM requested the Component SOC and TSOCs to provide the required critical data elements as outlined in DoDI 5000.64.

c. Partially Concur-USSOCOM currently has access to Reliability and Maintainability Information System (REMIS) and Defense Property Accountability System (DPAS). USSOCOM will request read-only access to the remaining Service systems the Component SOC use for property. Under the OUSD(C) mandated journal voucher transition memorandum dated 14 December 2017, Component SOC will enter journal vouchers directly into the accounting system. Consequently, USSOCOM will no longer compile data calls and create a JV into DDRS. No alternative corrective action required. The USSOCOM Financial Reporting SOP will be updated accordingly.

## Director of Accounting, U.S. Special Operations Command (cont'd)

SOFM

SUBJECT: U.S. Special Operations Command Reporting of General Equipment on Its Financial Statements (Project No. D2016-D000FP-0158.000)

d. Concur-The current USSOCOM Financial Reporting SOP includes procedures to reconcile General Equipment reported on USSOCOM's Balance Sheet to the Component SOC's property systems.

e. Concur- OUSD(C) is currently revising guidance clarifying the reporting responsibility for general equipment across all DoD. USSOCOM will request a follow-up meeting to include OUSD(C), USSOCOM, and each Service to discuss implications of the new guidance and how to segregate previously reported assets. Regarding the Marine Corps Forces Special Operation Command (MARSOC) general equipment, USSOCOM has taken steps to update its reporting procedures to only include SOF-Peculiar MARSOC assets, which should not be included on the Marine Corps financial statements.

5. My point of contact is [REDACTED]



D. MARK PETERSON  
Chief Financial Officer/Comptroller

## Acronyms and Abbreviations

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<b>AFEMS</b>	Air Force Equipment Management System
<b>APSR</b>	Accountable Property System of Record
<b>AFSOC</b>	Air Force Special Operations Command
<b>DPAS</b>	Defense Property Accountability System
<b>FIAR</b>	Financial Improvement and Audit Readiness
<b>GCSS</b>	Global Combat Support System
<b>JFAAST</b>	Joint Force and Asset Search Tool
<b>JSOC</b>	Joint Special Operations Command
<b>JV</b>	Journal Vouchers
<b>MARSOC</b>	Marine Corps Forces Special Operations Command
<b>OUSD(C)/CFO</b>	Office of the Under Secretary of Defense(Comptroller)/Chief Financial Officer
<b>USD(C)/DCFO</b>	Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer
<b>PBUSE</b>	Property Book Unit Supply Enhanced
<b>PP&amp;E</b>	Property, Plant, and Equipment
<b>REMIS</b>	Reliability and Maintainability Information System
<b>SOF AT&amp;L</b>	Special Operation Forces Acquisition Technology and Logistics
<b>SOC</b>	Special Operations Command
<b>SOPs</b>	Standard Operating Procedures
<b>FFAS</b>	Statement of Federal Financial Accounting Standards
<b>TSOC</b>	Theater Special Operations Command
<b>USASOC</b>	U.S. Army Special Operations Command
<b>USSOCOM</b>	U.S. Special Operations Command
<b>WARCOM</b>	Naval Special Warfare Command

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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