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Better Management of  
Government-Furnished Material  
Could Decrease Cost of Base  
Maintenance Contracts

Department of the Air Force

GAO found a lack of control for Air Force materials at the Space and Missile Systems Organization and at the Los Angeles Air Force Station.

The lack of control occurred despite a general compliance with Air Force regulations; therefore, this situation could exist at other Air Force locations.

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS  
ACQUISITION DIVISION

B-183466

The Honorable  
The Secretary of the Air Force

Dear Mr. Secretary:

This report summarizes our examination of local material management procedures at the Space and Missile Systems Organization at Los Angeles and the Los Angeles Air Force Station. It discusses the need for improving the control and accountability for Air Force materials provided to base maintenance contractors.

We invite your attention to the fact that this report contains recommendations to you which are set forth on page 7. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Officials at the local installations have been advised of the report contents. We would appreciate your comments and advice on actions taken on our recommendations.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "R. W. Gutmann".

R. W. Gutmann  
Director

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
2 POTENTIAL MISUSE OF GOVERNMENT-FURNISHED MATERIAL	2
GFM procedures	3
Bench stock	3
Material requisitions	5
Other controls	6
3 CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION, AND RECOMMENDATIONS	7
Conclusions	7
Agency comments and our evaluation	7
Recommendations	7
APPENDIX	
I Principal officials responsible for matters discussed in this report	8

ABBREVIATIONS

GAO	General Accounting Office
GFM	Government-furnished material
LAAFS	Los Angeles Air Force Station
SAMSO	Space and Missile Systems Organization

D I G E S T

GAO recommends that the Secretary of the Air Force have maintenance officials at the Space and Missile Systems Organization at Los Angeles and the Los Angeles Air Force Station take coordinated action to

- monitor the contractor's requirements de-terminations for Government material and its use and
- strengthen the controls over materials that are highly susceptible to pilferage, including controlled access to such items. (See p. 7.)

GAO also recommends that the Secretary of the Air Force advise base commanders and security officers to consider applying our recommenda-tions at their installations when similar con-ditions exist.

Although GAO did not find evidence to confirm an alleged misappropriation of Air Force property, it did determine that material man-agement procedures at the Los Angeles Air Force Station did not provide adequate con-trol for Air Force material to preclude the alleged misappropriation from occurring. Local Air Force officials acknowledged the possibility and probability of pilferage and assured us that control over materials when-ever possible and practical would be in-creased. However, these officials pointed out that funds were particularly tight and, therefore, their efforts would be limited by this factor.

GAO recognizes that the costs of providing control over Government assets must be care-fully balanced against the value of the as-sets. However, Air Force and contractor per-sonnel said that it was virtually impossible to determine what had happened to unaccounted-for Government materials that GAO estimates

amounted to about \$80,000 during fiscal year 1975. GAO believes the potential for loss is sufficient to warrant strengthening of controls over such materials. Also, GAO recommends that, in awarding future maintenance contracts, the Air Force consider having the contractor provide the material needed in contract performance.

The lack of control occurred despite a general compliance with those regulations; therefore, this situation could exist at other Air Force locations.

## CHAPTER 1

### INTRODUCTION

In response to a congressional request, we reviewed contractor staffing of maintenance contract F04693-72-C-0045, awarded by the Air Force Space and Missile Systems Organization (SAMSO), El Segundo, California, to Action Industries, <sup>1</sup> Inc., Woodland Hills, California. Action's fixed-price contract <sup>2</sup> required it to provide the necessary personnel. Materials and other property were furnished by the Air Force.

Property administration of Government-furnished material (GFM) was not a specific subject of the request; however, allegations regarding misappropriations of GFM were received during our review. The allegations were received directly from an Action employee and were corroborated by a second employee. Both had firsthand knowledge of the incident but could not document the specific property or quantities misappropriated.

According to the employees, Action ordered and received excess GFM (janitorial supplies, such as mops, buckets, brooms) and stored them in the Civil Engineering Building at Los Angeles Air Force Station (LAAFS). The supplies, along with others, were transported via Action trucks and driven by its employees to McClellan Air Force Base, Sacramento, to be used on a janitorial service contract, F04699-73-C-0306, which had been awarded to Action. At McClellan it was charged that the supplies had been turned over to other Action employees in the presence of the firm's president and the project manager for the SAMSO contract.

<sup>3</sup> The McClellan contract required Action to provide all <sup>21</sup> of its own supplies except for paper towels, toilet paper, hand soap, and deodorant blocks.

CHAPTER 2  
POTENTIAL MISUSE OF  
GOVERNMENT-FURNISHED MATERIAL

To evaluate the merits of the allegation, we (1) analyzed the records of janitorial supplies issued to Action from June 1972 to May 1975, (2) physically examined the contractor's supplies on hand at LAAFS and McClellan Air Force Base, and (3) reviewed the records of the firm from which Action claims to have purchased the supplies in question.

The janitorial supplies issued and the physical examination of these supplies showed the following:

<u>Items</u>	<u>Issued</u>	<u>On hand</u>	<u>Difference</u>
Floor brushes	146	31	115
Wood handles	439	195	244
Upright brooms	132	14	118
Mop heads	112	25	87
Mop buckets	45	17	28
Wringers	38	13	25
Squeegies	52	14	38

The quantities of materials issued and not accounted for seemed particularly large because they involved supplies which normally have long service lives.

Accordingly, we discussed the allegation with Action officials who said that the janitorial supplies shipped from LAAFS to McClellan had been purchased from a local supplier and had been stored at LAAFS with Air Force approval.

We visited the supplier and were shown receipts for Action's purchases at the time of the alleged incident. The receipts would account for some materials of the types in question used by the contractor at McClellan.

Action's project manager suggested that the missing supplies could have been stolen by others at LAAFS, such as employees of previous janitorial contractors. He could not otherwise account for the missing supplies.

Although material was shipped from LAAFS to McClellan; we could not trace either the quantities or ownership of the materials shipped, and therefore were unable to determine if any of the materials belonged to the Air Force.

## GFM PROCEDURES

Although we could not confirm that any of the alleged transfers of Air Force property did occur, we did determine that the material management procedures at LAAFS provide essentially no control for Air Force material. The procedures would not have precluded the alleged incidents from occurring as discussed below.

Supplies are furnished to Action by two means: (1) materials for which there is continuous demand are furnished as bench stock, under Action's control, and are automatically replenished as needed and (2) materials needed infrequently are requisitioned as required from base supply. In fiscal year 1975 supplies costing more than \$230,000 were issued to support Action's base maintenance activities.

### Bench stock

During fiscal year 1975 about \$100,000 worth of materials was issued as bench stock under Action's control. This stock includes various types of common construction and building repair materials, such as lumber, paint, and plumbing and electrical supplies.

Generally, bench stock is supposed to contain material classified as expendable and is not to exceed a 30-day supply. To qualify, each line item must have at least three demands per 180-days, and items with less demand are dropped from inventory. Regulations also state that bench stock should have adequate storage protection to insure the conservation and protection of the property and that without such protection, small highly desired items should not be stocked.

The protection of the bench stock was virtually nonexistent. The materials were openly available to workmen without any issue controls required. There were no stock clerks to monitor withdrawals, and no records were maintained to show how most of the materials were used.

From January through June 1975 less than 20 percent of the bench-stock materials consumed were properly documented. We estimate that the value of these materials totaled \$80,000 in fiscal year 1975.

To see if the bench-stock materials were being properly used, we attempted to inventory certain plumbing valves issued from January through June 1975. Base supply's records showed that 67 valves had been issued during the period. In a physical inventory at the station, with the assistance of the Air Force and Action, we located only 42



of the valves (about 60 percent). The Air Force and Action personnel said that it would be virtually impossible to determine what had happened to the unaccounted-for valves or to most of the bench-stock materials not appropriately documented.

We also attempted to physically locate passage and keyed locksets installed on work-order projects during the period January through June 1975. These items were selected because (1) Air Force personnel said that they would be more traceable than other items, primarily because there is some control over keyed locksets, (2) individual units are issued and are normally readily accessible after installation, and (3) locksets are expensive (\$28 each for passage sets and \$38.75 each for keyed sets).

Supply records for the period showed that 45 new passage and keyed locksets had been issued. All documentation prepared for the period accounted for only 24 locksets. Further, in checking the locations where the 24 sets were to have been installed, we found only 3 new sets. The other 21 were used sets, which apparently had been reclaimed from surplus doors.

The 21 new sets, could have been legitimately used elsewhere on the base along with the other 21 sets that had been issued but not recorded. Air Force personnel, however, told us it was highly unlikely that 42 locksets could have been installed in 6 months without a sizable number being shown on work orders. They said that most locksets would be installed in conjunction with construction work requiring materials that would have to be listed on the work order.

The bench stock is replenished automatically by personnel from base supply. The system calls for a base-supply representative to periodically (no less than weekly) visit the bench-stock location to identify and replenish out-of-stock items. Requisitions are processed for these items, but formal stock records are not maintained. Bin cards or tags exist for each line item containing a minimum of information, such as stock number, quantity authorized, and reorder quantity, but transactions are not posted to these records. A record of the items replenished is given to the civil engineering group, but the quantities are not verified nor are any signed receipts issued.

In the bench-stock area, we observed what appeared to be "stockpiling" of certain bench-stock types of materials. Airmen, charged with monitoring performance of the maintenance contract, said the stockpiling often occurs to show usage where insufficient usage took place to maintain current

bench-stock levels. If, toward the end of an inventory period, little or no usage occurs, the workmen reportedly remove some of the material from the bins and store it in an adjacent area, thereby showing a level of usage. This practice is, of course, incongruous with bench-stock system principles and could promote pilferage and waste.

To check on the reasonableness of the cost of materials consumed, Air Force civil engineering personnel developed a ratio of material cost to labor-hours for Action. The Action ratio was then compared to the average ratio for other Air Force bases.

The Air Force chief of civil engineering said that he had checked the ratio and found consumption to be within the Air Force average. However, he agreed that this test did not adequately insure that materials were being properly used and were not being pilfered since he did not know what the proper ratio should be for LAAFS.

We believe that, while the use of ratios is appropriate for a gross test of multiple activities, it is an inadequate substitute for proper material control because it

- does not consider the uniqueness of the work requirements at each base,
- would not identify excessive pilferage that could be occurring throughout the Air Force, and
- does not consider differences in productivity at the various bases.

#### Material requisitions

When a request for work is received, Action's planning department determines the type of job and estimates the material needed. If any of the materials are not available in bench stock, an Air Force requisition (Form 1445) is prepared to obtain the needed materials from base supply.

The requisitions are approved by the contractor's planner and, when prepared in conjunction with a work order, become part of a work-order package which must be approved by the Air Force base civil engineer. If a requisition is not part of a work-order package, it is not specifically reviewed or approved by Air Force personnel.

We followed up on some of the requisitions and found that no test checks or other procedures had been used to insure that materials had been used as planned or turned in

when not needed. The Air Force base supply representatives said that, because the contractor had permission to order such supplies, they had not questioned the quantities requisitioned.

#### Other controls

The lack of accountability for materials could have in part been compensated for by other controls. Two generally accepted controls are periodic audits of property controls and base security.

Air Force auditors, however, had not reviewed the controls and use of expendable property requisitioned by and in the possession of the contractor.

At LAAFS, the security force can do little, if anything, to stop pilferage of materials from the areas occupied by the support contractor, because

- LAAFS is an open base (no guards are posted at gates or other access controls),
- the subject materials are not identified as Air Force or Government property and probably would not be questioned if taken from the base,
- the physical arrangement of the base necessitates the frequent movement of materials between locations by workers, and
- the storage area exits directly to an off-base parking area.

## CHAPTER 3

### CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION, AND RECOMMENDATIONS

#### CONCLUSIONS

Material management procedures at LAAFS did not provide control over Air Force material and would not preclude misappropriation from occurring. The lack of control occurred despite a general compliance with Air Force regulations; therefore, this situation could exist at other Air Force locations.

#### AGENCY COMMENTS AND OUR EVALUATION

Local Air Force officials acknowledged the possibility and probability of pilferage and assured us that, whenever possible and practical, the control for materials would be increased. However, they also pointed out that funds were particularly tight and that their efforts would be limited by this factor.

We recognize that the cost of providing control over Government assets must be carefully balanced against the value of the assets. However, the procedures followed at LAAFS failed to provide reasonable property control. We estimate that \$80,000 of Government materials was unaccounted for during fiscal year 1975. We believe that the potential loss is sufficient to warrant strengthening of controls over such materials.

#### RECOMMENDATIONS

We recommend that the Secretary of the Air Force have SAMSO and LAAFS base maintenance officials consider having the contractor provide the material required to perform future maintenance contracts. For the current contract, action should be taken to

- monitor the contractor's requirements determinations for Government material and its use of such material and
- strengthen the controls over materials that are highly susceptible to pilferage, including controlled access to such items.

We also recommend that the Secretary advise base commanders and security officers to consider applying our recommendations to similar contract activities which they manage.

PRINCIPAL OFFICIALS RESPONSIBLE  
FOR MATTERS DISCUSSED IN THIS REPORT

Tenure of office  
From                      To

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Donald H. Rumsfeld	Nov. 1975	Present
James R. Schlesinger	June 1973	Nov. 1975

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

James W. Plummer (acting)	Dec. 1975	Present
John L. McLucas	May 1973	Nov. 1975

COMMANDER, AIR FORCE SYSTEMS

COMMAND:

Gen. William Evans	Oct. 1975	Present
Gen. Samuel C. Phillips	Aug. 1973	Sept. 1975

COMMANDER, SPACE AND  
 MISSILE ORGANIZATION:

Lt. Gen. Thomas W. Morgan	Aug. 1975	Present
Lt. Gen. Kenneth Schultze	Aug. 1972	July 1975

COMMANDER, LOS ANGELES

AIR FORCE STATION:

Col. Judson A. Herriott	Mar. 1973	Present
Col. Richard Schneider	July 1972	Feb. 1973

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