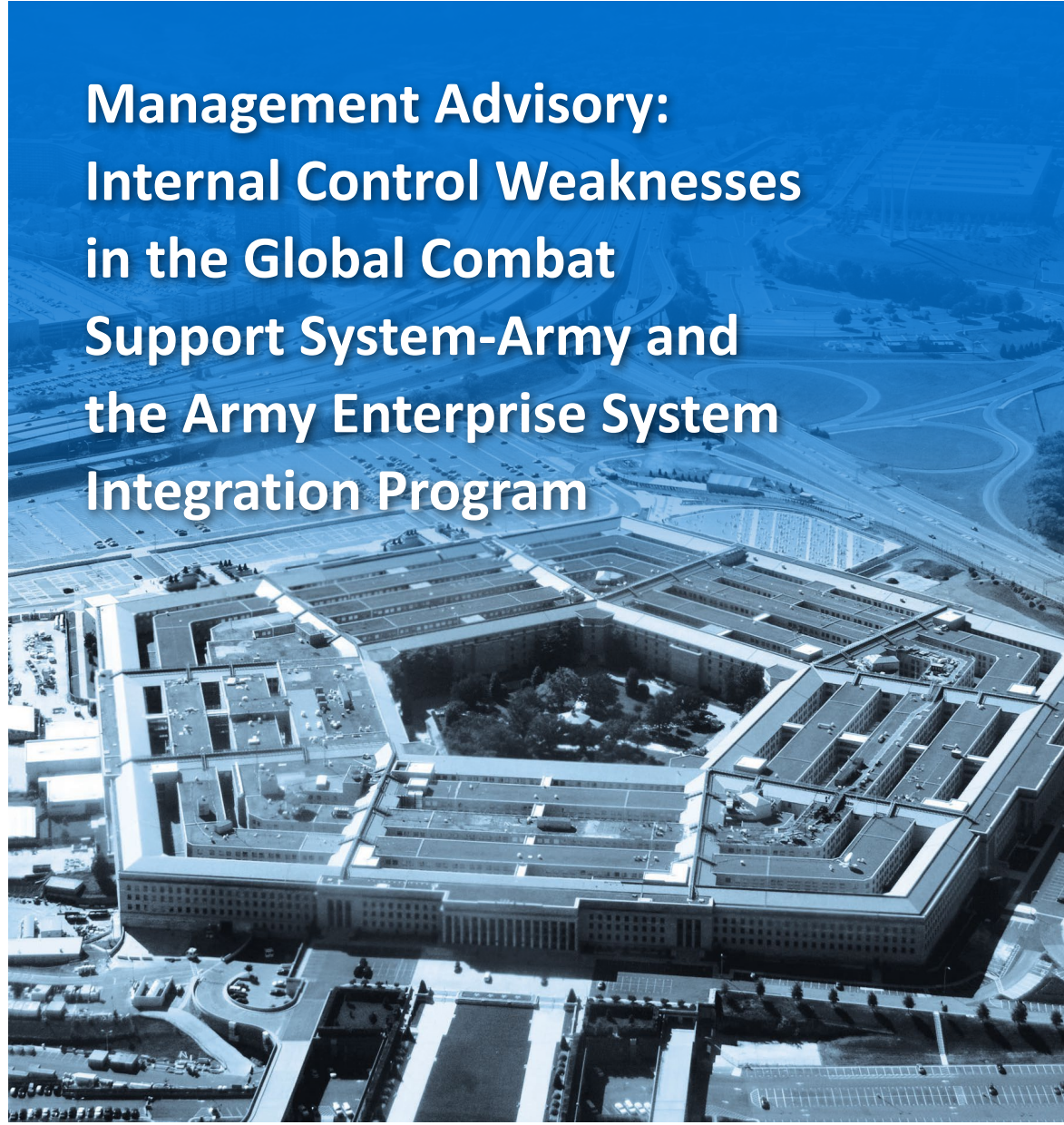




INSPECTOR GENERAL

U.S. Department of Defense

OCTOBER 15, 2021



Management Advisory: Internal Control Weaknesses in the Global Combat Support System-Army and the Army Enterprise System Integration Program





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

October 15, 2021

MEMORANDUM FOR DEPUTY CHIEF OF STAFF OF THE ARMY, G-4 (LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (ACQUISITION, LOGISTICS
AND TECHNOLOGY)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
PROGRAM EXECUTIVE OFFICER, PROGRAM EXECUTIVE OFFICE
ENTERPRISE INFORMATION SYSTEMS
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Management Advisory: Internal Control Weaknesses in the Global Combat
Support System-Army and the Army Enterprise System Integration Program
(Report No. DODIG-2022-003)

We prepared this management advisory in accordance with the Council of Inspectors General for Integrity and Efficiency's Quality Standards for Federal Offices of Inspector General, which require that we conduct our work with integrity, objectivity, and independence. The purpose of this memorandum is to advise Army officials responsible for the accountability and reporting of government-furnished property (GFP) of the internal control weaknesses we identified during fieldwork conducted in Kuwait for the Audit of U.S. Army Base Operations and Security Support Services Contract Government-Furnished Property in Kuwait.¹

We identified internal control weaknesses with the cost information within:

- Global Combat Support System-Army (GCSS-Army), the Army accountable property system of record; and
- Army Enterprise System Integration Program (AESIP), which is used to report the value of Government Property, including GFP, to the Army financial statements.²

The internal control weaknesses we have identified here may impact the Army's accountable property records and financial statements. However, the scope of our audit was focused on the accountability of GFP provided to contractors under the U.S. Army Base Operations and Security Support Services Contract. Our audit did not focus on the overall accuracy of the Army's cost information within GCSS-Army and AESIP; nor the impact on its

¹ "Audit of U.S. Army Base Operations and Security Support Services Contract Government-Furnished Property in Kuwait," (Project No. D2021-D0000RJ-0107.000), announced April 6, 2021.

² AESIP collects and aggregates Army logistics data and allows users to create, add, or request changes for nonstandard items.

financial statements. Therefore, we are requesting that the Army officials responsible for GFP accountability and reporting determine whether the internal control weaknesses we have identified are systemic, and their potential impact on the Army's financial statements.

Government Furnished Property

The Federal Acquisition Regulation defines GFP as property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract.³

DoD Agency Financial Report for FY 2020

According to the DoD Agency Financial Report for FY 2020, in FY 2011 the DoD identified GFP in the possession of contractors as a material weakness which is one of the DoD's audit priorities.⁴ Specifically, the report states that inaccurate and incomplete records of GFP can negatively affect the DoD's ability to manage its property and make decisions regarding acquisition, disposal, and reutilization. Furthermore, the report states that financial managers currently lack proper visibility of GFP, and as a result, financial reporting is inaccurate. The report identifies GCSS-Army as the key component for the Army's compliance with Federal financial management and reporting requirements. In addition, the Army uses AESIP to report general equipment cost, including GFP, for its financial statements. Therefore, in addition to resolving the financial reporting aspects associated with the accountability and management of GFP, internal controls for GCSS-Army and AESIP are important for ensuring GFP is reported correctly on the Army's accountable property and financial records.

Property Accountability and Financial Reporting Requirements

DoD Instruction 5000.64 establishes policy, assigns responsibilities, and provides requirements and procedures for accounting for Government property, including GFP.⁵ Accountable property records are required to be kept current, including the status, location, and condition of the property until its disposition. Further, the Instruction states that the accountable property records must be established in an accountable property system of record for all GFP items to provide a comprehensive log of transactions suitable for audit, which will be the authoritative source for validating the existence and completeness of an asset. The Instruction requires DoD components to establish policies and standards to achieve and sustain effective accountability of Government property.

³ GFP can include material, special tooling, special test equipment, Government-furnished material, and Government-furnished equipment. Federal Acquisition Regulation, Part 45, "Government Property," Subpart 45.1, "General," 45.101, "Definitions."

⁴ A material weakness is a deficiency, or a combination of deficiencies, in internal controls over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statement in a timely manner.

⁵ DoD Instruction 5000.64, "Accountability and Management of DoD Equipment and Other Accountable Property," effective April 27, 2017, Change 3 effective June 10, 2019.

Army Regulation 735-5 implements the requirements of DoD Instruction 5000.64 by providing policy for accounting for Government property and defining the roles and responsibilities of Army personnel who maintain accountability for it.⁶ Army Regulation 735-5 requires that all property acquired by the Army be accounted for from the time of acquisition until the ultimate consumption or disposal of the property occurs.

DoD Regulation 7000.14-R states that when recording the acquisition of GFP in the accountable property system of record or accounting system, the item must be assigned a dollar value.⁷ The dollar value must be supported by documentation. Financial reporting responsibility for GFP resides with the same entity that has accountability for the asset, including the responsibility to record the asset in the DoD Component's accountable property system of record. GFP items over \$250,000 are required to be reported on the Army financial statements.

Processes for Adding Items to the Accountable Property System of Record

GCSS-Army is the Army accountable property system of record. GCSS-Army contains a catalog of items that includes information for each item, such as the item name, description, and cost. In order to add a GFP item to the accountable property records in GCSS-Army, the property book officer (PBO) enters the National Stock Number or Managed Control Number (MCN) into GCSS-Army, and the required item details from the catalog will automatically populate.⁸

However, there are items that are considered nonstandard items and are not in the GCSS-Army catalog. For these nonstandard items, the PBO manually adds the information, such as the item name, manufacturer, and unit cost, into AESIP. Once the PBO creates the nonstandard item record in AESIP, AESIP program management personnel review and approve the item. Approved items are automatically uploaded from AESIP to GCSS-Army. According to AESIP program management personnel, changes in AESIP should automatically upload to GCSS-Army twice per day. Once the nonstandard item record is in the GCSS-Army catalog, anyone who adds that item to their accountable property books will have the same information associated with the item, including the item cost.

⁶ Army Regulation 735-5, "Property Accountability Policies," November 9, 2016.

⁷ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, "Accounting Policy," chapter 25, "General Equipment."

⁸ The PBO has responsibility over the property provided to a contractor, which will be accomplished by using a DD 1149 (Requisition and Invoice/Shipping Document) for GFP items transferred and entered in GCSS-Army for accountability. The National Stock Number identifies a stock item consisting of the four digit Federal Supply Class code plus the nine digit National Item Identification Number. MCNs are items that are not cataloged in the Federal Catalog System. The Federal Catalog System is a catalog system that provides a single item identification and stock number for each item that is repeatedly used, purchased, stocked, or distributed.

Costs Were Incorrect in GCSS-Army and AESIP

During our site visit to Kuwait, we received a copy of the Government’s official GFP list from GCSS-Army and the contractor GFP list.⁹ The lists identified thousands of individual GFP items located in Kuwait under the U.S. Army Base Operations and Security Support Services Contract.¹⁰ We selected a nonstatistical sample of GFP items from the Kuwait accountable property records, based on dollar value, to verify the existence of the items (that is, book-to-floor testing). Specifically, we nonstatistically sampled 61 of the highest dollar GFP items within 14 MCNs or National Stock Numbers from GCSS-Army and found that at least four different MCNs had significant cost variances between the costs entered into GCSS-Army and the costs of the items as documented by the contractor.¹¹ Our sample included multiple items with the same MCN; so although we found that the costs for four MCNs within GCSS-Army were incorrect, this affected 30 items in our sample, and according to information provided by the Area Support Group-Kuwait (ASG-Kuwait) PBO, 102 items in GCSS-Army Army-wide. Table 1 provides a breakout of the four MCNs with the incorrect cost information, the number of items impacted from our sample, and the total number of items for the Army with the MCNs.

Table 1. MCN Breakout of Items on Accountable Property Records

MCN	Item	Number of Items on Kuwait Accountable Property Records	Number of items on Army Accountable Property Records
702501X413881	Printers	12	83
411001C960883	Refrigeration Units	12	12
411001C960884	Refrigeration Units	5	5
691001C921099	Simulators	1	2
Total		30	102

Source: The DoD OIG.

In order to determine if the costs within GCSS-Army were accurate, we compared the GCSS-Army records to the contractor’s GFP list, DD Form 1149, “Requisition and Invoice/ Shipping Document,” January 2016 (DD 1149), and AESIP records. Our review determined that items were listed in GCSS-Army for amounts well above the cost in the contractor’s GFP list and the DD 1149. In addition, the cost in GCSS-Army was higher than the cost in AESIP for three of the four MCNs (29 items). Table 2 provides examples of the cost disparities for four MCNs that were listed in GCSS-Army, AESIP, the DD 1149, and the Contractor GFP list.

⁹ Throughout the report we will refer to the Kuwait GFP list from GCSS-Army as the Kuwait accountable property records.

¹⁰ Contract Number W52P1J-10-C-0062.

¹¹ The GCSS-Army accountable property records for the U.S. Army Base Operations and Security Support Services Contract contained 123,988 GFP items valued at \$156.9 million.

Table 2. Cost Differences for GFP Items Between Different Accountability Records

MCN	Item	GCSS-Army	AESIP	DD 1149	Contractor GFP List	Difference ²
702501X413881	Printers	\$1,131,181	\$412	\$408 ¹	\$408 ¹	\$1,130,773
411001C960883 and 411001C960884	Refrigeration Units	\$652,606	\$24,170	\$24,170	\$24,170	\$628,436
691001C921099	Simulators	\$36,253,400	\$36,253,400	\$499,950	\$499,950	\$35,753,450

¹ Some of the printers were identified as costing \$315 or \$391 on the DD 1149 or contractor GFP list.

² We calculated the difference between GCSS-Army and the contractor's GFP list because the cost matched the cost recorded on the DD 1149 which is the source document used by the PBO to transfer GFP to the contractor.

Source: The DoD OIG.

GCSS-Army and AESIP Cost Differences

According to the ASG-Kuwait PBO, the cost information for a standard item in GCSS-Army is pulled from AESIP. However, in several instances, the cost information within GCSS-Army significantly differed from AESIP, the contractor's GFP list, and the DD 1149. Additionally, AESIP had the incorrect cost for items that it fed into GCSS-Army. Furthermore, when the costs were corrected in AESIP, the cost updates were not always uploaded into GCSS-Army even though AESIP should upload information to GCSS-Army twice per day.

Printers

The Kuwait accountable property record included 12 printers. GCSS-Army listed their cost as \$1.1 million each. During our inventory of the printers, we believed the cost of each was incorrect. Figure 1 is an example of a printer similar to the 12 printers recorded at \$1.1 million in GCSS-Army. We reviewed the contractor's GFP list, DD 1149, and AESIP and found the contractor GFP list and DD 1149 listed the cost of each printer as \$408, \$391 or \$315; while AESIP listed the cost of each printer as \$412.

The Kuwait accountable property records had 12 printers with the incorrect cost of \$1.1 million each, instead of \$408 each. The ASG-Kuwait PBO searched through GCSS-Army and identified 83 printers throughout the Army with the same incorrect cost. The 83 printers were listed in Army accountable property records at a cost of \$1.1 million each, resulting in a total cost of \$93,888,023 instead of \$33,864. Therefore, the Army accountable property records

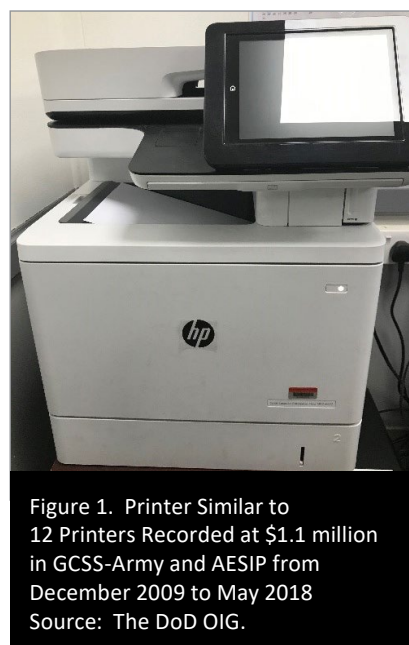


Figure 1. Printer Similar to 12 Printers Recorded at \$1.1 million in GCSS-Army and AESIP from December 2009 to May 2018
Source: The DoD OIG.

were inaccurate and overstated the cost of the printers. In May 2018, a user requested a price change in AESIP and as a result of the user's request, the cost of the printers changed from \$1.1 million to \$412 in AESIP. Figure 2 shows a screenshot of AESIP with the correction to the cost of the printers.

Display Changes: Change Document					
Material M281FDW:28480					
Changed by CMCCOLLUM Date 05/08/2018 Time 20:13:42					
Action	Organizational Unit	Field Desc.	Old Value	New Value	Additional Info
Change		Weight Unit	LB		Alternative unit of measure EA
Change	Plant PLM1 Valuation type	Standard price	1,131,181.00 USD	412.00 USD	

Figure 2. AESIP Screenshot With Printers' Listed Cost Changed From \$1.1 million Each to \$412 Each on May 8, 2018
Source: U.S. Army Arms Support Command.

However, the cost change in AESIP did not update to GCSS-Army. GCSS-Army representatives stated that the automated updates in AESIP normally flow to GCSS-Army from AESIP without issue, but in rare cases they have found that for certain materials, GCSS-Army has not received updates when those materials were updated in AESIP.

Refrigeration Units

The Kuwait accountable property record included 17 refrigeration units listed for \$652,606 each on the accountable property record. Figure 3 is an example of refrigeration units.



Figure 3. Refrigeration Units at Camp Arifjan, Kuwait
Source: The DoD OIG.

The contractor GFP list, the DD 1149, and AESIP listed the cost of the refrigeration units as \$24,170 each. The ASG-Kuwait PBO did not find the specific type of refrigeration unit illustrated in Figure 3 in AESIP; therefore, in November 2020, the ASG-Kuwait PBO manually entered the information into AESIP. The ASG-Kuwait PBO stated that when he entered

the refrigeration unit into AESIP as a new item, he entered the incorrect cost per unit. Specifically, the ASG-Kuwait PBO explained that instead of entering the individual price of \$24,170 per unit, he entered the total cost of \$652,606 as the cost per unit. He stated that during the course of the audit, he caught his error and requested that the correct cost be updated in AESIP.

AESIP records show the cost was changed on April 16, 2021; however, as of May 6, 2021, the item cost was not updated in GCSS-Army and was still listed at \$652,606 per unit. AESIP program management personnel stated that AESIP updates information to GCSS-Army twice per day; however, the updates for this item did not occur automatically. Instead, ASG-Kuwait PBO had to submit a help desk ticket, and GCSS-Army help desk personnel made a manual update to GCSS-Army on May 12, 2021. The 17 refrigeration units were listed on Kuwait accountable property records for \$11.1 million instead of the actual cost of \$410,890. The Army financial statements would have been overstated by \$10.7 million, if the ASG-Kuwait PBO had not identified the error during our audit and requested the change to correct the cost in AESIP.

Simulators

The Kuwait accountable property record included one simulator used by the base fire department, listed for \$36.3 million in both GCSS-Army and AESIP. Figure 4 is an example of the simulator recorded at \$36.3 million in GCSS-Army and AESIP.

However, based on the DD 1149 and the contractor GFP list, the cost of the simulator was \$499,950. The ASG-Kuwait PBO official stated that the simulator's cost of \$36.3 million was an error and that he would request an update to correct the cost in AESIP. The ASG-Kuwait PBO stated that there are two simulators in GCSS-Army listed at a cost of \$36.3 million each. Therefore, the two simulators were listed on Army accountable property records for \$72.5 million.

The audit team requested supporting documentation for the actual cost of the simulators, such as a purchase invoice, from Army G-4; however, as of September 17, 2021, we had not been provided with any documentation to support the cost of the simulators. We confirmed that Army financial records listed the simulator; therefore, the Army potentially overstated its financial statements.



Figure 4. Simulator Located at Camp Buehring, Kuwait
Source: The DoD OIG.

Corrective Actions Taken and Ongoing Initiatives

During the course of our fieldwork, we brought these discrepancies to the attention of Kuwait GFP officials, who initiated corrective actions to resolve these specific issues on the Kuwait accountable property records. Specifically, the ASG-Kuwait PBO submitted an AESIP help desk ticket to correct the costs in AESIP for the printers and refrigeration units. The ASG-Kuwait PBO followed up to ensure the correct costs were updated in AESIP and transferred to GCSS-Army so the Army's accountable records accurately reflected the actual cost of each item.

In addition, we discussed the discrepancies and potential impact on the Army financial statements with Assistant Secretary of the Army (Financial Management and Comptroller), GCSS-Army, and AESIP representatives. The Assistant Secretary of the Army (Financial Management and Comptroller) representative stated that the Army is aware of the unreliable information, including costs, within GCSS-Army. Specifically, the FY 2020 DoD Agency Financial Report states that GFP cannot be identified in the DoD's property accountability or financial systems, resulting in incomplete accountability and financial records. The target date for resolving the GFP weaknesses is FY 2026. The Assistant Secretary of the Army (Financial Management and Comptroller) representative stated there are several initiatives planned to correct the information within GCSS-Army. For example, beginning in FY 2022, the Army will build and bring together a cross-functional team with leaders from the finance, accounting, logistics, contracting, and acquisition communities to develop a detailed plan and implement appropriate accountability for all GFP. According to the Assistant Secretary of the Army (Financial Management and Comptroller) representative, the Army's cross-functional team will develop and implement new, sustainable business processes that will mitigate the many risks and issues the Army is currently experiencing with GFP including updates to the costs reported in GCSS-Army and AESIP. In addition, GCSS-Army representatives stated that they were working to reconcile the discrepancies between GCSS-Army and AESIP. Furthermore, GCSS-Army representatives stated that as of July 2021 a root cause analysis was underway in AESIP to identify and correct the issue to ensure material master data is synchronized between AESIP and GCSS-Army.

Identified Internal Control Weaknesses Must Be Addressed

The cost differences we identified are examples of internal control weaknesses within AESIP and GCSS-Army. For example, with respect to the refrigeration units, human error resulted in the cost of each refrigeration unit being overstated by \$628,436. Specifically, the ASG-Kuwait PBO acknowledged manually entering the incorrect cost into AESIP. Not only did this affect the Kuwait accountable property records; it also affected Army accountable property records. For example, if any other Army PBO had the same refrigeration units

on their property records, the cost of those refrigeration units would also be incorrect. There was no check in AESIP to verify that the ASG-Kuwait PBO manually entered the correct cost information.

In addition, we identified instances where the cost change in AESIP did not update to GCSS-Army. GCSS-Army representatives stated that the automated update to GCSS-Army from AESIP works for a majority of the updates, but in rare cases they have found that GCSS-Army has not received updates when those materials were updated in AESIP. With respect to the refrigeration units, even though updates between AESIP and GCSS-Army should occur twice per day, 20 days after the PBO corrected the cost in AESIP, it had not been updated in GCSS-Army. The PBO had to request a separate GCSS-Army help desk ticket to change the price within GCSS-Army to match the previous cost update to AESIP.

With respect to the printers, the Assistant Secretary of the Army (Financial Management and Comptroller) representative stated that ASEIP has the correct cost; therefore, since AESIP cost information feeds the Army financial statements, there has been no overstatement. Yet, from December 2009 to May 2018, the cost of the printers was incorrectly listed in AESIP as \$1.1 million. Since the Army financial statements use cost information from AESIP, if controls are not in place to prevent personnel from entering incorrect cost, the Army could potentially be reporting incorrect amounts on its financial statements.

Assistant Secretary of the Army (Financial Management and Comptroller), GCSS-Army, and AESIP representatives must ensure that their planned initiatives address the internal control weaknesses we identified in this memorandum. Unless these internal control weaknesses are addressed, Army financial statements will potentially include incorrect information.

Conclusion

Since incorrect costs in AESIP potentially affect the financial statements, internal controls need to be in place to prevent incorrect costs from being manually entered in the system. In addition, without proper system controls in place to ensure updated cost information in AESIP is fed to GCSS-Army, GCSS-Army cost information could be unreliable. We found at least three MCNs with incorrect cost information that resulted in an overstatement in the Army accountable property books in GCSS-Army by at least \$104.5 million for the 83 printers and 17 refrigeration units. In addition, if simulator costs are incorrect, the Army accountable property records in GCSS-Army are incorrect by an additional \$71.5 million, for a total of more than \$176 million. Table 3 identifies the impact on Kuwait accountable property records in GCSS-Army and the potential continued impact to Army-wide accountable property records in GCSS-Army, had the cost differences gone unnoticed.

Table 3. GFP Item Cost Differences and Potential Impact on Accountable Property Records

MCN	Item Name	Kuwait Accountable Property Record Quantity	Kuwait Accountable Property Record Overstatement*	Army-wide Accountable Property Record Quantity	Army-wide Accountable Property Record Overstatement*
702501X413881	Printers	12	\$13,569,276	83	\$93,854,159
411001C960883 and 411001C960884	Refrigeration Units	17	10,683,412	17	10,683,412
691001C921099	Simulators	1	35,753,450	2	71,506,900
Total		30	\$60,006,138	102	\$176,044,471

* Overstatements based on quantity on record multiplied by the difference between GCSS-Army and contractor's GFP records as identified in Table 2 of this memorandum.

Source: The DoD OIG.

The Army uses GCSS-Army to help aid logistics specialists as they plan and provide for the materiel requirements for combat support. Therefore, inaccurate information within GCSS-Army, such as individual item costs, could negatively impact the Army's ability to effectively manage its property. Specifically, it could negatively impact Army logisticians' ability with making decisions on acquisition, disposal, and reutilization of GFP items. Because our audit only focused on a small nonstatistical sample of GFP items in Kuwait, it is possible that this issue affects other items in both AESIP and GCSS-Army, which could potentially have an impact on the Army's financial statements if not resolved. Assistant Secretary of the Army (Financial Management and Comptroller) representatives should determine any impact these cost issues have on the financial statements.

We provided all of our examples for Assistant Secretary of the Army (Financial Management and Comptroller), GCSS-Army, and AESIP representatives to research and identify the causes and impacts. The Assistant Secretary of the Army (Financial Management and Comptroller) representative stated that he will review our examples and ensure any ongoing and planned solutions correct the internal control weaknesses we identified in this memorandum. Therefore, this memorandum contains no recommendations for action. In addition, we will forward this report to the Army's Independent Public Accounting firm for its consideration regarding the impact these cost issues have on its audit of the Army financial statements.

We considered management's comments on a discussion draft copy of this memorandum when preparing this final memorandum. A written response to this memorandum is not required. If you have questions, please contact me at [REDACTED].

A handwritten signature in blue ink, appearing to read "Richard B. Vasquez". The signature is stylized with a large "R" and a checkmark-like flourish at the end.

Richard B. Vasquez
Assistant Inspector General for Audit
Readiness and Global Operations



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