

FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Accounts Receivable footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

5.D.1.4 INVENTORY AND RELATED PROPERTY

Inventory and Related Property represents tangible personal property and includes such items as inventory for resale, fuels held for sale, spare and repair parts, clothing and textiles. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the Department. Related property includes Operating Materiel & Supplies (OM&S) and stockpile materiel. OM&S includes such items as spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with the recording and classifying of inventory and related property, including the use of proper valuation and measurement methods.

Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Inventory and Related Property are contained in the following table.

Financial Management and Accounting Guidance	Record Retention Policies
- SFFAS No. 1, 3, 48 (and amendments) - DoD FMR: Volume 4, Chapter 1 & 4, Volume 6B, Chapter 10 - DoDI 4140.01, <i>DoD Supply Chain Materiel Management Policy</i> - DCFO Policy Memoranda: <i>Inventory and Related Property Accounting Policy Requirements</i> issued 11/13/2015; <i>Alternative Valuation Methods for Establishing Opening Balances for Inventory, OM&S and Stockpile Materials</i> issued 08/28/2015; <i>Accounting Policy Update for the Expense Recognition of OM&S</i> issued 09/04/2015 - DCFO Memorandum: <i>Accurate and Reliable DoD Component-level Financial Management Trial Balances</i>	- National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1 - DoD FMR: Volume 1, Chapter 9

Balance By Reporting Entity

The following reporting entities comprise the Inventory and Related Property line item.

Reporting Entities	FY 2015 Balance	% of Total
OMB Designated Audit		
Army GF	\$ 31,333,625,915	12.0%
Air Force GF	54,997,936,913	21.0%
Navy GF	67,096,137,256	25.6%
Marine Corp GF	11,755,603,198	4.5%
Navy WCF	30,847,836,955	11.8%
Air Force WCF	23,437,813,677	9.0%
Army WCF	19,484,195,260	7.4%
Marine Corp WCF	1,084,919,329	0.4%
USACE – Civil Works Program	24,958,751	0.0%
Subtotal - OMB Design. Audit	\$ 240,063,027,254	91.7%
DoD Designated Audit		
DLA WCF	\$ 17,590,917,424	6.7%
DLA Strategic Materials	449,257,413	0.2%
DoD Component Level Accounts	6,022,227	0.0%
DeCA WCF	402,417,484	0.2%
Subtotal - DoD Design. Audit	\$ 19,547,970,768	7.5%
DoD Designated Examination		
Missile Defense Agency	\$ 3,207,152,995	1.2%

Reporting Entities	FY 2015 Balance	% of Total
Subtotal - DoD Design. Exam	\$ 3,207,152,995	1.2%
DoD Non-material Reporting Entities		
Other Reporting Entities	(1,652,799)	0.0%
Total	\$ 261,717,141,998	100.0%

Source: FY 2015 Reporting Entity DRS-AFS Balance Sheets

Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Inventory and Related Property. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Inventory and Related Property and assess the availability of KSDs that support the controls and amounts recorded.

Key Supporting Documentation Types

Within the table, different levels or tiers of KSDs have been identified, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the KSDs detailed in the table. KSDs for Inventory and Related Property are also presented in **Appendix B - FIAR Strategy, Risks, Financial Reporting Objectives and Key Supporting Documents**.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Inventory and Related Property			
INV.1 WAVE 3 WAVE 4 Recorded inventory may not exist at a given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22) Recorded OM&S may not exist at a given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22)	Recorded inventory exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the source system and general ledger (Wave 3, FRO #2, #3, #4, #7, and #8) Recorded OM&S exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the source system and general ledger (Wave 3, FRO #2, #3, #4, #7, and #8)	Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "book" and physically inspected on the "floor"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable requirements (e.g., DoDI 4140.01) (Tier 1 Asset Documentation). Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements,	Physically observe Inventory and OM&S counts being performed and examine documentation to determine whether: - the physical inventory or OM&S count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year) - evidence exists to support the review and approval of inventory counts and supporting adjusting entries to financial records by an authorized official - evidence exists to support the review and approval of OM&S counts and supporting adjusting entries to property records by an authorized official.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Inventory and Related Property			
		MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation). Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as: - approval documentation (to include disposal of land) - documents supporting disposal start date - documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation). DD Form 1150 – Request for Issue/Transfer/Turn-In	Select a sample of inventory items or OM&S from the total item property record and physically inspect assets to determine whether: - the selected inventory or OM&S physically exists. In cases where inventory or OM&S does not exist, determine whether the inventory has been appropriately sold, transferred, or disposed of, and sufficient documentation exists to support the sale, transfer, or disposal - selected inventory is properly classified in the total item property record and general ledger - selected OM&S is properly classified in an appropriate subledger and general ledger. Note: if applicable, this sample should include a sub-sample of inventory or OM&S in the possession of contractors. Verify that Inventory and Related Property subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity
INV.2 WAVE 3 WAVE 4	Inventory transactions (acquisitions, sales, issuance, disposals) may not be recorded in the total item property record or subledger and general ledger, may not be recorded in the current period, or may be improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, and #44) OM&S transactions may not be recorded, may not be recorded in the current period, or may be	All inventory transactions are recorded (physical inventory of inventory assets reconciles to source system) and properly classified (Vehicle Identification Number, Serial Number, Bureau Number, Unique Item Identifier within source system and general ledger) (Wave 3, FRO #1, #6, #9, and #10) All OM&S transactions are recorded (physical inventory of OM&S assets reconciles to source system records) and	Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "floor" and traced back to the "book"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable OUSD(AT&L) requirements (Tier 1 Asset Documentation). Physically observe Inventory and OM&S counts being performed and examine documentation to determine whether: - the physical inventory or OM&S count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year) - evidence exists to support the review and approval of inventory counts and supporting adjusting entries to financial records by an authorized official

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Inventory and Related Property			
improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, and #44)	properly classified (Vehicle Identification Number, Serial Number, Bureau Number, Unique Item Identifier within the source system and general ledger) (Wave 3, FRO #1, #6, #9, and #10)	Asset logs (e.g., maintenance logs or usage logs) that are reconciled to the subledger, demonstrating the completeness of the subledger population (Tier 2 Asset Documentation). Mission-management/ logistics data (if different from the subledger) used by leadership to track, deploy or distribute assets, reconciled to the subledger demonstrating the completeness of the subledger population (Tier 2 Asset Documentation). Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation). DD Form 1150 – Request for Issue/Transfer/Turn-In	- evidence exists to support the review and approval of OM&S counts and supporting adjusting entries to property records by an authorized official. Select a sample of inventory or OM&S from the warehouse and determine whether: - inventory or OM&S is appropriately entered in the total item property record or other subledger and general ledger. In cases where inventory is not entered in the source system, review documentation and perform inquiries of appropriate personnel to determine whether a rational basis exists for the omission - inventory or OM&S is properly classified in the total item property record or other subledger and general ledger Note: If applicable, this sample should include a sub-sample of inventory or OM&S in the possession of contractors. Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to inventory or OM&S.
INV.3 WAVE 4 Inventory transactions (acquisitions, sales, issuances, disposals) are recorded at incorrect amounts, or Inventory assets may be valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66) OM&S transactions (acquisitions,	Inventory transactions (all acquisitions, sales, disposals) are recorded at correct amounts, and Inventory is valued on an appropriate valuation basis, in accordance with U.S. GAAP and SFFAS #3 (Wave 4, FRO #16 and #17) OM&S transactions (all	Obligating documents supporting asset acquisition cost and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must	Select a sample of inventory additions (i.e., purchases, transfers in, donations) and examine documentation (i.e., receiving reports, invoices, etc.) to determine whether: inventory was valued in accordance with U.S. GAAP, at historical cost or the latest acquisition cost

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Inventory and Related Property			
consumptions, disposals) are recorded at incorrect amounts, or OM&S assets are valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66)	acquisitions, disposals, maintenance) transactions are recorded at correct amounts, and OM&S assets are valued on an appropriate valuation basis (Wave 4, FRO #16 and #17)	demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation). Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule (Tier 1 Asset Documentation). Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as: • approval documentation (to include disposal of land) • documents supporting disposal start date • documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).	• inventory was valued using consistent accounting principles from period to period • sufficient and accurate documentation exists to support the inventory value Select a sample of OM&S additions (i.e., purchases, transfers in, donations) and examine documentation to determine whether: • OM&S was valued using appropriate costing methodologies, in accordance with U.S. GAAP (purchase vs. consumption method) • OM&S was recorded at correct amounts • sufficient and accurate evidence exists to support the validity and value of the OM&S addition (invoices, etc.). Select a sample of inventory issuances (i.e., sales, transfers out, donations) and examine documentation to determine whether: • issuance was authorized and approved by an appropriate official • issuance was recorded timely and accurately Identify slow moving, obsolete, stale or damaged inventory and examine documentation to determine whether: • appropriate adjustments (write-downs or write-offs) were made to reduce inventory to its net realizable value • the adjustments were recorded timely and accurately • the write-downs or write-offs were authorized by an appropriate authorizing official • the adjusting entries were reviewed and approved by an authorized official

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Inventory and Related Property			
			prior to recording the entry in the source system - documentation exists to support the review and approval (i.e., signature and date of warehouse supervisor) Select a sample of OM&S disposals (i.e., unusable, obsolete, scrapped, or damaged) and examine documentation to determine whether: - The disposal was authorized and approved by appropriate official - The disposal was recorded timely and accurately. Verify that all impairments to OM&S are identified timely and all asset adjustments are recorded accurately and in the correct accounting period. Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to inventory.
INV.4 WAVE 3 WAVE 4	Recorded inventory may not pertain to nor is rightfully owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71) Recorded OM&S does not pertain to nor is rightfully owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71)	The reporting entity has rights to the recorded Inventory at a given date. (Wave 3, FRO #5) The reporting entity has rights to the recorded OM&S at a given date (Wave 3, FRO #5)	Contract documentation, including (for base assets and asset modifications): - Statement of Work - Contract clauses that define who owns assets and when the reporting entity takes possession - Purchase Orders - Receiving report or other acceptance document (e.g., DD-250, "Material Inspection and Receiving Report") (Tier 2 Asset Documentation). Other estimation techniques that can be used to estimate the size of the population with tolerable precision and then compared to the subledger population to demonstrate completeness Select a sample of inventory items or OM&S from the total item property record or other subledger and physically inspect assets to determine whether the reporting entity controls/owns the inventory or OM&S and has the rights to report the inventory or OM&S in the total item property record or other subledger and general ledger. Select a sample of inventory items or OM&S from the warehouse and determine whether documentation exists (i.e., DD-250) to evidence ownership/control and the right to report the inventory or OM&S in the

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Inventory and Related Property			
		(Tier 2 Asset Documentation). Documentation of observed physical indicators of ownership rights, including a combination of: • Documentation of assets located on reporting entity facility • Assets tagged with identification numbers (e.g., barcodes or tail numbers) that indicate reporting entity ownership • Assets are marked with the reporting entity's name (or other coding or naming conventions) that demonstrate the reporting entity's control over the asset • Other evidence of exclusive rights to use assets (Tier 2 Asset Documentation). Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as: • approval documentation (to include disposal of land) • documents supporting disposal start date • documents supporting determination of	financial records. Note: If applicable, this sample should include a sub-sample of inventory or OM&S in the possession of contractors.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Inventory and Related Property			
		impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation). DD Form 1150 – Request for Issue/Transfer/Turn-In	
INV.5	IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM)	All material systems achieve the relevant FISCAM IT general- and application-level general control objectives.	See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities

Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Inventory and Related Property** footnote disclosures included in **Note 9** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for the Inventory and Related Property footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

5.D.1.5 GENERAL PROPERTY, PLANT AND EQUIPMENT

5.D.1.5.1 General Equipment

General Equipment is included as General Property, Plant & Equipment (G-PP&E) and consists of tangible assets that have an estimated useful life of 2 or more years; are not intended for sale in the ordinary course of operations; **do not ordinarily lose their identity or become a component part of another item when put into use**; and, are intended to be used or available for use by the reporting entity.

Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with General Equipment, including acquisitions, depreciation, transfers, dispositions and general ledger recording. Furthermore, reporting entities should have controls in place to properly account for General Equipment acquired by and/or in the possession of contractors. The nature of the item, rather than who has possession of the asset, is the basis for proper accountability.

Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for General Equipment are contained in the following table.

Financial Management and Accounting Guidance	Record Retention Policies
- SFFAS No. 6, 11, 35, 44 (and amendments) - Technical Release (TR): 13, 14 - DoD FMR: Volume 4, Chapter 6 - DoDI 5000.64, <i>Accountability and Management of DoD Equipment and Other Accountable Property</i>	- National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1 - FMR: Volume 1, Chapter 9