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UNITED STATES GENERAL ACCOUNTING OFFICE

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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY

GOVERNMENT OPERATIONS COMMITTEE

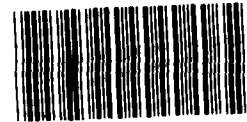
HOUSE OF REPRESENTATIVES

ON

BETTER MANAGEMENT AND ACCOUNTABILITY ARE NEEDED

FOR GOVERNMENT MATERIAL FURNISHED

TO DEFENSE CONTRACTORS



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our work on the problems that the Department of Defense and the Services have in managing and accounting for material they furnish to defense contractors. As previously agreed with your staff our testimony will address only Defense's management of Government furnished material (GFM) and not the other categories of government property.

The Department of Defense gives billions of dollars of material to contractors for use on Defense contracts. For many years, GAO and Defense internal audit staffs have issued numerous reports on the continuing problems in accounting for this material after it has been given to the contractors.

In response to your February 1981 request, Defense provided the Subcommittee data showing \$11.2 billion of GFM in contractors' possession as of September 30, 1980. However, we believe that this figure is understated because Defense does not know precisely how much GFM is in contractors' possession. There are no overall management or financial systems to account for these materials. Moreover, contractors' records do not in all cases adequately account for GFM. One of the reasons contributing to this accountability gap is that Defense has not adequately enforced the requirements in the Defense Acquisition Regulations. In our opinion, contractors' accountability for GFM must be established to provide Defense the basis for overall financial management control over these materials.

Corrective actions have been taken by Defense on some of the problems noted in the past audit reports. However, overall corrective actions have been slow, narrowly confined, and in some cases limited to trial programs.

Other actions are underway, but, more must be done and done soon to improve Defense's management of GFM to ensure that the Government's investment is adequately protected.

BACKGROUND

The Department of Defense gives billions of dollars of GFM to contractors for use on Defense production, overhaul, and repair contracts. The GFM includes parts, components, assemblies, raw and processed materials, and supplies that are attached to or incorporated into final products such as aircraft, tanks and ships. The material is either owned or acquired by the Defense agencies and is issued to contractors as part of a contractual agreement for production of new items or for overhaul or modification of existing items.

Contractors are required to manage GFM in accordance with procedures in the Defense Acquisition Regulations. Under these procedures, contractors must establish and maintain a system to control, protect, and preserve Government property. These systems are subject to review and approval by the Government's property administrators. The policy is to rely almost entirely on contractors' property control records and designate the contractors' books as the official records. Contractors are supposed to keep adequate accounts for all GFM provided under a contract. The official records (the contractors' books) must be kept current so that at any stage of work, the status of GFM may be ascertained. Generally, Defense agencies do not maintain independent accounting control over GFM after it is provided to contractors.

BETTER PROPERTY CONTROL AND ADMINI-
STRATION ARE NEEDED TO INSURE
CONTRACTOR ACCOUNTABILITY

Defense has been criticized by the Congress, GAO and Defense audit agencies for its inability to properly manage materials furnished to contractors. We believe this situation will continue to exist until Defense develops management systems that establish control and accountability over the quantity and value of GFM in the hands of defense contractors, and enforces the Defense Acquisition Regulations at the contractors' plants through good property administration.

Property Control and Administration
Deficiencies Cited In Prior Reports

Over the past several years, GAO and Defense audit agencies have issued numerous reports criticizing Defense for its inability to properly control and administer GFM provided to contractors. (See attachment.) These reports contain examples showing that contractors' records can not be relied on to adequately account for GFM. This situation exists because Government property administrators do not enforce the Defense Acquisition Regulations to ensure that the contractors maintain property control systems that provide adequate accountability over GFM in their possession.

Our review of reports issued over the past 5 years showed that the Defense Logistics Agency and each of the Services were experiencing difficulties in managing their GFM.

Defense Logistics Agency

The Defense Logistics Agency (DLA) has experienced problems in getting contractors to adequately account for GFM. This is not an easy task due to the number of contractors involved. For example, as of June 30, 1981, DLA had contract administration responsibility

for over 4,250 contractors, which included more than 4,000 property control systems.

The following reports illustrate some of the problems:

--In 1976 the DLA Auditor General reported that contractors' handling of GFM was in need of improvement. Audit tests of the acquisition, use, and disposition of \$81.1 million of GFM at 66 contractors' plants disclosed that about \$9.2 million of GFM was (1) used on commercial work (2) sold to the Government as contractor furnished material (3) acquired without contractual authority, or acquired in excess of needs.

--In 1978 the Defense Audit Service reported on the administration of overhaul, maintenance, and repair contracts. They found no standard system used to control shipments of equipment from Defense activities to repair contractors. A test of 148 shipments valued at \$16.3 million showed 91 of the shipments valued at \$12.9 million were not recorded on inventory records.

Based on these findings, in August 1978, DLA initiated actions to improve controls over GFM. These included a requirement to perform two property surveys annually at each contractor and the placing of full time property administrators in major contractors' plants. DLA also arranged for listings of GFM furnished to contractors to be provided periodically to the property administrators for their use in assuring that all Government material requisitioned by the contractors is received by them and properly accounted for. However, we learned that the independent listings are not being made available for property administrators' use.

Moreover, DLA has been authorized only 27 full-time property administrators at their 32 major contractors' plants. DLA pointed out that failure to fill the other five positions will result in less than satisfactory monitoring of GFM at these sites and continued high risk of misuse of GFM at these locations. While filling these positions would not in itself solve all of the problems, we believe that good property administration is the key to maintaining accountability over GFM in contractors' possession.

Army

It appears the Army may not be taking the appropriate corrective actions necessary to alleviate reported discrepancies in GFM management as indicated by the following examples.

--In 1976, the Army Audit Agency reported on weaknesses in controls over GFM at one contractor. This report pointed out that (1) requisitioning of GFM by the contractor was ineffective (2) annual surveys of the contractors' property control system were not made, and (3) the contractor was experiencing problems in maintaining accounting controls over GFM.

--In 1977, the Army Audit Agency, in a review of Army aviation items, reported that about \$5.5 million of GFM at four contractor plants was excess to current requirements. Also, material for overhaul and modification contracts was stocked in excess of contractual 90-day operating levels. Further, some of this excess material was necessary for new contracts.

--In 1977, the Army Audit Agency also reported on weaknesses in management of GFM at one command. They

reported that about \$1.4 million of GFM was not supported by valid requirements. This was caused by (1) the erroneous coding of material by item managers, (2) failure to consider cancelled and reduced requirements, and (3) the absence of periodic reviews and validations of inventory balances. Appropriate recommendations were made to improve GFM management.

--In 1981, the Army again reported on GFM managed by the same command. It reported that reconciliations and validations of GFM inventory balances were not adequate. Material valued at \$208,500 was not supported by valid requirements. The report stated that the GFM was no longer required. Four years after the first report, the Army still had not taken action to correct these deficiencies.

Navy

Recent audit reports by GAO and the Naval Audit Service show that the Navy's accountability over GFM needs to be improved. There is generally poor control over GFM in the hands of contractors.

For example:

--In 1978, the Naval Audit Service in a review of naval aviation repair items, reported that about \$1 million of GFM at six contractor plants was excess to contractor requirements. These findings were particularly significant as some of the materials could have been used to satisfy other high priority requirements.

- In 1979, the Naval Audit Service reported that one Navy activity furnished a contractor over 1600 items valued at \$250,000 with no initial controls established over the items.
- In 1979, the Naval Audit Service identified \$2.5 million of property that was not recorded on one contractor's records. The audit service also identified \$10.6 million of excess GFM located at various contractors' plants.
- In 1980, the Naval Audit Service recommended withdrawal of approval of one contractor's property control system because of inadequate accountability for GFM. However, this was not done.
- In 1981, we reported that the Navy provides billions of dollars of GFM to contractors for use in constructing, overhauling, and repairing Navy ships. 1/ However, the Navy does not know how much GFM is in its contractors' possession due to poor property administration and because there are no overall financial or other management systems to account for these materials. This is especially important since we found that some contractors were not adequately accounting for GFM. Moreover, the Navy is highly fragmented in its approach to

1/"The Navy Is Not Adequately Protecting the Government's Investment in Materials Furnished to Contractors for Ship Construction and Repair" (PLRD-81-36).

managing GFM. Within the Naval Sea Systems Command alone, over 40 different offices or activities maintain data on GFM. There is no system to coordinate this information even within this command although each of these offices is dealing with ship related materials.

Air Force

In the past, GAO has cited problems in the Air Force's ability to adequately account for GFM. In 1976, GAO issued a report concluding that the Air Force could not adequately account for the \$200 million of GFM provided annually to overhaul and repair contractors. The weaknesses hampering accountability were (1) incomplete estimates of materials to be used, (2) limited knowledge of materials ordered and (3) inadequate checks of whether materials are used for proper purposes.

These weaknesses, were primary factors in one contractor's apparent misuse of GFM valued at \$2.5 million. We referred the case to the Department of Justice and it is still under investigation.

We recommended that procedures be developed within the Air Force accounting system establishing (1) an audit trail for determining the amount of GFM provided contractors; (2) consumption data designed to improve evaluation of contractor's reported usage; (3) information system for property administrators; and (4) increased surveillance at some contractor locations.

Although GAO has not conducted a review of Air Force GFM management since 1976, our analysis of internal Air Force reports revealed that accountability problems persist. For example,

--In 1978 and 1981 Air Force audit reports cited deficiencies in the controls necessary to prevent unauthorized and excessive amounts of GFM from being provided to contractors. During the 1978 audit tests of controls were conducted over a 5-month period. These tests showed that 720 requisitions for GFM valued at \$444,000 were processed by contractors who bypassed Air Force control systems. In the 1981 audit a test of these controls showed that 4 out of 5 requisitions for GFM that should have been disallowed were not. The auditors had to intervene at the supply point to prevent shipment of this material.

DEFENSE NEEDS INDEPENDENT ACCOUNTING
CONTROLS OVER GFM PROVIDED TO CONTRACTORS

Defense and the Services, for the most part, do not have accounting controls for the billions of dollars of GFM provided contractors. Therefore, Defense cannot accurately account for these materials when asked to do so, as evidenced by the inaccuracies in the data furnished to the Committee.

Insuring that the contractors' records are the accountable GFM records will solve only part of the problem. Defense should establish independent accounting controls to provide accountability over these materials from receipt to consumption or disposal.

Financial Management Deficiencies
Cited In Prior Reports

In 1980 we reported that the Defense policy to rely almost solely on contractors for accountability over the estimated billions

of dollars in material furnished to them is not effective. 1/
Our review of four production contractors showed that the lack of adequate controls led to Defense providing, or initiating shipments of \$1.3 million in material that was over contract allowances. We also cited prior GAO and Defense reports on weaknesses in accounting for GFM.

Accordingly, we concluded that the Secretary of Defense should stop Defense's policy of almost total reliance on contractors' property control records and establish accounting systems which together with contractors' records would provide control over GFM from receipt to consumption or disposal.

We recommended that the Secretary instruct the Services to develop accounting systems that establish a means of determining the quantity and value of GFM (1) contractually allowed to contractors, (2) actually provided to contractors, (3) reported as received by contractors, (4) reported as used by contractors, and (5) reported as on hand by contractors. These systems also should include adequate accounting for GFM that is obtained by contractors directly from Defense supply systems. Further, we recommended that Defense identify production contracts which have significant amounts of GFM and determine whether such material is authorized and required.

Defense stated that they shared our concern with the lack of accountability over GFM and promised to continue giving priority to improvements. Specifically, they said they were working towards

1/"Weaknesses In Accounting For Government-Furnished Materials at Defense Contractors' Plants Lead to Excesses" (FGMSD 80-67).

developing property accounting systems for this material and they would advise the Services to identify and determine the amount of GFM provided to production contractors.

Our review of the adequacy of these actions disclosed the following.

--Defense issued a policy instruction dated March 13, 1981, for controlling access to Defense material inventories by maintenance contractors. The controls are scheduled for implementation in November 1982 or May 1983 when changes are made to the MILSTRIP system (Military Standard Requisitioning and Issue Procedures).

The related inventory accounting controls are being developed by Defense's Comptroller and Defense expects to issue guidance to the Services in mid-1982.

Defense has not reached a decision on extending the the controls to production contractors.

--Defense began a test to ascertain whether economies and improved management controls will result by authorizing overhaul and maintenance contractors to buy supply items from the Defense Supply System in lieu of providing the supplies as GFM. The first contract with this provision was awarded by the Navy on July 15, 1981. The test program is expected to be completed in 1985, with interim test results being available. Defense plans to expand this program to all contractors if the test results are favorable.

--Defense's promised action to identify excess material in the hands of production contractors began only after we followed up on our report in anticipation of the Subcommittee's request for our assistance. By memorandum dated June 26, 1981, defense instructed the Services to act on our recommendation. The Services' responses are due by the end of September 1981.

Based on Defense's actions and timeframes for completing these actions, accounting controls over GFM are still several years away. Further, because different Defense organizations are involved in this effort, close coordination will be required to assure that these controls are implemented in a timely manner.

RELIABILITY OF GFM DATA
PROVIDED BY DEFENSE

The problems in GFM accountability previously discussed were further illustrated when Defense and the Services responded to your February 1981 request. They reported a total of \$11.2 billion in the hands of contractors as of September 30, 1980. The reported amounts were:

Navy	\$3.4 billion
Defense Logistics Agency	1.8 billion
Army	1.0 billion
Air Force	5.0 billion

We found omissions in some of these figures. Therefore, these amounts are understated--perhaps in millions of dollars.

Due to the lack of accountable records and time constraints, we limited our evaluation to

- (1) discussions with officials who prepared the submissions
- (2) reviews of prior audit work by GAO and others.

We were better able to evaluate the Navy's submission because of recent audit work involving the Navy's GFM management activities.

The following examples illustrate the types of omissions in the submission.

The \$11.2 billion did not include GFM for

--Army and Air Force contracts administered by the Navy, or

--Navy contracts for ship repair and overhaul. Furthermore, the Navy provided program budgeted amounts for GFM in some cases rather than the dollar value of GFM actually in contractors' possession.

Based on our past work, we believe these omissions resulted in the Navy's understating its GFM by millions of dollars. We were unable to estimate the understatement resulting from omitting the Army and Air Force contracts.

In our opinion, the \$11.2 billion GFM figure is understated based on the the findings in prior audit reports that contractors do not adequately account for GFM.

In conclusion, the Government's investment in billions of dollars of material furnished to contractors has not been adequately protected and it may be several years before financial accountability can be assured. We have seen some recent progress by Defense to improve the accountability over GFM, i.e., a Uniform Chart of

Accounts, property accounting principles and standards and controls over contractors access to the Defense supply system. However, we believe that the following improvements are needed:

- The Defense Acquisition Regulations should be enforced by Defense activities to assure the reliability of contractors' records and property management systems.
- Defense's property administrators need to enforce the provisions of the contract and periodically check the GFM in the hands of contractors.
- Defense needs to develop a plan of action to accomplish Defense-wide accounting controls as quickly as possible.
- Defense needs to establish a central control for coordinating all the actions underway and planned for improving management and accountability for GFM.

SUMMARIES OF GAO AND DEFENSE REPORTS
ON GOVERNMENT FURNISHED MATERIAL

U.S. GENERAL ACCOUNTING OFFICE

"Better Management of Government-Furnished Material Could Decrease Cost of Base Maintenance Contracts," (PSAD-76-79), February 1976

Material management procedures at the Los Angeles Air Force Station 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.

"Need for Better Control Over Government Furnished Material Provided to Defense Overhaul and Repair Contractors," (PSAD-76-78), March 1976

When the records of materials given to contractors are kept by contractors, which also have physical custody of these materials, we believe minimum acceptable control would require a way for Government representatives to verify contractor reports of materials received, used, and remaining in inventory. Independent verification and evaluation would require:

1. A Government record by national stock number, quantity, and dollar value of the Government material given individual contractors. This could be done by furnishing Government property administrators with information on Government material shipped to contractors.
2. Periodic verification of the accuracy of contractors' records by testing them with the Government's records of material shipped to the contractors and auditing contractors' usage reports. In addition, the practice of taking physical inventories of materials on hand should be continued.
3. Preparation of better estimates of expected usage of Government-furnished material. This includes periodic evaluation of the reasonableness of such estimates and appropriate adjustments when necessary.

DOD has advised us that a joint Air Force/Defense Contract Administration Service task force is studying the problems of controlling Government-furnished material and therefore it feels additional directions to those agencies are unnecessary.

"Increased Use of Available Aviation Assets in New Production Can Save Millions," (LCD-79-201), March 1979

The Navy needs to improve its procedures and practices for (1) identifying long supply quantities of items that could be used in new production of aviation equipment, (2) advising contractors of the availability of these long supply items, and (3) having these items furnished to contractors with equitable reductions in the appropriate contract prices. Substantial savings are available in inventory holding and procurement costs through timely utilization of long supply assets.

Our review of the Navy performance showed:

- Lack of management emphasis and interest on the part of personnel responsible for administering the program.
- Ineffective implementation of and noncompliance with existing policies.
- Weaknesses in existing procedures and practices.
- Lack of visibility and feedback systems at top management levels of the Navy and DOD for monitoring and measuring the success of the Navy's program for making maximum use of available aviation system assets in new production.

"The Army Should Increase Its Efforts To Provide Government-Furnished Material to Contractors," (LCD-80-94), August 1980

By not screening long supply inventories for possible use as GFM on production contracts, four Army inventory control points may be losing the opportunity to achieve significant savings or may lose such opportunities in the future. Such screening, which is required

by Defense and DARCOM policy, has been performed by one Army control point with beneficial results. However, DARCOM officials have not adequately exercised their oversight responsibility to ensure compliance with this policy.

"Weaknesses in Accounting for Government-Furnished Materials At Defense Contractors' Plants Lead to Excesses," (FGMSD-80-67), August 1980

Defense does not maintain adequate accounting for GFM provided to production contractors. As a result, millions of dollars of GFM have been provided to contractors (1) in excess of their contract authorizations and (2) in excess of the amount required to fulfill the contract. Several of the weaknesses found in prior audits on control of GFM furnished to contractors for use in overhaul, maintenance, and repair contracts also exist in production contracts.

To insure that there is adequate accounting for GFM provided to production contractors, the Secretary of Defense should discontinue Defense's policy of almost total reliance on contractor property control records and establish systems which together with records maintained by the contractor provide accounting control over Defense material from receipt to consumption or disposal.

"The Navy is not Adequately Protecting the Government's Investment in Materials Furnished to Contractors for Ship Construction and Repair," (PLRD-81-36), June 1981

The Navy needs to make improvements in its management of GFM to ensure the Government's investment is adequately protected.

The Navy has no central point of control or accountability for GFM. Instead, many commands are involved in its management, and their efforts are not coordinated to prevent duplication or to ensure consistency. These problems are compounded by the lack of

inventory manager visibility over GFM in the possession of the Navy's Supervisors of Shipbuilding, Conversion and Repair (SUPSHIPS) and contractors. Moreover, no activity actively monitors the performance of the various SUPSHIPS to ensure consistent interpretation and application of GFM regulations and directives.

Although the SUPSHIPS' basic regulations and directives for GFM management are the same, they did not interpret and apply these in the same manner. As a result, their effectiveness in managing GFM varied widely.

The Seattle SUPSHIP was managing GFM in a more effective manner by enforcing DAR's requirements on contractors and by using an in-house computerize monitoring system for management prior to delivery to the contractor.

The failure of three other SUPSHIPS to fully enforce DAR led to inaccuracies and inefficiencies in contractors' GFM control systems, caused excess items to be held for extended periods of time, and inadequately protected the Government's interest.

Other areas need improvement:

- Unnecessary costs may be incurred when SUPSHIPS do not screen excess new GFM against future needs.
- NAVSEA activities involved in GFM procurement lose sight of items located in both the contractors' and SUPSHIPS' warehouses. This creates the potential for unneeded procurement.

DEFENSE REPORTSDefense Supply Agency"Audit of Government-owned Material at
Selected Overhaul and Maintenance
Contractors," October 1976

Surveillance of contractors' properly control systems was inadequate. Tests of GFM at 66 contractors disclosed about \$9.2 million of material was used on commercial work, sold to the government as contractor - furnished material or acquired without contractual authority or in excess of needs.

Defense Audit Service"Administration of Maintenance, Overhaul,
and Repair Contracts," May 1978

Long standing deficiencies continue in the acquisition and use of GFM by contractors and the surveillance of the requirements and use of material by DOD property administrators. DOD should limit the access of repair contractors to the DOD supply system and require contractors to finance inventories of material.

Navy Inspector General"Supervisor of Shipbuilding, Conversion and Repair, USN, Boston," May 1978

There was no specific instruction on disposition of excess GFM in possession of contractors. The division was making a strong push to clear out fairly substantial amounts of GFM that had been gathering at contractor's plants over several years.

"Supervisor Shipbuilding, Conversion, and Repair, USN, Newport News," November 1978

Four Supships and 14 contractor audits scheduled for calendar year 1978 were not conducted. The contractor was holding and estimated \$8 million of excess government property. As of October 27, 1978, 200 excess defective repairable items were held by the contractor: 120 of these for more than 90 days.

Naval Audit Service"Supervisor of Shipbuilding Conversion and Repair, USN, Newport News Shipbuilding and Drydock Co., Newport News, Va," August 1976

The contractor's system for controlling GFM, does not satisfy requirements of the Armed Services Procurement Regulations as incorporated in shipbuilding contracts. The most recent inventory showed the total inventory on hand value was \$200 million. The approved system did not provide for periodic physical inventories.

"Naval Plant Representatives' Office,
Long Beach, California," January 1978

About \$2.3 million of Government Furnished Aeronautical Equipment in the hands of the contractor was excess and not effectively used by the Naval Air Systems Command. Review of the supply status showed outstanding current procurement actions of over \$400,000 could have been avoided if the excesses had been turned in.

"Supervisor of Shipbuilding, Con-
version and Repair, Pascagoula,
Mississippi," March 1979

There is no adequate procedure within Navy for disseminating information as to what components furnished private contractors as GFM are under warranty. GFM was not being administered in accordance with pertinent directives. For example, a property system survey plan was not developed; the annual system survey was not being done; the contractor was not returning allocable quantities.

"Fleet Combat Direction Systems Support
Activity, Dam Neck, Virginia Beach,
Virginia," July 1979

The contractor received 1,652 items of GFM with an estimated replacement cost of over \$250,000. There was virtually no control over the property, since neither the contractor nor property administrator complied with the Defense Acquisition Regulations.

"Multi-Location Audit of the Aviation
Supply Offices' Management of
GFM," November 1979

The audit service identified that about \$10.6 million of GFM consumable material in the possession of contractor was excess to their needs. Excess material valued at about \$1.06 million could have been used to satisfy 209 backordered requisitions, including 113 high priority requirements, and/or reduce or eliminate existing or planned procurements. An estimated \$20 million of the total GFM identified in the possession of contractors may have been excess to contractor needs and excesses valued at about \$2.1 million could have been used to satisfy system requirements. Summary conclusion was that, overall Aviation Supply Offices' management control over GFM is minimal and less than desirable. Consequently, the advantages of providing GFM are not being achieved.

"Supervisor of Shipbuilding, Conversion,
and Repair, USN Newport News,
Virginia," April 1980

The contractor had not provided satisfactory revisions to his property control system 6 years after audit. Required annual surveys of the system had not been conducted since 1977. Also, the contractor had not taken periodic physical inventories of all government property as required.

Consequently, there is no assurance that government property in possession of the contractor is adequately controlled, preserved, and maintained.

"Naval Plant Representatives' Office,
Lynn, Massachusetts," April 1980

This office is accountable for about \$138 million of Government property. Annual evaluations of the contractor's property control system were inadequate or incomplete for fiscal years 1977 through 1979.

"Supervisor of Shipbuilding, Con-
version and Repair, USN Long Beach,
California," March 1981

SUPSHIP needs to improve inventory control procedures for excess GFM. No comprehensive list of all items is maintained, records do not show actual status, and items without an identified future need are not returned to the Navy Supply System.

Air Force Audit Agency"Management of Depot - Level
Contract Maintenance,"
June 1978

There was a lack of visibility and control to preclude repair contractors from requisitioning unneeded GFM from the DOD supply system. Comparison of contractor actions on the same item showed that out of \$1.8 million of GFM requisitioned \$1.3 million was returned to the Air Force. Requisition and return of the unneeded material caused unnecessary of \$75,500. Also, the AF industrial fund had to absorb losses for noncredit returns of \$246,800 because at the time of return this material was excess to Air Force needs.

"Computer Controls Over
Material Furnished to Repair
Contractors," July 1978

Test transactions showed that contractors could bypass the existing controls over GFM requisitions without being detected and requisition material from the DOD supply system. In 5 months the system processed billings for 720 shipments valued at \$444,000 for which the Air Force system did not contain a record. These disparities were caused by the contractors sending requisitions directly to the source of supply instead of to the funding Air Logistics Center.

"Air Force Managed Sensitive
and Pilferable Items,"
March 1981

Contractors can request and receive unauthorized GFM. Five intentionally miscoded requisitions were input to the Air Force DO32 system. Four of the requisitions processed and supply distribution personnel moved material to the shipping area before being stopped. Invalid requisitions processed because procedures did not require material management personnel to match GFM shipments with requests made by other air logistics centers.

Army Audit Agency"Control over GFM, U.S. Army Bell Plant Activity"
November 1976

Annual surveys of the contractor's property control system were not made. The contractor had problems in maintaining controls over GFM. Physical inventory of 37 high-dollar value items showed that adjustments of \$1.4 million were needed on 20 items to make inventory records agree with on hand balances.

"Control over GFM at U.S. Army Electronics Command,
Ft. Monmouth, N.J.," February 1977

Accounting procedures and controls were inadequate over GFM and did not provide the required financial control. Subsidiary accounting records for material by specific contracts were not established.

"Control over GFM Aviation Items," July 1977

Accounting controls over GFM were not adequate to prevent losses. Annual property surveys by property administrators were not made. Inventory records used by contractors to account for GFM were inaccurate. Requisitioning and use of GFM were not adequately controlled. Adjustments of \$1.5 million were needed on 56 high-dollar items to correct contractor's inventory.

Army Internal Review"Review of the Management of Government
Furnished Material, Ft. Monmouth, N.J.",
February 1981

Reviews to reconcile and validate inventory balances of assets reserved for use as GFM were not adequate. Assets valued at \$61,800 were not properly controlled to ensure supply availability.

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