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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

December 13, 2000

Rear Admiral David Keller, USN
Director, Supply, Ordnance and Logistics Operations Division
Office of the Chief of Naval Operations

Subject: Financial Management: Navy's Implementation of the Defense Property
Accountability System

Dear Admiral Keller:

As part of our involvement with the Navy Personal Property Working Group, we reviewed the Department of the Navy's implementation of the Defense Property Accountability System (DPAS). We support the Navy's efforts to improve accountability over Navy personal property as well as the related financial reporting. The Navy's decision to implement DPAS to provide day-to-day control over its personal property and to integrate DPAS with procurement and financial reporting systems is an important initiative.

As requested by the working group, we visited six Navy activities to evaluate DPAS implementation at these selected locations. We presented our observations and related suggestions in a briefing to the working group on June 21, 2000. The issues we identified related to problems with (1) physical wall-to-wall inventories of personal property not being performed properly, (2) personal property items not being included in DPAS at a component level to ensure accountability, and (3) policies, procedures, and training not being in place to ensure the sustainability of the property database, including implementation of the barcoding and scanning process. These issues can be attributed, in part, to the Navy's focus on an aggressive implementation schedule designed to produce a personal property value for financial reporting purposes as of September 30, 2000. For example, the Navy contractor's October 2000 progress report disclosed that 156 sites were converted to DPAS during fiscal year 2000, and the Navy DPAS Program Manager told us that the Navy plans to convert about 150 more sites in fiscal year 2001.

This letter provides a summary of the implementation issues we identified at the locations we visited and the status of the Navy's efforts to address our suggestions. Since the June 2000 briefing, the Navy has addressed a number of our suggestions, but several issues remain unresolved. Although the Navy has largely completed its implementation effort for general fund assets, we are bringing these issues and recommendations to your attention to help improve the implementation process at the remaining sites and to help ensure the future sustainability of the Navy's DPAS implementation effort.

We visited the following activities in San Diego, California: Expeditionary Warfare Training Group-Pacific, Fleet Combat Training Center, Fleet Anti-Submarine Warfare Training Center-Pacific, Navy Center for Tactical Systems Interoperability, and the Naval Computer and Telecommunications Station. We also visited the Trident Training Facility in Kings Bay, Georgia. At these locations, we reviewed compliance with Navy and Department of Defense (DOD) policies and procedures for performing physical inventories. We also reviewed inventory documents and interviewed property officials at these locations. In addition, we discussed DPAS implementation issues with Defense Finance and Accounting Service (DFAS), Defense Logistics Agency (DLA), and Navy personal property contractor officials. We requested and received written comments from the Director, Supply, Ordnance and Logistics Operations Division, Department of the Navy, which are discussed in the “Agency Comments and Our Evaluation” section and are reprinted in the enclosure. Our work was performed from May 2000 through October 2000 in accordance with generally accepted government auditing standards.

Inventories Were Not Properly Performed

At several locations visited, we found personal property omissions and discrepancies because physical wall-to-wall inventories were not performed in accordance with Navy procedures to ensure that accurate and complete data were converted to DPAS. Further, oversight of the physical wall-to-wall inventory process by activity management and the working group did not identify these omissions, discrepancies, and the lack of compliance with Navy policy. Errors such as these may result in a lack of accountability over omitted assets and incomplete financial statement reporting. Examples of inventories not properly performed at the locations we visited included the following.

- At one location, nuclear training labs were not inventoried and converted to DPAS because activity officials believed, incorrectly, that the nuclear training labs were being accounted for by a different command. As a result, the equipment in the nuclear training labs was not included in any Navy financial management or accountability system. Navy officials acknowledged that these nuclear training labs should be included in DPAS for accountability purposes. After our briefing, these nuclear training labs were inventoried and included in DPAS.
- According to the Navy’s implementation plan, physical wall-to-wall inventories of equipment are to be completed before the data are converted to DPAS. However, at one location we visited, the activity did not plan to perform a physical wall-to-wall inventory prior to the DPAS conversion. After our briefing, the activity postponed its data conversion and performed the required physical wall-to-wall inventory.
- The Department of Defense (DOD) *Financial Management Regulation* (FMR), volume 4, chapter 6, describes DOD’s accounting standards and policies for property, plant, and equipment (PP&E). In addition, the Navy’s draft *Personal Property Policies and Procedures Manual*, dated March 8, 2000, provides guidance for the management of personal property. This guidance states that personnel responsible for maintaining property (i.e., responsible officers) shall not be involved in conducting the physical

inventory of the personal property under their responsibility. All five locations that we visited in San Diego, however, had used officials to inventory property within their control. Activity personnel at these locations consistently stated that staffing limitations contributed to the procedures not being followed. As a result of our briefing, the Navy's personal property contractor now emphasizes during its presite visits that independent personnel should be used to perform the inventories. Additionally, the contractor will verify compliance with this requirement during its postimplementation review.

According to the Navy DPAS Program Manager, following our June 2000 briefing, the personal property contractor's oversight efforts have been modified in an attempt to better assess activities' efforts to implement DPAS. As a result, the Navy's personal property contractor procedures have changed from a standard checklist format for the postimplementation reviews to a more site-specific format. While this change is a positive step, it still relies on after-the-fact assessments of activity efforts instead of establishing a proactive oversight function early in the process, such as ensuring that inventories are performed by appropriate personnel in compliance with the Navy's requirements.

Personal Property Items Included in Systems Other Than DPAS

At two activities, we identified assets that were omitted from DPAS because they were accounted for in other systems. The Navy will have to review the specifics of these cases to ensure that its decision to use DPAS as its personal property accountability system is implemented as efficiently as possible.

First, we found that some personal property was being converted to DPAS at the total system level rather than by individual component. The DOD FMR, volume 4, chapter 6, states that inventories shall be taken to ensure, among other things, that DOD PP&E assets are at the location identified, as described, and in the condition listed in the property records. Additionally, the Navy's draft *Personal Property Policies and Procedures Manual* states that a physical inventory should be performed to validate the existence of items and to verify the accuracy of each item's description, serial number, property number, make, model, year, and other information. It also states that if this information is not listed, then it should be added to the record and that serial-numbered items should be verified and documented in this manner.

The Navy's personal property contractor identified the need to develop a consistent methodology to accurately track and record financial data for training labs by component rather than by total systems. However, during our visits, we found examples of training labs being recorded as whole systems rather than by individual, serial-numbered components. For example, one location used its property record card to verify that a specific training lab still existed—in total. However, the location failed to inventory the training lab by component. If location officials had done so, they would have found that the components listed on the property record card were from the training lab's original Alpha series dating back to 1973, while the current training lab had been upgraded three times to its current configuration of Delta series components. As we stated at the June 2000 briefing, without inventorying and recording the individual components of these training labs, accountability of these

components cannot be ensured, and information, including cost data, converted to DPAS may not be complete or current.

At our June briefing, working group representatives stated that each activity should record the training labs' individual components in DPAS. However, the Navy contractor's July 20, 2000, progress report stated that detailed component-level information found in other systems would be used for component accountability. Although these systems contain component-level information, the point is to determine how the Navy wishes to capture and report its component-level data. Using systems other than DPAS to capture these data will require the Navy to evaluate those systems' functionality, sustainability, and ability to fit into an overall DOD and Navy financial management system architecture. This would include determining how these logistics systems would integrate with the acquisition and financial reporting systems to meet long-term property management goals. Further, the use of other systems appears to conflict with the Navy's goal of reducing the number of systems used for personal property accountability.

In the second case, at another location that we visited, we found that equipment that was included in its Consolidated Ship Allowance List (COSAL) system or Consolidated Shore-Based Allowance List (COSBAL) was not inventoried and recorded in DPAS. These systems include items such as test equipment, generators, radars, and telecommunications equipment, which are not listed on the activity's property books. Navy officials told us that consistent with their goal of using DPAS to maintain accountability over personal property, these assets should have been inventoried and recorded in DPAS. Activity officials stated that because this equipment was already recorded in these other systems, it was not to be included in DPAS. Navy officials acknowledged that they should have determined whether activities had COSAL/COSBAL property items to be included in DPAS.

Since our briefing, the Navy DPAS Program Manager has said that the Navy contractor asks activities during the presite visits if they have COSAL/COSBAL personal property items and instructs them to include this property in DPAS. However, Navy officials indicated that they plan to continue to use COSAL and COSBAL for other property-related functions, such as maintenance schedules and requirements analyses. As in the case described previously regarding component-level information maintained in separate systems, the Navy will need to evaluate COSAL and COSBAL functionality, sustainability, and ability to fit into an overall DOD and Navy financial management system architecture.

Program Sustainability May Be Hindered

To meet the aggressive fiscal year 2000 DPAS implementation schedule, the Navy and/or individual activities did not perform certain prescribed procedures and did not ensure that certain key elements of the DPAS implementation effort were in place as planned. While the Navy has moved forward quickly to obtain a fiscal year 2000 balance for its personal property, little will be gained if this balance is not properly maintained for future years. Sustainability measures include ensuring that policies, procedures, and training are in place so that additions, deletions, and modifications to the personal property database are properly recorded. The following problems could hinder the long-term sustainability of the program.

- During the fiscal year 2000 DPAS implementation process, the Navy distributed, in draft, its *Personal Property Policies and Procedures Manual*. This manual builds on the DOD FMR and contains the Navy's policies and procedures for the management of personal property, including financial and accountability requirements. According to activity officials, draft policies lack the needed command support and, therefore, may not be fully complied with or may even be ignored. In a recent follow-up conversation, a Navy official told us that the manual has now been reformatted into a Secretary of Navy (SECNAV) Instruction (SECNAV Instruction 7320), which is a more formal document. Although the actual instruction is not final or signed, we are aware that you, in your capacity as team leader of the Navy Personal Property Working Group, signed a cover letter dated August 21, 2000, stating that it should be used as the Navy guidance in recording and accounting for personal property.
- To provide more Navy-specific guidance on DPAS, the Navy and its personal property contractor recognized the need to develop and use a Navy *DPAS Users Guide* during the DPAS training to bridge the gap between the technical implementation of DPAS and overall Navy personal property policies. However, during the fiscal year 2000 DPAS implementation process, the Navy did not finalize or use its *DPAS Users Guide* as part of the activities' initial DPAS training. As a result, there is no Navy-specific source of information available to help activity officials with the day-to-day issues encountered in using DPAS. In fact, as of October 19, 2000, the Navy's *DPAS Users Guide* had not been finalized. Another training-related issue discussed at the June 2000 briefing was the Navy's desire to have the DPAS training redesigned to be more tailored to its needs and to discuss Navy personal property policies. However, according to a DPAS Program Office official, the DPAS Program Office's position is that DPAS is a DOD-wide system and the training should not be redesigned and taught to reflect one service's preferences. The Program Office official stated, however, that Navy-specific training could be offered at additional cost to the Navy.
- Equipment barcoding and scanning was de-emphasized as an essential part of the DPAS conversion process. In an April 2000 briefing, equipment barcoding had been listed as a key step in DPAS implementation that should be completed along with wall-to-wall inventories prior to the conversion of the property inventory data to DPAS. However, a message sent by you stated that although barcoding should be completed prior to DPAS conversion, it was not required as long as it was completed prior to the next triennial wall-to-wall inventory. In a follow-up discussion on this issue, the Navy DPAS Program Manager agreed that barcoding and scanning were still important and should be tied in with the new scanner technology to introduce consistency in barcoding throughout the Navy. However, both Navy and DPAS Program Office officials noted that contractor problems with the scanner development have delayed the process, precluded the development of the needed interface with DPAS, and contributed to the delays in implementing the barcoding and scanning requirements. As of October 19, 2000, Navy and DPAS Program Office officials had not established a plan with specific tasks and milestone dates for resolving these issues.

- During our visits to activities, officials stated that they did not have adequate time to properly convert to DPAS and that the implementation schedule left no time for dealing with delays from problems that arose. As a result, activity officials stated that they converted data records known to be inaccurate or incomplete in order to meet deadlines. These known errors were not identified in a way to ensure they could be tracked and eventually corrected. At our briefing, we discussed using a specific series of data codes to identify these problem data when they were converted so that these records could be researched and properly entered at a later date. In a later discussion, the Navy DPAS Program Manager stated that the Navy's contractor is to emphasize in its presite visits the importance of researching and ensuring the accuracy of the property data prior to the DPAS conversion. The Program Manager indicated that such action would preclude the need for using special data codes. However, it is important to recognize that the Navy continues to lack procedures that would facilitate the identification and correction of these data at a later date.

Conclusions

The Navy has demonstrated a strong commitment to improve asset accountability and financial reporting of personal property. Successful DPAS implementation is an important step in Navy efforts to improve asset accountability and financial reporting of personal property. This will require all Navy activities to fully implement the system as intended. The problems observed at the six sites we visited indicate that management controls over the implementation process can be strengthened in order to provide reasonable assurance that implementation objectives are met. We are offering recommendations to strengthen the management controls over the implementation process and increase the level of oversight provided to activities preparing for and undergoing DPAS implementation in order to improve adherence to Navy policies.

Recommendations for Executive Action

We recommend that, under your leadership, the Navy Personal Property Working Group increase the level of oversight provided to activities preparing for and undergoing DPAS implementation to improve adherence to Navy policies. Such oversight should include directing and determining that the following actions are completed.

- Perform the required physical wall-to-wall inventories in accordance with prescribed Navy procedures, including that the inventories (1) are conducted by individuals independent of the asset accountability function and (2) take place prior to the DPAS conversion, as required by the Navy implementation plan.
- Enter accurate and complete data into DPAS during implementation. To the extent that any data of questionable accuracy are converted, such data should be clearly identified as problematic for subsequent research and correction.
- In cases where the Navy plans to use systems other than DPAS, such as COSAL/COSBAL, develop a strategy to evaluate the systems' functionality,

sustainability, and ability to fit into an overall DOD and Navy financial system architecture, including integrating these logistical systems with acquisition and financial reporting systems to meet long-term property management goals.

- Finalize and distribute the Navy’s guidance and operating procedures for the inventory of, accounting for, and reporting of its personal property, including the SECNAV Instruction related to personal property and the Navy’s *DPAS Users Guide*.
- In conjunction with the DPAS Program Office, the Working Group should (1) establish a plan with specific tasks and milestones for implementing barcoding and scanning capabilities to help maintain the Navy’s accountability over its personal property and (2) determine the feasibility of developing and implementing Navy-specific DPAS implementation training.

Agency Comments and Our Evaluation

In commenting on a draft of this letter, the Director, Supply, Ordnance, and Logistics Operations Division, Department of the Navy, stated that the Navy generally concurred with our findings and that following our June briefing, the Navy had begun initiating corrective actions and incorporating our recommendations into all subsequent Navy DPAS implementation efforts. The Navy actions taken or planned appear to be responsive to our recommendations.

We are sending a copy of this letter to Charles P. Nemfakos, Senior Civilian Official for the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), and to Nelson Toye, Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller).

If you have any questions about this letter or wish to discuss these issues further, please call me at (202) 512-9095 or Evelyn Logue, Assistant Director, at (202) 512-3881. Rebecca S. Beale, Robert M. Crowl, Christopher M. Rice, and Jeffrey M. Yoder were major contributors to this assignment.

Sincerely yours,



Gregory D. Kutz
Director
Financial Management and Assurance

Enclosure

Comments From the Department of the Navy

Note: GAO's comment supplementing those in the report text appears at the end of this enclosure.



DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
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Mr. Jeffrey C. Steinhoff
Managing Director, Financial Management and Assurance
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Steinhoff,

This letter responds to the General Accounting Office (GAO) draft report, "Navy's Implementation of the Defense Property Accountability System (DPAS)," dated 16 November 2000 (GAO-01-88R) and has been coordinated with the appropriate offices within the Department of Defense (DoD).

Please note that the information contained in this report was briefed to this office by GAO in a meeting held on 21 June 2000. Department of Navy (DON) initiated corrective action at that time and incorporated the report's recommendations into all subsequent DON DPAS implementations.

We have reviewed your draft report and generally concur except for the requirement to track training labs at the component level since this recommendation has broader impact across the entire DoD. Specifically, trainers are classified as National Defense (ND) assets (per DoD policy) and under current guidelines are reported at the asset level (vice component level). Should this policy change, however, DON will take appropriate action to ensure compliance with revised guidelines.

We appreciate the opportunity to comment on your draft report. A summary of your findings, recommendations and the status of actions taken are provided at Attachment 1. My point of contact for this is CDR Trish Van Belle, Chief of Naval Operations (N41D), (703) 604-9944, vanbelle.patricia@hq.navy.mil.

Sincerely,

A handwritten signature in black ink that reads "D. P. Keller".

D. P. KELLER
Rear Admiral, SC, USN
Director, Supply, Ordnance and
Logistics Operations Division

Attachment

Copy to:
Navy IG

**GAO OBSERVATIONS OF NAVY IMPLEMENTATION OF THE DEFENSE
PROPERTY ACCOUNTABILITY SYSTEM (DPAS)**

RECOMMENDATION 1: Perform the required physical wall-to-wall inventories in accordance with prescribed DON procedures, including that the inventories (1) are conducted by individuals independent of the asset accountability function and (2) take place prior to the DPAS conversion, as required by the Navy implementation plan.

DOD RESPONSE: The Navy contractor emphasizes the importance of using independent personnel to perform inventories during the pre-site visits. This policy, which is included in DON policy, was reemphasized during the Major Claimant conference hosted by OPNAV on 15-17 November. The Navy requires each site to submit a letter certifying that an inventory has been performed prior to DPAS conversion. Additionally, sites are provided with an implementation schedule six months prior to the first implementation of FY01.

RECOMMENDATION 2: Enter accurate and complete data into DPAS during implementation. To the extent that any data of questionable accuracy is converted, such data should be clearly identified as problematic for subsequent research and correction.

DOD RESPONSE: DON recognizes the importance of converting good data. DPAS tracks far more information than has been tracked in most Navy personal property systems previously; this means that established “defaults” must be used at conversion for blank fields for non-critical data. These defaults are easy to identify for correction/update later. However, there is no established default for stock numbers because it is a critical data field and must be properly identified prior to conversion in order to avoid problems later on. DPAS and Navy worked together to implement an improved pre-conversion program to automatically match Navy assets to Navy stock numbers to shorten the lead-time required to identify stock numbers. To make sure sites do not convert unless their data is ready for conversion, site status is monitored via weekly conference calls between Navy and DPAS. Navy contractors also provide one-on-one assistance for sites that need additional help correcting stock number problems.

RECOMMENDATION 3: In cases where the Navy plans to use systems other than DPAS, including systems used to record and track component-level information about training labs and COSAL/COSBAL for maintaining property-related information, develop a strategy to evaluate the systems’ functionality, sustainability, and ability to fit into DOD’s and the Navy’s overall financial system architecture, including integrating these logistical systems with acquisition and financial reporting systems to meet long-term property management goals.

DOD RESPONSE: DoD has classified Trainers as National Defense Equipment (NDE) assets. Because, under DoD policy, NDE assets do not require cost or component level tracking, DON is recording its trainers at the system level (vice component level) and using configuration management systems to track the systems’ components. If trainers subsequently are re-classified as personal property by DoD, then for accountability purposes, the components of those trainers that exceed the accountability threshold should be tracked. Furthermore, Navy has directed its contractors performing pre-site visits to assess the types of equipment located at each activity

See comment 1.

**GAO OBSERVATIONS OF NAVY IMPLEMENTATION OF THE DEFENSE
PROPERTY ACCOUNTABILITY SYSTEM (DPAS) (Continued)**

and verify if the right assets are being included in the site's property records. In cases where sites are not recording certain categories of personal property (e.g. COSBOL /COSAL) because they assume it is being recorded elsewhere, they are directed to add this property when it is verified that, in fact, the property is not being officially accounted or reported by another activity.

RECOMMENDATION 4: Finalize and distribute the DON's guidance and operating procedures for the inventory of, accounting for, and reporting of its personal property, including the SECNAV Instruction related to personal property and the DON *DPAS Users Guide*.

DOD RESPONSE: DON was aware that the draft policy and procedures issued in April 2000 was neither finalized nor in an official format and therefore might not be considered official guidance by some. Nevertheless, DON believes that it is more beneficial to publish draft guidance than not to provide any guidance at all. Additionally, as an interim measure, DON sent out a series of OPNAV messages that directed compliance in many key areas. DON also re-formatted its policy and procedures document into a SECNAV Instruction format and, on 21 August 2000, sent it out in draft under a cover letter signed out by OPNAV N41 who directed compliance. The draft instruction also was posted on the Navy's DPAS website and distributed internally for comment. A fully staffed version of this instruction that incorporates recent Financial Management Regulation Requirements (dated August 2000) is now posted on the Navy's website. DON considers this draft instruction an interim "official" document. DON expects to forward this instruction for SECNAV signature within the next 45 days. Additionally, DON has developed a DON DPAS User's Guide which combines a "how to" manual with DON policies and procedures. This handy reference tool will be available to users during the FY01 conversions.

RECOMMENDATION 5: In conjunction with the DPAS Program Office, the Working Group should (1) establish a plan with specific tasks and milestones for implementing bar-coding and scanning capabilities to help maintain the Navy's accountability over its personal property and (2) determine the feasibility of developing and implementing Navy-specific DPAS implementation training.

DOD RESPONSE: DON has mandated bar-coding of assets in its Policies and Procedures. Sites have been directed to barcode their inventories within three years of converting to DPAS, or sooner if possible. Major claimants are tasked with monitoring progress and ensuring compliance. Navy intends to provide Navy-specific training to its users and has been providing Navy specific training at every Navy conversion since January 2000. Navy supplements existing DPAS training with support contractors to address compliance issues such as: policy and procedures, accountability, financial reporting and management controls. Navy also has established a website to provide DON users with Navy specific information post conversion.

Enclosure

The following is GAO's comment on the Department of the Navy's letter dated December 8, 2000.

GAO Comment

1. The Director pointed out that DOD has classified trainers as national defense equipment assets, which under DOD policy and current accounting standards do not require cost or component-level tracking. The Director stated that if trainers subsequently are reclassified as personal property by DOD, then for accountability purposes, the components of those trainers that exceed DOD's accountability threshold should be tracked. Further, we understand that the Federal Accounting Standards Advisory Board is currently reviewing the accounting standards for national defense equipment. As a result, we have deleted the specific reference to training labs in our recommendation regarding the use of other systems to track assets.

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