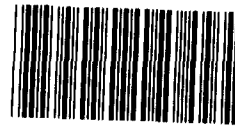


July 1991

INVENTORY MANAGEMENT

Strengthened Controls Needed to Detect and Deter Small Arms Parts Thefts



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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July 17, 1991

The Honorable Charles E. Grassley
United States Senate

Dear Senator Grassley:

As requested, we reviewed Department of Defense controls over small arms parts. Our work focused on Army wholesale-level controls since the Army procures and manages small arms parts for all the services. This report is the second in a series related to this subject. In November 1990, we issued a report, Defense Management: New York Army National Guard Weapons Parts (GAO/NSIAD-91-28, Nov. 30, 1990), describing internal control weaknesses and physical security deficiencies that contributed to the theft of small arms parts.

Unless you announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretaries of Defense and the Army and to the Director, Office of Management and Budget. We will also make copies available to other parties upon request.

Please contact me at (202) 275-8412 if you or your staff have any questions concerning this report. GAO staff members who made major contributions to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads 'Donna Heivilin'.

Donna Heivilin
Director, Logistics Issues

Executive Summary

Purpose

While pursuing a tip about military clothing thefts in 1989, Army investigators discovered that members of the New York Army National Guard had been systematically pilfering small arms parts. The parts were used to assemble weapons, which were then sold illegally. Senator Charles E. Grassley subsequently asked GAO to review Department of Defense (DOD) controls over small arms parts. Since the Army purchases and manages small arms for the other services, GAO focused on controls at Army depots. Specifically, GAO's objective was to determine whether inventory controls, oversight by higher commands, and physical security were adequate to deter or detect thefts.

Background

Many parts on several lightweight and portable small arms, such as the M16 rifle and 9-millimeter and .45-caliber handguns, are interchangeable with civilian versions. The Army recognizes that these parts are commercially marketable and therefore are at greater risk of theft. Army procedures are intended to ensure that such at-risk items—known as “controlled”—are better protected than other material. Controlled material must be physically inventoried each year, and missing material must be accounted for. Physical security for controlled weapon components is also more stringent than for other assets. For example, they are stored in warehouses with limited access, and depot personnel must record the movement of the components from receiving to storage to shipping. According to depot security personnel and local security assessments, employees, contractors, and other individuals with legitimate business at the depot pose the most serious threat to small arms parts and other assets. The Army stores most small arms parts at four depots: Red River, New Cumberland, Sharpe, and Anniston. Red River and New Cumberland are the largest and also the most comparable in terms of level of activity. While all four depots were managed by the Army at the outset of GAO's review, two of the four have since transferred to Defense Logistics Agency management.

Results in Brief

Although the Army recognizes their vulnerability, small arms parts were susceptible to employee theft due to a combination of poor inventory controls, poor physical security, and inadequate oversight. Control weaknesses varied among the four depots, but small arms parts were especially vulnerable at Red River, where GAO's inventory of small arms parts disclosed large and consistent losses. The likelihood that inventory losses are due to theft is much higher when inventory control weaknesses are found in tandem with poor physical security. At three of the four depots, security—including infrastructure, security procedures,

and guard forces—was generally not targeted to address the threat of employee theft; moreover, these depot managers were not using their available resources to enhance the security of assets. Commanders had wide discretion over security because Army regulations do not establish minimum standards for the protection of depot warehouse areas. Finally, oversight by higher commands was generally ineffective in identifying and addressing the control deficiencies GAO uncovered.

Because Army records identified Red River as the most likely of the four depots to have serious inventory control problems, GAO conducted a more in-depth review there. GAO identified extensive problems at Red River which depot management is correcting.

Principal Findings

Weak Inventory Controls at Key Depot

Red River had serious inventory control problems compared with the other three depots. GAO's review of inventory controls at Anniston, New Cumberland, and Sharpe depots did not disclose the significant or widespread problems that were found at Red River. For example, a small number of inventories at the other depots revealed no serious shortages, whereas Red River could not account for about 12 percent of the \$9 million in small arms parts GAO inventoried. Overall, 25 of the 37 parts inventoried at Red River had losses. Evidence strongly suggests that some of these losses were due to theft. In addition, the depot had failed to inventory many of these controlled small arms parts for as long as 4 to 5 years. Many depot inventories had been started but not completed, and some completed inventories were based on estimates rather than counts. In GAO's opinion, the weak inventory controls at the depot were a reflection of (1) the low priority management attached to physical inventories, (2) the way in which resources were managed, (3) poorly maintained warehouses, and (4) a severely strained storage capacity.

Oversight of Depots Was Ineffective

The information systems in place at the three commands with oversight responsibilities did not allow them to effectively monitor inventory operations at the depots. Furthermore, the commands did not follow up on identified problems to ensure that they were being corrected.

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- The Armament, Munitions, and Chemical Command, which manages the procurement and distribution of small arms parts, did not routinely monitor whether controlled items were being inventoried annually.
 - The Depot Systems Command lacked crucial performance data—whether inventories were being completed—to enable effective monitoring of problems the command had identified.
 - The Army Materiel Command and Depot Systems Command had identified saturated storage conditions at Red River that impeded effective inventory management, but the measures taken to address these conditions were ineffective, and the problem grew worse.

Security Measures Did Not Sufficiently Address the Threat of Employee Theft

The Army's minimum security standards do not address methods for minimizing the risk of employees stealing material from warehouse areas. Without minimum standards to follow, the depot commanders had wide discretion over physical security measures. Because employee theft is hard to detect and prove, it is difficult to determine its extent and to convince commanders, solely on the basis of a threat, to support effective physical security measures; consequently, the measures they instituted generally did not address this threat. For example, two of the four depot commanders did not require random inspections of vehicles leaving the depot.

At three of the four depots GAO visited, anyone with legitimate business on depot grounds had access to the warehouse area. In contrast, the fourth depot—the only one with a fenced-off warehouse area and a remote, partially centralized parking area—limited such access. Although the depots could change their security procedures or improve the use of security guards to compensate for their infrastructure weaknesses, the depots made inadequate use of these resources.

Red River had the most severe physical security deficiencies. Depot personnel routinely left material on loading docks at night, even though the depot lacked an effective means of controlling employee access to the warehouse area. No random gate checks of employee vehicles were conducted, employee parking was scattered throughout the warehouse area, and the guard force was insufficient to provide adequate patrols, especially at night. During GAO's review, depot security personnel caught an employee attempting to steal M60 machine gun parts from a warehouse loading dock.

A May 1991 DOD regulation on physical security provides broad guidance on the minimum standards needed to protect material in the DOD

supply system and should provide a framework for ensuring that all DOD components have reasonable, consistent security standards.

Corrective Actions Planned at Red River

Officials at Red River and the oversight commands acknowledged that GAO had uncovered serious shortcomings at this key depot. On the basis of GAO's findings, Red River has begun to make improvements to its inventory controls and physical security, including increasing the number of personnel assigned to conduct inventories; reevaluating warehouse controls and procedures; establishing a warehouse inspection program; consolidating all small arms parts in one secure warehouse; and hiring additional security guards. GAO believes these and other measures undertaken by Red River will help resolve the depot's problems.

Recommendations

While many of GAO's recommendations are directed to the Secretary of the Army, GAO recognizes that the Defense Logistics Agency will be responsible for following through on the implementation of some of these recommendations.

GAO recommends that the Secretary of the Army

- direct the Army Materiel Command to monitor the implementation of Red River's corrective actions to ensure that depot inventory controls are consistent with Army priorities and with the level of resources made available to carry out the overall depot mission,
- direct the Army Materiel Command to slow down the volume of material being sent to Red River depot for storage, and
- revise performance reports so that the Depot Systems Command can better monitor inventory management.

GAO also recommends that the Secretary of Defense direct the Under Secretary of Defense for Policy to ensure that the military services and the Defense Logistics Agency have or establish minimum acceptable standards for the physical security of depot warehouse areas in order to better deter employee theft.

GAO makes additional recommendations in chapters 2 and 3.

Agency Comments

DOD concurred with all GAO's findings and recommendations, noting that the latter were reasonable and are being implemented.

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Figure 2.1: Warehouse Conditions at Red River Depot
Improved Between July 1990 (Top) and February
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Abbreviations

AMC	Army Materiel Command
AMCCOM	Armament, Munitions, and Chemical Command
DESCOM	Depot Systems Command
DOD	Department of Defense
GAO	General Accounting Office
ICE	Inventory Control Effectiveness

Introduction

Parts used in a number of military small arms are interchangeable with components from legally available civilian models of the weapons. The commercial marketability of such military parts suggests that their risk of theft from the Department of Defense (DOD) supply system is high.

In 1986, the Bureau of Alcohol, Tobacco, and Firearms reported that it was encountering with increasing frequency AR15 rifles converted to automatic weapons with internal components designed for the M16 rifle. In 1989, four individuals were implicated in the theft of small arms parts at a New York Army National Guard maintenance shop. The parts were used to assemble weapons that were then sold on the commercial market. The marketability of material from the DOD supply system and highly publicized thefts—for example, F-14 and F-16 aircraft parts and engines—have heightened concern about DOD's ability to deter and detect theft.

Over the past decade, we have reported frequently on inventory and physical security deficiencies in the military. In early 1990, our office and the Office of Management and Budget identified DOD inventory management as an area of high risk for mismanagement and fraud. In November 1990, we issued a report, Defense Management: New York Army National Guard Weapons Parts (GAO/NSIAD-91-28, Nov. 30, 1990), describing internal control weaknesses and physical security deficiencies that contributed to the theft of small arms parts.

Small Arms Parts Supplied Through the Army's Wholesale Supply System

Small arms are a category of light, portable weapons. They include semiautomatic and automatic handguns, rifles, and machine guns that fire ammunition of calibers up to 20 millimeters (just over an inch in diameter). With each pull of the trigger, a semiautomatic weapon, such as the .45-caliber or 9-millimeter pistol, fires a single bullet. The M16 rifle, in fully automatic mode, can empty an entire 30-round magazine in less than 2 seconds.

The Army, which purchases and supports small arms used by the other military services, supplies replacement parts through its wholesale-level supply system. This system consists of a small number of organizations that purchase and store the large quantities of material needed to maintain the tempo of military operations. The material is shipped as needed to the retail-level supply system, the numerous supply activities at posts and installations that store smaller quantities of material near the military units they support on a daily basis.

The Army's wholesale system is managed by the Army Materiel Command (AMC) and two major components: commodity-oriented commands, known as inventory control points, and the Depot Systems Command (DESCOM). The inventory control points make decisions concerning the procurement and distribution of material among storage depots. The inventory control point for small arms is the Armament, Munitions, and Chemical Command (AMCCOM). DESCOM allocates funds to and monitors the performance of Army storage depots. These three commands together are responsible for monitoring inventory and physical security controls for small arms parts at the wholesale level.

Four depots store the majority of small arms parts. Three of these depots—New Cumberland, Red River, and Sharpe—account for 90 percent of all requisitions, including small arms parts, processed from Army units. They are known as area-oriented depots because they serve military units in designated geographic areas. Red River and New Cumberland are much larger than Sharpe. The fourth and smallest of these depots, Anniston, stocks small arms parts to support its weapons repair program.

At the time we conducted our fieldwork, all four depots were managed by the Army Materiel Command. Following a recommendation of the 1989 Defense Management Review to consolidate management of the supply mission at service depots under the Defense Logistics Agency, two of the four—Sharpe and New Cumberland—are now managed by that agency. Anniston is scheduled to transfer in 1993. The original transfer date for Red River was November 1992, but a DoD official told us the transfer may occur in late 1991. The Defense Logistics Agency will be responsible for inventory control at all four depots and for physical security at the first two. Since both Red River and Anniston also support Army maintenance programs, the Army will continue to be responsible for physical security at these facilities.

Wholesale-Level Controls

The Army controls the material stored at wholesale-level depots by the following methods:

- identifying the frequency of inventories and the degree of physical security appropriate for material,
- conducting the required physical inventories of stocks,
- ensuring that assets are adequately protected, and
- monitoring the implementation of inventory controls and physical security.

The determination of whether a small arms part is pilferable is pivotal in establishing the degree of oversight exercised by the control system. The Army acknowledges that some material has commercial utility and therefore is at risk of theft. Each inventory control point is responsible for identifying pilferable material. Such material, commonly referred to as “controlled,” is stored in depot warehouses with limited access and is subject to more frequent physical inventories than uncontrolled items.

Each depot has an inventory management division that is responsible for ensuring that depot records accurately reflect the location, condition, and quantity of material actually in the warehouse. DOD considers the accuracy of these records essential because inaccurate records could result in excesses, shortages, or failure to meet a customer’s request for material. Physical inventories—a count of material in the warehouse plus any research necessary to determine if the depot’s record balance should be adjusted—are an important function of the inventory management division. Inventory personnel also routinely verify that storage locations contain the same material listed on depot records. Such location surveys help warehouse personnel to promptly satisfy customer requests. Other inventory personnel, at the request of the inventory control point, research the causes of significant physical inventory discrepancies or perform quality control checks to ensure that the actual physical count was accurate and that the correct inventory adjustment was made.

Physical inventories are scheduled based on priorities established by regulation or guidance. In general, inventories of controlled material have a higher priority than those of uncontrolled items. When an inventory discloses that a depot inventory record is inaccurate, that record is adjusted. The adjustment could reflect either a gain or loss of assets.

Generally, when a depot’s physical count indicates a loss of controlled weapon components, depot personnel not only adjust the inventory record, but also investigate the reason for the loss. According to DOD, human error is found to be the cause for more than half the dollar value of inventory adjustments. Losses of stock are most often traced to a number of procedural breakdowns, such as failure to record a receipt or a shipment of an item or miscounting by inventory personnel. Sometimes no satisfactory reason can be found for the loss. Theft is rarely reported as a cause of inventory losses.

The depot commander is responsible for ensuring that applicable DOD and Army physical security regulations are implemented and that

overall security measures protect the depot's assets. To minimize the risk of theft—either by employees or by other individuals—the commander must apply the proper mix of security resources, which include security personnel, guard dogs, badge identity systems, doors, gates, cages, vaults, locks, fences, lighting, alarms, and intrusion detection systems.

To monitor inventory controls and physical security, the three oversight commands generally rely on a number of performance indicators reported by the depot and on periodic inspection visits.

Objectives, Scope, and Methodology

We evaluated the Army's controls over small arms parts at the request of Senator Charles E. Grassley. Our objective was to determine whether the control system—including inventory controls, oversight by higher commands, and physical security—was adequate to deter or detect theft at the four depots that store most small arms parts.

With the assistance of AMCCOM officials, we identified small arms and components to use in assessing inventory controls. We selected 30 parts (with various quantities) from three weapons—the M16 automatic rifle and the 9-millimeter and .45-caliber pistols. The wide commercial availability of similar or identical civilian versions of these weapons make DOD repair parts particularly desirable and vulnerable to theft. Our 30 parts included controlled and uncontrolled parts, as well as parts of both high and low dollar values. For the M16 rifle, we included the parts needed to convert the civilian AR15 from a semiautomatic into an automatic weapon.

We identified all inventory adjustments for these 30 parts during a 33-month period (October 1987 through June 1990) at the New Cumberland, Red River, Sharpe, and Anniston depots. We analyzed these adjustments, by depot and by weapon, to determine if the pattern of adjustments suggested any control weaknesses.

To complement our analysis of inventory adjustments, we discussed performance indicators used to monitor depot operations with officials from AMC, AMCCOM, and DESCOM. We also reviewed copies of periodic inspection reports on depot inventory effectiveness and physical security and discussed them with the responsible officials.

We visited all four depots to compare the implementation of inventory and physical security controls. However, we conducted a more in-depth

review at Red River because our analysis of the Army's performance indicators suggested that it could have serious control weaknesses. During our visits, we (1) inventoried weapon parts from our sample, (2) examined the condition of stocks of our sample parts to determine whether warehouse procedures inhibited or enhanced the performance of accurate inventories, (3) discussed depot inventory procedures with personnel from the depot inventory management division, and (4) observed depot physical security and discussed it with the provost marshal and representatives of the Army Criminal Investigation Command.

At Red River, depot personnel assisted us in counting material and verified our counts. In addition, they conducted the necessary research to determine if the depot records should be adjusted. We did not audit the data system used to analyze inventory adjustments.

We conducted our review from April 1990 to January 1991 in accordance with generally accepted government auditing standards.

Inventory Control Weaknesses at Key Depot Increase Vulnerability of Small Arms Parts

Red River's inventory controls were not adequate to deter or detect the theft of small arms parts. Our analysis of the Army's performance indicators and our inventories at Red River disclosed that the depot (1) had losses for most of the small arms parts that were inventoried; (2) was not conducting or completing many inventories; (3) assigned too low a priority to the Inventory Management Division's functions, including physical inventories; and (4) had sloppy and seriously overcrowded warehouses that impeded its ability to conduct inventories. Evidence strongly suggests that some of the inventory losses we uncovered at Red River were due to theft.

We discussed these problems with the new depot commander and other key depot managers prior to completing our audit work.¹ In response, the depot developed a plan to reestablish inventory controls for small arms parts, as well as for other depot assets. The commander told us that correcting the deficiencies we identified would be a top priority for the depot, second only to supporting U.S. military operations in the Persian Gulf.

We also examined performance indicators for Anniston, New Cumberland, and Sharpe and conducted limited inventories of small arms parts, but we did not find evidence of the significant and widespread inventory control problems that existed at Red River.

Inventory Adjustments and Performance Indicators Pointed to Poor Controls at Red River Depot

Our analysis of inventory adjustments for 30 small arms components at the four Army depots revealed that Red River had the largest net loss, both overall and for each of the sample weapons. The total net inventory loss at Red River was more than 10 times greater than at New Cumberland, the only other depot that experienced an overall net loss of parts. In addition, most of Red River's inventory adjustments—101 of 107—were for losses, whereas the other depots had a more balanced mix of losses and gains. Red River had no adjustments for about half the 30 weapons parts, primarily controlled items that require annual inventories, suggesting either that the depot had good accountability or was not conducting physical inventories. In contrast, the other two area-oriented depots, Sharpe and New Cumberland, had adjustments for almost all the 30 parts. Anniston did not stock many of the parts.

¹The current Red River commander assumed his position in July 1990, about a month after we started our detailed work at the depot.

Army performance indicators also raised questions about the effectiveness of inventory controls at Red River. Between October 1987 and July 1990, Red River inventoried only about half as many AMCCOM assets as New Cumberland and two-thirds as many as Sharpe. Similarly, Red River's overall inventory accomplishment—completed inventories expressed as a percentage of the total number of items to be inventoried—had been consistently lower than at the other three depots.

Both of these indicators suggested that Red River might not have inventoried some of our sample items for a long period of time. These indicators also did not appear consistent with staffing levels at the depots. Red River inventoried fewer assets and had a lower inventory accomplishment than the other three depots even though it had one of the largest inventory management divisions.

Finally, two other indicators revealed that (1) storage space at Red River was saturated and (2) the depot was having a harder time locating material requisitioned by Army units. Although three of the four depots were storing more material than DOD considers optimal for efficient operations, Red River in fiscal year 1990 exceeded the DOD storage goal by about 75 percent, compared with about 25 percent for New Cumberland and 7 percent for Anniston. Sharpe reported 85 percent storage occupancy, DOD's optimum occupancy rate. In fiscal year 1991, Red River exceeded the DOD goal by 88 percent. Both saturated storage space and inability to locate material make the performance of the inventory mission more difficult.

Although Red River's performance indicators suggested problems, we noted that inventory performance had declined sharply at all four depots. In fiscal year 1983, inventory accomplishment at the four depots was close to or exceeded 100 percent of the items to be inventoried. By fiscal year 1986, it had fallen to about 50 percent of requirements. In fiscal year 1990, inventory accomplishment was only 19 percent at Red River, 34 percent at New Cumberland, 43 percent at Anniston, and 53 percent at Sharpe. Much of the decrease in inventory accomplishment can be traced to scheduled inventories of uncontrolled material. We were told by DESCOM officials that such inventories are at the bottom of the priority list and depots generally do not have the resources to perform them. For example, between fiscal years 1985 and 1991, the inventory divisions at New Cumberland and Red River lost about 20 percent and 50 percent of their personnel, respectively.

AMC and DESCOM officials told us that since the mid-1980s depot missions have not been fully funded because of budgetary constraints. Among depot functions, placing newly received material into storage (receipts) and filling customer requests for stocks (issues) have been given the top funding priority. For example, in fiscal year 1991 receipts and issues were funded at about 78 percent of requirements, whereas inventory functions were funded at only 20 percent of requirements. In addition, two inventory functions—location surveys and quality control checks—were being eliminated.

Red River's Inventory Control Deficiencies

Our inventories of small arms parts and our review of inventory records for the last 3 years revealed significant inventory control deficiencies at Red River.² We found that (1) the depot had large and consistent losses of small arms parts, (2) controlled items were not inventoried annually as required, (3) inventories were started but not completed, and (4) some inventories were based on estimates rather than actual counts. We also noted deficiencies in the way the depot conducted research on significant inventory losses.

Inventories Showed Consistent Losses of Small Arms Parts

We inventoried 37 small arms parts valued at over \$9 million. The parts inventoried were primarily controlled components that we had used to analyze inventory adjustments—parts for the M16 rifle and 9-millimeter and .45-caliber pistols. Overall, the depot could not account for 12 percent of the value of the material on record. Of the 37 items, 25 had losses totaling \$1,228,274, 8 had gains of \$31,600, and 4 items required no adjustment because the quantity agreed with depot records. The depot has since posted inventory adjustments for these amounts.

These losses are notable for the following reasons:

- Of the 34 adjustments posted to depot records, 17 were significant adjustments—that is, they met DOD's criteria for further research and could ultimately result in an investigation.³ Adjustments requiring further research include all discrepancies of classified/sensitive material, pilferable material valued at or greater than \$2,500, and uncontrolled material valued at or greater than \$16,000. Fourteen of these significant adjustments were losses with a total value of \$1,220,506. One part, the

²The records reviewed were inventory evaluation research listings.

³Although 33 of the items we inventoried required adjustments, the depot actually made 34 adjustments because we inventoried one item on two separate occasions.

M16 bolt assembly, accounted for just over \$1 million of the overall loss.⁴

- The depot could identify the cause of only 3 of the 34 adjustments. In those three instances the depot assumed that its previous inventory of the material was in error.
- Our review of historical adjustment data showed that during the past 3 years Red River had posted no adjustments for 13 of the parts we inventoried. Yet our inventories disclosed adjustments for all 13 parts, for a net loss of about \$140,000.
- All but four of the parts were controlled. Controlled parts are supposed to be stored in facilities with limited access and inventoried annually.

Evidence strongly suggests that some of these losses were due to theft. A Red River employee implicated in the theft of electronics and computer equipment in 1989 told investigators that he had stolen approximately \$61,000 of two types of M16 components. Our subsequent inventories showed that the depot could not account for about \$70,000 worth of the two components, and depot personnel identified another \$126,000 worth in losses for these components.

One of these M16 parts, the bolt carrier, is used to convert the civilian version of the weapon to the automatic mode. We inventoried this part on two separate occasions, and both inventories disclosed a loss. During the first inventory, we found a loss of 185 bolt carriers, and depot records were adjusted to reflect the shortage. Three months later we inventoried the same item and found an additional loss of 123 bolt carriers. In both cases, depot officials were unable to account for the missing material.

Overall, the data suggests that in the time between the two inventories, an actual, unexplainable loss of 123 M16 bolt carriers occurred rather than a record-keeping error. First, our initial inventory established an accurate baseline. Second, the interval between the two inventories was short, only 3 months; as a result, there were a limited number of transactions to examine that could have contributed to an error. No error was discovered by depot research, and we were able to account for all receipts and issues between the two inventories.

⁴When the depot informed AMCCOM of its loss adjustment for 12,428 bolt assemblies in April 1990, the unit price was \$81.58. In February 1991, the depot informed us that the price, based on a new procurement, had dropped to \$25.84.

The former depot commander stated that some of the losses disclosed in our inventories were probably due to theft. The current commander initiated an investigation of these losses and directed the consolidation of all small arms parts in one warehouse to enhance security. The consolidation and survey of all small arms parts were completed in February 1991. Depot officials now plan to inventory all of their small arms components.

Red River Did Not Follow Inventory Procedures

Our analysis of 69 inventory records for controlled small arms parts showed that 51 had not been inventoried annually as required. More than half had not been inventoried since 1986 or 1987, and many others had not been inventoried since 1988. Beginning in 1988, Red River conducted physical counts, but frequently it did not research and reconcile the balances when variances existed between depot records and on-hand counts. For example, 30 of 69 depot inventory records for small arms parts showed that initial counts had identified discrepancies, but Red River did not carry out the additional counts or research necessary to determine if the depot records needed to be adjusted.

This problem affected both controlled and uncontrolled small arms parts, as well as other depot assets. The chief of the Inventory Management Division told us that approximately 1,900 inventories of depot assets were started but not completed in each of fiscal years 1989 and 1990. The depot estimated that 265 of the incomplete fiscal year 1990 inventories were for controlled items. Incomplete inventories were a significant percentage of inventories that required research. For example, in fiscal year 1990, 82 percent of the inventories requiring research were not completed.

On the basis of our inventories and discussions with Red River personnel, we question whether some inventories that were listed as complete were ever performed at all. One of these inventories was for the M16 sear, a small 80-cent part needed to convert the civilian weapon to the automatic mode.⁵ The depot made no adjustment after its January 1990 inventory, indicating that the on-hand quantity of 75,750 agreed with the record balance. Several months later, we found that a large portion of the stock consisted of about 60,000 loose piece parts in open

⁵During a sting operation at Tooele Army Depot, an employee told an informant that he had sold an M16 sear for \$300. An agent with the Bureau of Alcohol, Tobacco, and Firearms told us that he had frequently encountered sears for sale at \$75 to \$100 apiece.

boxes. Because the stock was in poor condition, we asked depot personnel to repackage it so that we could conduct an accurate inventory in a reasonable period of time. We found a shortage of about 7,000 sears.

The individual responsible for the inventory did not remember this specific inventory and told us that the signature on the inventory record, attesting to the results, was not his own. We subsequently learned that a clerk writes in the name of the responsible counter on the original copy of the inventory record and discards the copy signed by the counter. He said, however, that with the sears in the condition we described, he would have simply “estimated” the quantity—an easy task since the responsible individual knows the depot record balance during the final phase of an inventory. The depot’s inventory of the sear would seem to substantiate the claim by inventory personnel that because of sloppy warehouse practices, stock quantities were estimated rather than actually counted. In the case of about 10 other inventories for which the depot made no adjustment, our subsequent inventories resulted in loss adjustments totaling \$60,593, ranging from a low of \$399 to as much as \$28,665.

Red River’s corrective action plan identifies a number of initiatives to address shortcomings in inventory procedures. The depot is increasing management emphasis on completion of inventories for controlled items. According to the chief of the Inventory Management Division, as of early 1991, the 265 unfinished fiscal year 1990 inventories of controlled items had been completed. All other fiscal year 1990 inventories had been reviewed and dealt with based on priorities established by higher headquarters. To preclude the possible appearance of estimated counts, the depot plans to increase the review and control of counts and adjustments as well as take steps to ensure identification of the responsible individual on the original record of a completed inventory. Finally, to prevent the accumulation of a backlog of incomplete inventories, the depot plans to increase management controls to better balance counting and research work loads.

Deficiencies in Depot’s Research of Significant Inventory Adjustments

To evaluate research conducted to explain significant losses of depot material, we conducted an in-depth review of two previous inventory adjustments made by Red River for components from our 30-part sample. We found research deficiencies in both cases.

In the first case, the depot identified a substantial inventory shortage of 9-millimeter magazines but took no action to verify or report the full

shortage. We brought the matter to the attention of AMCCOM's inventory branch, and the chief has since requested an investigation.

In the second case, the depot inappropriately reduced the amount of a loss of M16 bolt carriers by indicating it was due to an offsetting inventory adjustment over 2-1/2 years old.⁶ Also, the depot did not complete its investigation in a reasonable period of time. The loss was recorded in May 1989, but the depot did not submit its investigative report to AMCCOM until January 1991—20 months later. That report concluded that “there appears to be a history of losses against this item There are no witnesses to theft and no statements that claim theft of this item.” The individual assigned to investigate the loss was not aware that in October 1989 a depot employee implicated in a sting had confessed to stealing about 900 M16 bolt carriers.

Factors Contributing to Red River's Inventory Problems

A number of factors contributed to poor inventory controls and low inventory accomplishment at Red River: (1) the depot assigned a low priority to its inventory mission and to other supply support activities; (2) funds provided to carry out the depot mission, including inventories, were used for a non-mission activity; (3) the staff of the Inventory Management Division had high overhead; (4) the depot did not assign sufficient personnel to carry out physical inventories; and (5) sloppy and overcrowded warehouses resulted in more than the normal number of inventory personnel being assigned to ensure that customer demands for material could be filled.

Priority of Inventory Mission Was Too Low

Red River officials told us that they assigned a higher priority to handling the receipt and issue of material than to the functions of the inventory division. They said that in fiscal years 1988 through 1990 funds for supply support functions such as inventories and rewarehousing were redirected to the higher priority receipt and issue mission. For example, although the depot anticipated a need for about 91 inventory staff-years in fiscal year 1990, it devoted only about 46 staff-years to inventories. Both the director of supply and the chief of the Inventory Management Division believe that in the face of dwindling resources, consideration should be given to adopting a policy of not conducting inventories until on-hand stocks drop to a more manageable level.

⁶A previous inventory gain may be used to offset a current inventory loss, but DOD regulations require that no more than 2 years separate the two transactions.

In contrast to Red River, the priority given to inventory and related supply support functions was higher at New Cumberland, the depot that is closest to Red River in terms of its level of activity. According to the director of supply, New Cumberland officials recognized that inventories and sound warehousing practices contributed to fulfilling the depot's receipt and issue function. To boost its inventory accomplishment, the depot used military reservists and warehouse personnel to count material. In 1985, the depot attempted to minimize mounting storage problems through warehouse planning. The depot narrowed aisles to allow more storage, purchased side-loading forklifts to operate in the narrower aisles, and installed better lighting and new labels. Rewarehousing funds were used to accomplish some of these initiatives. The director of supply believed that the initiatives improved the depot's ability to conduct inventories. He told us that every depot had a choice of paying now to become more efficient or letting warehouse conditions deteriorate and paying later.

Compared with New Cumberland, Red River devoted a little more than half the number of staff-years to inventory, rewarehousing, and storage improvements over the past 5 fiscal years. At the same time, however, Red River's storage space was becoming saturated, and the amount of material that required covered storage but was stored outdoors was increasing. Red River received 21 percent more line items of material than New Cumberland and issued 25 percent fewer line items during the past 5 fiscal years. In short, Red River was keeping more of the material it received and spending less to inventory and adequately store it.

Funding of the Inventory Function

More than one-fourth of the staff in Red River's Inventory Management Division were assigned to another office in support of a non-depot activity. Thirty-two of 119 personnel, or 27 percent of division staff, were assigned to the Special Projects Office. This office was established in 1979 to provide logistics support to particular weapon systems, support that might otherwise be provided by a contractor. Red River was using DESCOM mission funds—funds that could have been used to support the inventory function—to pay for the Special Projects Office.

Since the Special Projects Office provides a service outside the normal supply support mission of the depot, it should have been paid for by its customers. DESCOM officials told us, however, that DESCOM mission funds, rather than funds reimbursed by the customer, were used to support about one-third of the Special Projects Office during fiscal year 1989. Red River officials informed us that the number of Special Projects

Office personnel paid with mission funds declined to four during fiscal year 1990 and that starting in fiscal year 1991, the office would operate on a fully reimbursable basis.

High Overhead for Inventory Management Division

In fiscal year 1990, Red River reported only 46 staff-years of inventory effort; yet the portion of the inventory division not assigned to the Special Projects Office was staffed at about 79 individuals, raising the question of whether too much overhead was inhibiting inventory productivity.

Depot managers told us that the overhead for the Inventory Management Division was only 16 percent if personnel assigned to both the Special Projects Office and the depot's inventory mission were considered and all leave was excluded. A DESCOM official told us that leave is a part of overhead and that the Special Projects Office should not be included in calculating the division's overhead since it did not support the depot's inventory mission. When calculated by including leave and excluding the Special Projects Office, the division's overhead was 39 percent. A DESCOM official told us that overhead of 39 percent was too high and that in general overhead should be closer to 25 percent. The Red River director of supply told us that he planned to compare the division's overhead with that of other functional areas within supply. Inventory productivity could be increased by reducing overhead.

Too Few Personnel Assigned to Physical Inventories

In an investigation of the causes of Red River's low inventory productivity in June 1989, DESCOM found that Red River, with a larger inventory division than New Cumberland, assigned a smaller percentage of division personnel to critical inventory functions. The most striking difference was the number of personnel actually counting material—6 at Red River versus 14 at New Cumberland.⁷ Consistent with the low number of counters, Red River had been progressively shifting resources away from counting since 1984. DESCOM concluded that the staffing of Red River's Inventory Management Division was adequate but recommended that additional resources within the division be shifted to the completion of physical inventory counts. Depot officials told us that they disagreed with the DESCOM recommendation and that the distribution of the division's resources was appropriate. In November 1990,

⁷New Cumberland stores general supplies, such as small arms parts, while Red River also stores ammunition. A small number of inventory personnel at Red River focus on ammunition. DESCOM's analysis excluded those personnel.

data showed that physical counts were still accounting for a fraction of staff hours. By late 1990, Red River had only 1 person assigned to conduct inventories of general supplies, whereas New Cumberland had 12 individuals.

In February 1991, Red River officials told us that they planned to increase from one to six the number of inventory personnel assigned to perform general supply physical inventories and related research. In addition, two other individuals would be detailed to assist in these functions on a part-time basis. To establish better inventory control, the Red River corrective action plan identifies possible ways to increase the number of inventory management personnel, including (1) a review of resource allocations between the Inventory Management Division and other depot organizations; (2) use of detailed personnel, temporaries, or Army reserve units; (3) overtime; and (4) augmentation by warehouse personnel for some functions. In addition, the depot plans to assess the division's organizational structure.

**Warehouse Conditions
Contributed to Low
Inventory
Accomplishment**

The condition of the Red River warehouses in which we conducted our inventories was generally deplorable; they were overcrowded, sloppy, and poorly lighted. AMC and DESCOM inspections have identified similar problems. As a result of these conditions, the depot's Inventory Management Division has focused its resources on ensuring that requisitions can be filled rather than on performing other inventory functions, such as physical inventories.

Saturated Storage Space

According to DOD, 85 percent of capacity is the optimum for efficient warehouse operations. Since 1987, Red River has been reporting 99 to 100 percent capacity—that is, full—for covered storage of general supplies. Covered storage occupancy, however, does not provide an accurate picture of depot storage conditions. First, depots are not permitted to report more than 100 percent occupancy, yet when warehouses are full, material is stored outdoors. The number of square feet of material stacked outdoors that should be in covered storage is reported in a footnote. We asked DESCOM to compute a capacity statistic that took into consideration such outdoor storage. When such material was included, Red River's capacity in March 1990 was almost 150 percent, compared with 107 percent at New Cumberland. By December 31, 1990, Red River's capacity had risen to 160 percent.

Furthermore, on the basis of our observations at other depots, statistics on covered storage occupancy do not reflect the true extent of overcrowding at Red River's warehouses because these statistics do not capture storage density. A storage location is considered occupied for reporting purposes if it has 1 spare part or 10,000. For example, Anniston depot reported an occupancy rate of 91.1 percent in the middle of fiscal year 1990. However, we observed that many of its warehouse shelves contained only one small box per shelf. At Red River, with an occupancy rate just nine points higher than Anniston, we frequently saw material stored in the aisles and rarely saw a shelf that was not completely full, with stacks often rising to the warehouse ceiling.

Saturated storage space at Red River made it difficult to find a permanent location for material. Since as early as 1986, many items had been moved through a succession of temporary locations, such as aisles, before a permanent location was found. Toward the end of 1990, the number of temporary locations at Red River was nearly 7,700, compared with 1,450 at New Cumberland.

Storage conditions at Red River were not only crowded but sloppy. The storage racks were overflowing with material. Boxes were squeezed into the space provided and were often crushed, destroying the manufacturer's taped seal and allowing material to spill out. Material often appeared to be hastily thrown into the location and was frequently found underneath the pallet or on the floor. Material was being taken from unopened boxes, resulting in multiple open boxes at some locations. Although the warehouses were equipped with lighting fixtures suspended from the roof, the bulbs were either burned out or missing. Thus, to read location placards and conduct counts, inventory personnel had to use flashlights or move the material to an area with better lighting.

The conditions we observed were not new to Red River and had been documented since as far back as 1984 and as recently as 1989. For example, a 1984 U.S. Army Audit Agency review observed that stock was taken from unopened packages instead of from available loose items, making counts more difficult because of the many open boxes. A 1986 inventory control review by AMC reported that deteriorating storage practices were affecting the inventory program and recommended that Red River management place emphasis on the importance of proper storage practices. A DESCOM team reported in 1989 on saturated storage space and poor warehousing practices. Finally, a 1989 AMC

review noted that there was a lack of sufficient lighting in the majority of the warehouses, making inventories more difficult to conduct.

Impact of Saturated Storage Space

Sloppy, saturated storage space and the high number of temporary locations contributed to Red River's rising denial rate and hindered inventory accomplishment. In general, a denial means that an Army unit's request for material cannot be filled either because the material cannot be located or because depot records inaccurately depict the record balance for the item. Red River was using a high proportion of its inventory personnel to search for material in order to reduce its denial rate.

When a warehouse worker cannot locate material that has been requisitioned by an Army unit, personnel from the inventory management division take over and conduct a physical search of all possible material locations. Red River's Inventory Management Division chief told us that the majority of his resources were focused on denial work to the detriment of other inventory functions. He agreed with our assessment that the high number of denials was a symptom of another problem—disorderly and overcrowded depot warehouses. If warehousing practices were improved and material was properly stored, it would help to lower the denial rate and improve the inventory program.

Planned Improvements

In February 1991, Red River officials told us that they planned to improve "housekeeping" in depot warehouses. Initially, attention has been given to one of the secure warehouses where all small arms parts are now stored. Depot officials indicated that they changed their priorities for capital improvements to emphasize better lighting, repair of broken warehouse doors, and general improvements to working conditions inside the warehouses. They also plan to reevaluate and improve warehousing controls, procedures, and standards and to reestablish a warehouse inspection program. Figure 2.1 shows that the depot has improved warehouse conditions.

Chapter 2
Inventory Control Weaknesses at Key Depot
Increase Vulnerability of Small Arms Parts

Figure 2.1: Warehouse Conditions at Red River Depot Improved Between July 1990 (Top) and February 1991 (Bottom)



Source: U.S. Army.

Conclusions

A robust inventory program, in conjunction with sound storage practices, plays a significant role in being able to meet customer demands. Thus, proper and orderly storage procedures help ensure that material can be located for issue. Good inventory practices are essential because they verify the accuracy of depot asset records and storage locations. In our opinion, deplorable warehouse conditions and an inventory management division focused on denials detract from the depot's ability to satisfy the customer. While denial work assists the depot in satisfying customer demands and should be one benefit of an effective inventory program, it was never intended to be the sole benefit. In short, satisfying the customer takes more effort than might otherwise be required if sound management practices are followed. We believe that in the past Red River managers underestimated the important role of inventories and the Inventory Management Division in fulfilling the depot's overall mission.

Red River's plan to reestablish inventory controls will help to resolve the problems we identified. The depot has pledged to review the organization and staffing of the Inventory Management Division. Making the Special Projects Office organizationally independent of the Inventory Management Division would help to concentrate the Division's efforts on its funded mission and make measuring the productivity of the Division more straightforward. In addition, decreasing the Division's overhead would increase its productivity. Finally, the important role of the depot's Inventory Management Division should be reflected in its funding and staffing levels. The depot's initiative to increase the number of individuals who conduct general supply inventory counts from one to eight is a step in the right direction.

Recommendations

DOD is in the process of transferring management of depot supply missions from the services to the Defense Logistics Agency. Since the transfers only began in 1990 and will take several years, we have directed our recommendations to the Secretary of the Army. We recognize that the Defense Logistics Agency will be responsible for following through on the implementation of some of these recommendations.

We recommend that the Secretary of the Army direct AMC to

- monitor the implementation of Red River's corrective actions to ensure that depot inventory control is consistent with Army priorities and with the level of resources made available to carry out the overall depot mission,

- modify the depot storage capacity reports to permit a depot to report over 100 percent capacity by capturing both covered and unauthorized outdoor storage in one statistic, and
- develop an indicator to assist in judging the degree of saturation of storage space.

Agency Comments

The Department of Defense concurred with our recommendations. The Army Materiel Command is monitoring Red River's corrective action plan. When the Defense Logistics Agency assumes responsibility for Red River depot, it will continue to monitor the action plan. The Army space management report was revised in December 1990 to provide visibility over material in outside storage which requires covered storage space and to provide an indicator to assist in judging storage saturation. Similar revisions will become effective DOD-wide in December 1991.

Oversight Ineffective in Addressing Control Problems

The three oversight commands responsible for identifying and addressing inventory control problems had insufficient information to effectively monitor inventory management at Army depots. Furthermore, oversight was not always objective in assessing the depots' implementation of inventory controls, and identified problems were not always followed up on to confirm that they were corrected. Adequate information, objectivity, and effective follow-up are key to ensuring the adequacy of controls over small arms parts and other assets.

These oversight deficiencies were particularly evident at Red River, where the failure to address inventory management problems allowed those problems to worsen in 1989 and 1990. First, AMC's assessment of Red River's performance did not candidly disclose the problems identified. Second, DESCOM lacked the necessary information to effectively monitor and follow up on the implementation of its own recommendations at Red River. Third, AMCCOM was not routinely monitoring whether controlled items were being inventoried annually. Finally, AMC and DESCOM identified saturated storage conditions at Red River that contributed to deficiencies in the functioning of the Inventory Management Division, but measures to resolve the problem were ineffective.

Because of the magnitude of Red River's inventory control problems, we focused on the commands' oversight of that depot's operations. However, our work at Red River raises questions about the ability of the oversight commands to identify and address inventory management problems at other Army depots.

AMC Assessment Not Objective

AMC personnel routinely visit depots to identify operational problems affecting inventory effectiveness and to recommend appropriate corrective measures. Such assessments are called Army Inventory Control Effectiveness (ICE) Reviews.

In early 1989, an eight-member ICE team visited Red River and in about 3-1/2 days examined 26 issues and completed a 44-page report on activities affecting the accuracy of the depot's inventory records. The report summarized the overall inventory performance as excellent considering resource constraints. The team noted that it was pleased that the depot had been able to maintain a fairly viable inventory program despite reduced inventory resources and a high storage occupancy rate.

Our own work at the depot led us to question whether this overall assessment was justified. We discussed the Red River ICE Review with

the AMC team chief, several team members, and the director of supply at DESCOM. A team member told us that while they were drafting their report, they had discussed how the ICE Review should portray problems at the depot. The consensus was that there were no short-term solutions and that the depot's resources would only continue to shrink. It would not help to "drag the depot through the mud" since AMC, DESCOM, and the depot were all aware of the problems. A DESCOM inventory specialist who was a member of the team agreed that the review could be looked at as downplaying the problems at Red River. Two other ICE team members told us that the depot was in "bad shape"; Red River had more receipts than it could handle, and warehouse conditions were terrible. Although the depot's reputation within DESCOM led one team member to expect that its Inventory Management Division would be a model, he told us he was "shocked" by what he observed.

DESCOM officials agreed with our assessment that the ICE Review did not appear to be candid about the situation at Red River and stated that DESCOM had been monitoring Red River since as early as 1988.

Red River's Inventory Performance Not Adequately Monitored

Although DESCOM was unaware that Red River was not following inventory procedures and was not conducting its annual inventories of controlled items, DESCOM did question the productivity of the Inventory Management Division. Because of questions about the adequacy of the ICE Review, DESCOM sent its own team of experts to Red River 3 months later, in June 1989. The team diagnosed the cause of low inventory accomplishment at Red River and recommended that the depot apply more resources within the Inventory Management Division to physical inventories. However, DESCOM lacked the data it needed to effectively monitor Red River's subsequent inventory performance.

DESCOM officials explained that monitoring compliance with their recommendation could have been accomplished by requiring detailed depot reporting on staffing and productivity. Although the DESCOM team had obtained such data at the depot and used it in making its June 1989 recommendation, depots do not routinely report how inventory personnel are actually dividing their time between counts, research, and other inventory functions. Such reporting was discontinued several years ago by resource managers at a higher command. DESCOM officials said that these routine reports had been a useful management tool and that they were missed.

Lacking such staffing and productivity data during 1990, DESCOM officials used the Depot Inventory Program Status Report to monitor Red River's inventory accomplishment. They concluded that Red River appeared to be following DESCOM's recommendation because the depot's inventory accomplishment jumped from 16.9 percent in fiscal year 1988 to 38.4 percent in fiscal year 1989. Red River did dramatically increase the number of physical inventories after the DESCOM visit. In the last 5 months of fiscal year 1989, the depot conducted 26,921 inventories, about two-thirds of its total output for the year. Many of these inventories were incomplete, however, because the depot was not performing the necessary research to determine whether inventory records needed to be adjusted. Red River estimated that about 29 percent of fiscal year 1989 and 82 percent of fiscal year 1990 inventories requiring research were not actually researched.

The Depot Inventory Program Status Report is an inadequate tool for monitoring depot inventory performance because it does not reflect whether an inventory has actually been completed. A depot receives credit for an inventory after two counts rather than at the completion of the inventory. Consequently, Red River's incomplete counts were included in the depot's inventory accomplishment for the last 2 fiscal years. Because the depot's record of the date-of-last-inventory is also updated after two counts—even though the inventory has not been completed—depots lack a quick and reliable way to determine whether they actually "completed" the inventory of an item. Thus a scan of the date-of-last-inventory for small arms parts suggested that most such components had been recently inventoried. To determine the actual inventory status for an item, we had to examine individual inventory records.

The Depot Inventory Program Status Report also has several limitations that prevent it from being a useful tool in monitoring inventories of controlled material. Until mid-1990, the report provided no separate visibility over controlled items because they were intermixed with other types of inventories. Although DESCOM now has "general" visibility over controlled item inventories, it still cannot tell which specific items have or have not been inventoried, and it does not know if the inventories were actually completed. DESCOM officials told us, however, that monitoring inventories of controlled items is the responsibility of the inventory control point that is accountable for the material. AMCCOM, the inventory control point that manages small arms parts, has the capability to monitor controlled item inventories. Whenever a depot completes a physical inventory, it reports the results to the appropriate

inventory control point. An AMCCOM official acknowledged, however, that in the past AMCCOM had not scanned its records to determine whether annual inventories of controlled items were being performed.

Reliable status reports on inventory performance are particularly important at a time of DOD budget constraints. DESCOM officials told us that its Supply Directorate lost about 30 percent of its civilian personnel between July 1988 and November 1990 because of budget reductions, and the number of inventory specialists in the Directorate declined from five to one. In addition, a reduction in DESCOM travel funds since 1989 has curtailed the Command's ability to visit depots.

Addressing Overcrowded Storage Conditions at Red River

As a result of stringent retention/disposal policies, procurement cycle fluctuations, and the fielding of new systems along with the concurrent redistribution of displaced equipment, overcrowded storage space at the three area-oriented depots—Sharpe, New Cumberland, and Red River—became a significant problem during the 1980s. In their 1989 visits to Red River, the AMC and DESCOM teams recognized that saturated storage space at Red River impeded both an effective inventory accounting program and an efficient receipt, storage, and issue operation. The ICE Review recommended that higher commands help the depot to reduce the current stockage overflow. DESCOM concluded that there was no short-term solution to the problem and that long-term solutions were the creation of new warehouse space, a reduction in the flow of material, or the use of backup storage sites.

In an effort to alleviate this overflow, DESCOM had implemented a program in 1986 that targeted specific types of stock for movement to backup depots, reserving premium space in area-oriented depots for more active material. Under this program, material from Red River was moved to two other installations. DESCOM also worked directly with the depots and inventory control points to clear nonreparable or dormant stock in support of this effort. Despite these actions, statistics reported by Red River suggest that the depot's covered storage occupancy has hovered near 100 percent since about 1987, and when unauthorized outdoor storage is included, depot occupancy has climbed steadily from 109 percent in September 1987 to 150 percent in March 1990 to 160 percent as of December 31, 1990, or 88 percent over the DOD goal.

Red River's director of supply told us that some additional storage facilities had been built at the depot in the past few years. Requests for additional storage, however, had been turned down because of the plan to

build new distribution centers at Sharpe, New Cumberland, and Red River. While Red River was the originator of the distribution center concept, the depot's construction priority was downgraded. In January 1990, DOD announced its decision to end Red River's supply mission and cancel the planned distribution center. In the fall of 1990, all studies reevaluating those decisions were terminated because of a new approach to base closure mandated by the fiscal year 1991 Defense Authorization Act. DOD released a proposed list of affected facilities to the newly established Base Closure and Realignment Commission on April 15, 1991. Red River was not on the DOD list.

DESCOM officials told us that the inventory control points that manage and purchase material direct receipts to area-oriented depots, such as Red River, based on a forecast of demand. While these commands could reduce the flow of material to a depot by changing their distribution matrix, most depots do not want the matrix changed. No depot, we were told, would ask for their work load to be reduced, especially if the need for the depot's supply mission was being questioned. In March 1991, however, AMC directed a temporary 90-day diversion of new procurement to New Cumberland and Sharpe. This action was taken to allow Red River to reduce a significant backlog in filling customer requests for material.

The Red River director of supply did not believe that the flow of receipts into the depot should be slowed down. Noting that many military units were located in the region served by Red River, he said that their material should be stored at the depot. He also said that material managers needed to be more aggressive in disposing of excess material, a step that would help free up storage space. Finally, he believed that the storage situation was improving and cited rewarehousing efforts that were freeing up space and allowing the depot to move material inside.

In February 1991, Red River officials told us that there was no short-term solution to the depot's crowded storage conditions. They planned to continue to pursue construction of additional warehouse space.

Conclusions

Ineffective oversight of Red River contributed to a worsening of the inventory control problems during 1989 and 1990. By stating that the depot was managing well, given resource constraints, AMC's assessment failed to alert top-level AMC managers to the serious problems at the

depot. These reviews can be a valuable tool to management when performed correctly; however, such reviews are questionable if they are not objective. While DESCOM identified the cause of poor inventory performance at Red River, it did not have adequate staffing and productivity data to monitor inventory activities. Lacking such data, DESCOM relied on inventory performance status reports that incorrectly suggested that inventory accomplishment at Red River was improving. Finally, AMCCOM did not use its capability to monitor whether depots were performing their annual inventories of controlled material.

Although better warehouse management and disposal of excess material will improve Red River's storage problems, these actions alone will be inadequate to deal with severe overcrowding. Further actions by higher commands to relieve Red River's overcrowding would help resolve this problem and, consequently, improve the depot's inventory management for small arms parts and other assets.

Recommendations

DOD is in the process of transferring management of depot supply missions from the services to the Defense Logistics Agency. Since the transfers only began in 1990 and will take several years, we have directed our recommendations to the Secretary of the Army. We recognize that the Defense Logistics Agency will be responsible for following through on the implementation of some of these recommendations.

We recommend that the Secretary of the Army direct AMC to

- modify the Depot Inventory Program Status Report to reflect that an inventory has actually been completed,
- require inventory control points to ensure that depots are performing their annual inventories of controlled material, and
- slow down the flow of material to Red River and reduce the volume of material currently stored at the depot.

Agency Comments

DOD concurred with our recommendations. Due to resource constraints, a change in the Depot Inventory Program Status Report may not be possible. However, the Defense Logistics Agency has been assigned responsibility for developing a standard depot reporting system for use throughout the Department. The current system used by the Defense Logistics Agency does not update the date-of-last-inventory until counts and adjustments have been accepted. This same feature will be present in the new standard depot system. The Army Materiel Command will

require inventory control points to review their records prior to the end of each fiscal year to identify those controlled items for which the inventory requirements have not been met. Further, depot commanders will be required to certify to the inventory control point that all required inventories of controlled items have been completed for the fiscal year. Finally, the Army Materiel Command has taken action to divert shipments of all types to Red River until storage space becomes available at the depot. These diversions will remain in place until Red River is transferred to the Defense Logistics Agency at the end of the year.

Physical Security Deficiencies Create Unnecessary Vulnerability to Employee Theft

DOD believes up-front physical security is the best deterrent to theft. Yet to varying degrees, the physical security postures of the four depots we visited appeared to ignore the principal threat to small arms parts and other depot assets—theft by employees. Three depots lacked the infrastructure necessary to easily restrict access to the warehouse area. Two depots did not randomly inspect vehicles and had an inadequate security force. Moreover, we found many examples where depots were not making the most of available physical security resources.

Depot provost marshals, the officials with day-to-day responsibility for security, lack the backing of guidance, or in some cases mandatory regulations, to help them sell an effective security program to depot commanders. Because Army regulations do not set minimum standards for the physical security of warehouse areas, a depot commander has wide discretion in selecting security measures. Consequently, three of the four depots took insufficient steps to protect the warehouse areas where depot assets were stored.

Small arms parts and other assets were most at risk at Red River because of a combination of physical security deficiencies and poor inventory accountability. In late 1990, Red River developed a corrective action plan to improve the depot's physical security. Some improvements have already been completed, and others are underway.

Employee Theft Poses High Risk to Small Arms Parts

According to depot security personnel and local security assessments, the most serious threat to small arms parts and other assets is internal—employees, contractors, and other individuals with legitimate business at the depot. They believe employee theft poses a significant physical security challenge because it is difficult to detect. Furthermore, even if they suspect theft, some depot security personnel we spoke with said that it is often difficult to go beyond those suspicions. The nature of the depot work force—close-knit and stable, sometimes consisting of different generations of the same family—makes tips hard to follow up on and stings costly and time-consuming.

The Army recognizes that certain weapon parts are desirable, and, consequently, depots are required to store them in a secure warehouse with limited access. In addition, depots have procedures for controlling the movement of pilferable material from receiving to warehouse to shipping. Finally, a weapon part on a warehouse shelf has a certain anonymity because it is identified only by a stock number and a brief

nomenclature; thus, an individual who is unfamiliar with weapon components could have a difficult time deciphering its use.

At all four depots we visited, no inventory losses of small arms parts were attributed to theft. Officials at some depots believed that, absent proof of any thefts, existing security procedures were sufficient. For example, managers at Sharpe strongly disagreed when an individual assigned to investigate a loss of small arms parts concluded that “the opportunity for pilferage as well as misplacement can occur at all steps of the way from the time material is delivered to us until the time it is shipped out.” The depot commander, in commenting on the adequacy of security, told us that he believed existing procedures were probably sufficient and questioned the need for some additional security initiatives suggested by the depot provost marshal.

Despite this perception that existing security measures were adequate, several incidents that occurred or were described to us during the course of our review suggested that small arms parts were vulnerable to employee theft.

- In a part courier’s desk at Sharpe, a supervisor found an AR15 manual annotated with all the storage locations for corresponding M16 components. The AR15 is the commercial version of the M16, and many parts can be used in either weapon.
- A sting conducted in 1989 resulted in the apprehension of eight Red River employees in connection with the theft of electronics and computer equipment. One of those implicated also told investigators that he and accomplices had stolen about \$77,000 of M16 and M14 components over a period of several years.
- Red River’s provost marshal found a stash of 9-millimeter magazines under a pile of trash in the secure warehouse. She believed that this technique was one way for theft to occur in a nominally secure building.
- An unlocked shipping container filled with four different small arms parts valued at about \$33,000 was found on the loading dock of a Red River receiving warehouse. Although material was routinely stored on this loading dock, the shipping container was not a legitimate storage location. Red River officials suspected that the material had been prepositioned for theft. About the time the container was discovered, a nighttime patrol in the warehouse area challenged individuals who subsequently fled the depot in their car.
- A warehouse employee at Red River was caught attempting to steal about \$600 of depot stock, including four forearm assemblies for the M60 machine gun, packaged and ready for shipment. The material had

been prepositioned under a shipping warehouse loading dock that was routinely covered with material. The employee returned to the depot after-hours, when the warehouse area was normally shut down for the evening. An accomplice flashed some type of identification card to enter the depot in the warehouse employee's truck.

In addition to these incidents, some circumstantial evidence also suggests that small arms parts are vulnerable to theft. First, warehouse employees, by the nature of their job, can probably identify many of the small arms components stored at the depot. At several depots, some warehouse employees were retired military personnel who were familiar with or owned weapons. Employees' familiarity with weapons is also likely because some depots are in localities where owning weapons is common. Second, one employee implicated in the theft of small arms parts from the New York Army National Guard was a federally licensed firearms dealer. After comparing personnel records with the names of about one-third of these dealers, DOD officials told us that about 9,000 civilian and military employees were licensed dealers. About 2,000 were in jobs or specialties that could give them access to weapons, and some worked in DOD warehouses. For example, the provost marshal's office at Sharpe knew of several depot employees who were licensed dealers.

Security Weaknesses Identified by AMC

Physical security surveys are conducted periodically by AMC's Security Support Activity at all Army depots. They are designed to provide commanders and security personnel with an overall assessment of the installation's physical security and advise them of the strengths and weaknesses of their programs. The AMC security specialists test for compliance with physical security regulations, making note of any deficiencies. On the basis of their professional judgment, they also provide general observations about the depot's physical security. Each depot receives an overall rating for its physical security program.

Physical security surveys conducted by AMC revealed serious security weaknesses at some of the depots. The most significant problems identified in the surveys were found at Red River, which received a marginal rating in two of its last three surveys. "Marginal" means that the number of deficiencies noted and severity of each is such that the physical security of the installation is at the lowest limit of acceptability. The three other depots consistently received good ratings over the past few years.

Several of the most serious findings in the AMC surveys concerned staffing levels of security guards, employee parking, and the security of material left out at night. At Red River and Anniston, AMC reported that the guard forces were too small to perform all duties required to protect the installations' assets. Moreover, at Red River, privately owned vehicles were routinely parked in designated spaces close to warehouses storing pilferable items. Finally, in after-hours surveys of the warehouse areas at both these depots, AMC security specialists found many items, including pilferable coded material at Anniston, left out on loading docks overnight, making them highly vulnerable to theft. While some of these deficiencies appear to violate basic, commonsense security standards, they do not violate existing Army regulations.

Physical Security Deficiencies

A depot's physical security has three basic components: (1) infrastructure, such as fences, parking, lighting, and guardposts; (2) procedures, such as random vehicle inspections, areas with restricted access, and requirements for employees to sign in during off-duty hours; and (3) security guards to carry out the overall security program. However, the Army's standards do not include minimum security requirements for minimizing the risk of employee theft at depot warehouse areas. No depot we visited had a model infrastructure, and we found many examples where depots were not using their available resources to compensate for infrastructure deficiencies.

Infrastructure

All the depots were protected by a perimeter fence, but only at New Cumberland was access to the warehouse area regulated with a separate fence and guardposts manned around the clock. Although Army regulations do not require controlling access to the warehouse area, this infrastructure was an important means of limiting access to employees with a legitimate reason for being in the warehouse area, during the day or at night. Since a commissary was located within the warehouse area, the depot issued a special pass limiting military personnel and their families to a set route and special parking.

Like New Cumberland, the other three depots were generally divided into administrative and industrial areas, with storage warehouses located in the industrial area. However, no other depot we visited had a security infrastructure equivalent to New Cumberland. As a result, the other depots had less control over access to the warehouse area.

At Sharpe, the industrial and administrative areas were separated by a fence, but the guardpost that gave access to the warehouses was not manned at night. At Red River and Anniston, the industrial area was not fenced off. In addition, to visit Red River's recreational area, employees and visitors had to pass through the warehouse area. Thus, once the guard at the depot's front gate was assured that someone had legitimate business on depot property, it was virtually impossible to restrict that person's access to the warehouse area. The lack of a separately fenced warehouse area was made even more troublesome by the size of Red River, the number of gates, and the fact that most of the depot was protected only by cattle fencing, some adjacent to public roads.

Many of the problems with depot physical security infrastructure may be regarded as the result of varying degrees of attention paid to physical security over past decades. The depots were all built at different times and for different purposes. Neither AMC nor DESCOM physical security officials could explain why New Cumberland had a fenced warehouse area and Red River and Anniston did not.

All four depots permitted employees to park in the warehouse area, making it easier for an individual to transfer small arms parts from the warehouse to a nearby vehicle. For this reason, restricting employee parking near warehouses is considered a strong deterrent to theft; however, the Army's physical security regulations are silent on employee parking. In general, provost marshals told us that centralized parking and random vehicle inspections (discussed below) were a source of inconvenience for depot workers, and in the absence of regulatory requirements or proof of theft, depot commanders may feel that there is little harm in more convenient arrangements.

Perhaps the best, though not ideal, parking arrangement existed at New Cumberland. About two thirds of the employees parked in a remote centralized lot within the warehouse area. The remaining employees, including handicapped individuals or supervisors, parked in designated spots in and among the warehouses. Parking was not permitted near the secure warehouse containing sensitive and pilferable small arms parts. No other depot had a centralized parking area for warehouse employees.

At Red River, the provost marshal told us that she concurred with the AMC survey recommendation for centralized parking and busing of employees to the warehouse area. In fact, she noted that at one time Red

River did have a centralized parking area. The previous depot commander considered the cost of a new, centralized parking area, in conjunction with busing, to be too high. Another impediment to centralized parking is that changes affecting where employees may park are subject to negotiation between employee labor unions and depot management.

Random Vehicle Inspections

Security procedures can complement depot infrastructure in discouraging theft, and security personnel believe that random vehicle inspections at depot gates are a particularly effective deterrent. Army Regulation 210-10 states the legal requirements for a vehicle inspection program but makes such a program optional, to be instituted at the discretion of the depot commander. The regulation does not define the characteristics of an effective inspection program. For example, it does not address the frequency of gate checks or discuss the importance of making inspections unpredictable.

Only two of the four depots we visited—New Cumberland and Anniston—conducted vehicle inspections. At New Cumberland the checks were conducted at various hours of the day as employees left the controlled-access warehouse area. Long lines were avoided by pulling a vehicle over for inspection and allowing others to exit until the inspection team was ready to handle another vehicle. At Anniston, gate checks were performed approximately 10 days of every month. In June 1990, the new provost marshal at Sharpe told us that he was drafting a proposal to reinstate gate checks. Such random checks were resumed in May 1991 and included an agreement to notify the employees' union at the depot 15 minutes in advance of an inspection. In August 1990, the new commander at Red River depot reestablished a gate check program.

The problem of conducting effective random vehicle inspections is directly related to the depot infrastructure. With a separately fenced and guarded warehouse area, gate checks at New Cumberland can be limited to vehicles leaving this controlled area. At Red River, any random vehicle inspection program will stop not only warehouse employees but also anyone who works in the administrative area or who may have used the depot's recreational facilities. In addition, the depot provost marshal told us that the effectiveness of any random vehicle inspection program was compromised by the ease with which employees could pass on notice of an ongoing gate check by citizens band radio and by the number of gates by which employees could leave the depot. She also pointed out that the number of vehicles leaving the depot at 5:30 p.m. made it difficult to implement gate checks without causing

delays to employees. Such delays may be grounds for overtime. At New Cumberland, however, the random vehicle inspection program was designed to ensure that no such delays would occur.

Security Guards

Red River and Sharpe lacked an adequate guard force to protect depot assets, and the provost marshals at both depots told us that they were concerned about this deficiency. At Anniston, plans were underway to increase the size of the security force. New Cumberland's provost marshal was concerned about the impact of upcoming layoffs but said the depot would be able to meet all regulatory requirements.

Although Sharpe was authorized 31 guards, only 22 were on board. According to the provost marshal, because these guards must provide coverage 7 days a week, 24 hours a day, the size of the guard force was not sufficient to do the job. To cope with the shortage of guards, the provost marshal had to cut the nighttime patrol to one person.

In 1987, Red River reduced its guard strength from 80 to 67 because of a reduction in force. At the time, AMC recommended that these reductions be reevaluated to ensure that adequate security was being provided. In January 1990, Red River was authorized and had on board 62 security personnel. In the following months the number of guards further declined to about 56.

The provost marshal at Red River told us that the staffing level affected her ability to provide adequate nighttime patrols. Some areas, including the warehouses, often had no nighttime patrols. To cope with personnel reductions, the overall size of patrol areas was increased, and the number of areas was decreased. As part of the depot's corrective action plan, the size of the guard force is being increased by 12, bringing the total number of guards to 68. All but one of these additional guards had been hired by mid-February 1991.

Nighttime Security

Because the AMC security reviews had raised the issue of depot assets left out at night, and because of our observations of infrastructure deficiencies, we conducted nighttime inspections of the warehouse areas at New Cumberland, Red River, and Sharpe.

No assets were left overnight on the loading docks at New Cumberland. The provost marshal said that the depot routinely secured material at night. Lighting around the loading docks was also adequate.

At Red River, we found material valued at thousands of dollars left out at the end of the day on the loading docks or in unlocked trucks. Among the items was a box of pilferable M16 magazines ready for shipment. Lack of lighting on these loading docks made observation by roving guard patrols difficult. However, because of low guard staffing levels, there was no patrol in the warehouse area on some evenings, and the patrol area was very large, extending as much as 8 miles from the warehouses. The morning after our inspection, a Red River official explained that for 3 years the depot had planned to secure the loading dock with a fence but that the project had never been funded. The depot is now shutting the truck doors and securing them at night.

We also observed material left out after hours at Sharpe but found no pilferable material. According to a depot supply official, partially loaded trucks were also left open at night, but pilferable material would not be placed in such a truck.

Both Red River and Sharpe officials believed that material left outside at night was safe because of the depot's perimeter fence and guardpost.

We did not conduct a nighttime inspection at Anniston, but depot officials confirmed that material was left out at night.

Red River's Program to Improve Physical Security

The current Red River commander agreed that physical security weaknesses increased the potential for theft at the depot. He has already taken steps to address a number of problems. To enhance the security of small arms parts, all such components, both controlled and uncontrolled, were consolidated into one secure warehouse. The security of this warehouse is being upgraded through the use of more strict admission procedures and installation of a metal detector. According to depot managers, all personnel working in the warehouse have now undergone a police records check. Finally, the provost marshal is examining depot procedures for the movement of weapon parts from receiving to storage to shipping, and the commander has started a formal investigation of small arms parts losses uncovered during our review.

Other actions are aimed at enhancing the security of all depot assets. The depot has established nighttime walking patrols in the warehouse area, more lights are being left on at night, and warehouse supervisors have been instructed to ensure that no pilferable material is left out on loading docks at night. Additionally, the depot plans to (1) submit a request for funds to fence off the central shipping/receiving buildings

and docks and (2) eliminate employee parking and traffic in the adjacent area. The depot plans to conduct a study of the parking situation. Finally, depot managers are taking a number of steps to increase security awareness among employees and supervisors. For example, the depot commander has met with key supervisors to emphasize that significantly enhanced physical security is one of the depot's top priorities.

Need for Consistent Physical Security Standards at Wholesale-Level DOD Depots

We discussed our concern about the Army's lack of minimum standards for the physical security of depot warehouse areas with the responsible official from the Office of the Deputy Under Secretary of Defense for Security Policy. He pointed out that physical security at DOD installations and the lack of consistent standards among the services and defense agencies had been of concern to DOD since the early 1980s.

Throughout the 1980s a number of GAO reports have pointed out continuing security deficiencies at Army, Navy, Air Force, Marine Corps, and Defense Logistics Agency facilities. GAO's work has also demonstrated the lack of consistent standards. For example, in a 1988 report we noted that Air Force security regulations require fencing and the use of personnel badges to control access to storage facilities at Air Force wholesale-level depots.¹ In contrast, we found that Army physical security regulations do not address how to control access to depot warehouse areas—either with fences or with appropriate procedures. Thus, anyone with legitimate business on depot grounds had access to the warehouse area at three of the four Army depots we visited. Similarly, a Defense Logistics Agency security official told us that employee parking at their facilities was restricted to within 50 feet of a warehouse opening; again, Army regulations do not address employee parking.

The same DOD security official told us that until recently the Department had lacked an overall umbrella regulation that addressed physical security. A new regulation intended to fill that gap—DOD Regulation 5200.8-R, "Physical Security Program"—was signed on May 13, 1991. The regulation prescribes DOD policies and minimum standards for the physical protection of installations and assets. It is intended to provide realistic guidance and the necessary flexibility for commanders to protect assets from typical threats, with the objective of reducing the loss, theft, or diversion of DOD assets. Two chapters in the regulation address

¹Inventory Management: Air Force Inventory Accuracy Problems, (GAO/NSIAD-88-133, May 12, 1988).

the “Security of Material” and “Installation Access and Circulation Control.” For example, the regulation requires all DOD components to establish physical security measures to protect inventory items at depots and notes that it is the responsibility of commanders to ensure that such measures are functioning to reduce the incentive and opportunity for theft. Finally, the regulation specifies that all DOD components shall prescribe procedures for inspecting vehicles at installation gates or at designated areas within an installation to include a determination of whether such inspections should be random or mandatory for all.

We believe that DOD Regulation 5200.8-R provides a framework for ensuring that all DOD components have reasonable and consistent standards. However, the regulation only provides broad guidance as to what infrastructure or procedures provide the requisite minimum level of physical security. More detailed guidance must be prepared by the component staff and the major commands responsible for the depots. Thus, the DOD security specialist who drafted the regulation told us that it makes a vehicle inspection program mandatory but leaves wide latitude to DOD components and major commands to develop guidance for an effective program. Similarly, the regulation leaves the determination as to the necessity of other security measures up to the DOD components, major commands, or installation commanders. The need for consistent standards among the DOD components will become even more important as the Defense Logistics Agency takes over service depots; in many cases, the Defense Logistics Agency will be a tenant on a service installation, with installation physical security remaining a service responsibility.

Conclusions

Because employee theft of small arms parts from a depot is often hard to detect or prove, a depot must have physical security measures aimed at deterring theft. Measures at three of the four depots we visited, however, generally were not adequate to address the risk of employee theft.

We do not believe that poor depot security infrastructure is a valid excuse for the absence of a more effective security posture. Changes in procedures or in the use of security personnel can compensate, to some degree, for infrastructure weaknesses. Yet some depots were not using available security resources to help deter theft, for example, by instituting a random vehicle inspection program—a useful, reasonable, and relatively inexpensive measure. The issue is sometimes convenience. However, a vehicle inspection program can be established with minimal inconvenience to workers, as was the case at New Cumberland.

The Army's, as well as DOD's, primary philosophy regarding physical security is flexibility, combined with minimum standards for safeguarding property. We believe, however, that the Army's standards on safeguarding depot property inadequately address the physical security of depot warehouse areas, placing too much discretion in the hands of local commanders.

Recommendations

We recommend that the Secretary of Defense direct the Under Secretary of Defense for Policy to review the minimum acceptable standards for physical security at depot warehouse areas to ensure that both the Defense Logistics Agency and the services have consistent and appropriate standards for similar assets. These standards should (1) address methods for restricting access, with or without fencing; (2) stipulate the circumstances under which employees may park privately owned vehicles within the warehouse area; (3) limit the circumstances under which material should be left outside overnight; (4) spell out the necessary elements for an effective depot vehicle inspection program; and (5) identify other internal surveillance measures to control material.

Agency Comments

DOD concurred with our recommendation. DOD will review the minimum acceptable standards for physical security at depot warehouse areas to ensure that consistent and appropriate standards for similar sets of assets are applied. The review will be an action item to be discussed at the next quarterly DOD Physical Security Review Board meeting, tentatively scheduled for September 10, 1991.

Comments From the Department of Defense



ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

26 JUN 1991

(L/SD)

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "INVENTORY MANAGEMENT: Strengthened Controls Needed to Detect and Deter Small Arms Parts Thefts," dated May 22, 1991 (GAO Code 398010), OSD Case 8705.

The Department concurs with all the findings and recommendations contained in the draft report. The audit was particularly well done. The deficiencies are accurately and fairly identified, the Department has been given credit for the corrective actions that have been initiated, and the recommendations are reasonable and are being implemented. No additional funding will be required to implement the GAO recommendations. The specific DoD comments on each recommendation are provided in the enclosure.

The Department, as always, appreciates the opportunity to provide its comments on draft GAO reports.

Sincerely,

A handwritten signature in cursive script that reads "Colin McMillan".

Colin McMillan

Enclosure

Appendix I
Comments From the Department of Defense

GAO DRAFT REPORT - DATED MAY 22, 1991
(GAO CODE 398010) OSD CASE 8705
"INVENTORY MANAGEMENT: STRENGTHENED CONTROLS NEEDED
TO DETECT AND DETER SMALL ARMS PARTS THEFTS"

DEPARTMENT OF DEFENSE COMMENTS ON GAO RECOMMENDATIONS

* * * * *

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of the Army direct the Army Materiel Command to monitor implementation of corrective actions by the Red River Depot to ensure that depot inventory control is consistent with Army priorities and with the level of resources made available to carry out the overall depot mission. (p. 9, p. 45/GAO Draft Report)

Now on pp. 5, 26.

DoD RESPONSE: Concur. The Army Materiel Command is monitoring the Corrective Action Plan, which was developed by Red River Army Depot while the GAO study was being performed. The plan has been briefed to the Commanding General and will continue to be monitored until the depot is transferred to the Defense Logistics Agency at the end of FY 1991. The Defense Logistics Agency will then assume responsibility for the Red River Depot and continue to monitor the Action Plan.

RECOMMENDATION 2: The GAO recommended that the Secretary of the Army direct the Army Materiel Command to modify the depot storage capacity reports to permit a depot to report over 100 percent capacity by capturing both covered and unauthorized outdoor storage in one statistic. (p. 45/GAO Draft Report)

Now on p. 26.

DoD RESPONSE: Concur. The Army submission to the DoD Storage Space Utilization and Occupancy Report was revised to provide visibility of materiel in outside storage which requires covered storage space. This change was effective for the Army in December 1990, and will be effective DoD-wide in December 1991.

RECOMMENDATION 3: The GAO recommended that the Secretary of the Army direct the Army Materiel Command to develop an indicator to assist in judging the degree of saturation of storage space. (p. 45/GAO Draft Report)

Now on p. 26.

DoD RESPONSE: Concur. The DoD Storage Space Utilization and Occupancy Report has been revised to include cubic capacity and cubic requirements for materiel stored outside which requires covered storage space. This change was effective for the Army in December 1990, and will be effective DoD-wide in December 1991.

Enclosure

Appendix I
Comments From the Department of Defense

Now on pp. 5, 32.

RECOMMENDATION 4: The GAO recommended that the Secretary of the Army direct the Army Materiel Command to modify the Depot Inventory Program Status Report to reflect that an inventory has actually been completed. (p. 9, p. 56/GAO Draft Report)

DoD RESPONSE: Concur. The Department agrees that depots should not take credit for completing inventories until all research has been completed and any required adjustment has been made. That existing requirement will be reiterated to all depots. Due to resource constraints, changes to the Army Standard Depot System are severely limited and a change to that system may not be possible. Under the Department's Corporate Information Management initiative, the Defense Logistics Agency has been assigned as the Executive Agent for development of a standard depot system for use throughout the Department. The current system used by the Defense Logistics Agency does not update the date of inventory until counts and adjustments have been accepted. The same feature will be present in the standard system being developed under the Corporate Information Management initiative.

Now on p. 32.

RECOMMENDATION 5: The GAO recommended that the Secretary of the Army direct the Army Materiel Command to require inventory control points to ensure that depots are performing their annual inventories of controlled materiel. (p. 56/GAO Draft Report)

DoD RESPONSE: Concur. The Department agrees that inventory control points should be involved and should be aware that required controlled item inventories have not been completed. The Army Materiel Command will require inventory control points to review their records prior to the end of each fiscal year to identify those controlled items for which the inventory requirements have not been met. Further, depot commanders will be required to certify to the accountable activity that all required inventories of controlled items have been completed for the fiscal year. These new requirements will be included in a message to depots and inventory control points by August 1, 1991.

Now on pp. 5, 32.

RECOMMENDATION 6: The GAO recommended that the Secretary of the Army direct the Army Materiel Command to slow down the flow of materiel to Red River and reduce the volume of materiel currently stored at the depot. (p. 9, p. 56/GAO Draft Report)

DoD RESPONSE: Concur. The Army Materiel Command has taken action to divert shipments of all types to Red River Army Depot until such time as storage space becomes available at that location. Messages were dispatched in March, April, and May 1991, which diverted procurement shipments, retrograde from South West Asia, and retrograde from the

Continental U.S. to other storage locations. In March 1991, changes were made to the Army Commodity Command Standard System to divert shipments to other storage locations. In May 1991 the Army Materiel Command also redirected retrograde shipments from Red River to other locations. Those diversions will remain in place until Red River is transferred to the Defense Logistics Agency at the end of FY 1991.

RECOMMENDATION 7: The GAO recommended that the Under Secretary of Defense for Policy review the minimum acceptable standards for physical security at depot warehouse areas to ensure that both the Defense Logistics Agency and the Services have consistent and appropriate standards for similar assets. The GAO further recommended that those standards should include the following:

- (1) address the methods for restricting access, with or without fencing;
- (2) stipulate the circumstances under which employees may park privately owned vehicles within the warehouse area;
- (3) limit the circumstances under which material should be left outside overnight;
- (4) spell out the necessary elements for an effective depot vehicle inspection program; and
- (5) identify other internal surveillance measures to control material. (p. 9, p. 76/GAO Draft Report)

DoD RESPONSE: Concur. The Department will review the minimum acceptable standards for physical security at depot warehouse areas to ensure that consistent and appropriate standards for similar assets are applied. The review will be an action item to be discussed at the next quarterly DoD Physical Security Review Board meeting, tentatively scheduled for September 10, 1991. At that time, needed actions will be considered to ensure that consistent physical security standards are established at depots.

Now on pp. 5, 44.

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