

GAO

August 1992

FINANCIAL
MANAGEMENT

Army Conventional
Ammunition
Production Not
Effectively Accounted
for or Controlled



147441

**Accounting and Financial
Management Division**

B-248626

August 31, 1992

**The Honorable Michael P. W. Stone
The Secretary of the Army**

Dear Mr. Secretary:

This report presents the results of our evaluation of the United States Army Armament, Munitions, and Chemical Command's (the Ammunition Command) internal controls for the production of conventional ammunition. This letter discusses (1) the internal control weaknesses related to the Ammunition Command's accountability and control over its inventory and materials and (2) the lack of full disclosure of all the production costs for ammunition. We performed this work in conjunction with our audit of the Army's consolidated financial statements for the period ending September 30, 1991, undertaken pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). The primary objectives of this audit were to evaluate the Army's internal financial controls and to opine on the Army's fiscal year 1991 consolidated financial statements; and, thus, our work would not necessarily identify all internal control weaknesses.

Results in Brief

The Ammunition Command could not accurately account for and properly control an estimated \$3.7 billion in conventional ammunition and component parts as of the end of fiscal year 1991. It could not track the flow of material among government plants, did not control government furnished material sent to contractors, and lacked systems and data necessary to reconcile differences in inventory between its logistics records and plant records. Further, the Ammunition Command did not have comprehensive cost data. Without such essential controls and complete cost reporting, the Army has no assurance that loss or theft will be detected and cannot identify changing cost trends in time to take prompt corrective actions.

Background

The Ammunition Command, a component of the Army Materiel Command, is responsible for producing conventional ammunition for the Department of Defense (DOD). It finances production through a revolving fund, the Conventional Ammunition Working Capital Fund (the Fund), which was established in 1981. At the end of fiscal year 1991, the Fund reported raw materials and work-in-process of \$3.6 billion.

The Ammunition Command procures raw materials, directs movement of unfinished component parts through its production process, and temporarily stores finished ammunition until it is either sold to customers or otherwise disposed of. A network of plants produce the ammunition. About 185 facilities are contractor-owned plants, and 16 are government-owned plants of which 13 are contractor-operated and 3 are government-operated. The Ammunition Command also has 11 inactive government-owned facilities that can be readily mobilized to meet unexpected production needs.

The Fund purchases material to produce conventional ammunition on the basis of customer orders. Fifty-five percent of the fiscal year 1991 orders the Ammunition Command received for conventional ammunition were from the Army, 15 percent from the Air Force, 12 percent from the Navy, 9 percent from the Marine Corps, 8 percent from Foreign Military Sales, and 1 percent from other customers.

The Fund uses the following three separate sets of records to account for and control inventory: (1) logistics records that the Ammunition Command headquarters relies on to control the requisition, receipt, storage, sale, and disposal of the Fund's inventory, (2) accounting records developed by multiplying quantities on the logistics records by standard prices, and (3) custodial records that plants maintain for inventory.

The Commodity Command Standard System (the Commodity System), an automated data processing system, provides financial and logistics records to account for and control the inventory for production of ammunition at government plants. In this capacity, the Commodity System maintains records of inventory requisitions, receipts, and shipments and processes the annual inventory reconciliation between headquarters and plant records. The Commodity System receives inventory data from the government plants.

The Ammunition Command's three government-owned and -operated plants use the Standard Depot System (the Depot System), an automated Army standard system, to maintain plant custodial records. The Depot System also has been implemented at one government-owned, contractor-operated plant to test the possibility of standardizing plant records systems at the remaining government-owned plants. Ammunition Command officials stated that the other government-owned, contractor-operated plants have their own automated data processing systems which provide plant records information to the Commodity

System. To account for Fund inventory at the approximate 185 contractor-owned and -operated facilities, the Ammunition Command relies on plant records maintained by the contractors. In addition, contractor-owned and -operated plants are required to submit to the Department of Defense a Form DD 1662 "DOD Property in the Custody of Contractors," listing all government furnished material and equipment in their possession on September 30 of each year.

Objectives, Scope, and Methodology

This report presents the results of our evaluation of the internal controls at the Ammunition Command. Specifically, we reviewed the Ammunition Command's ability to (1) account for and control assets used in the production of conventional ammunition and (2) account for and report the cost of conventional ammunition production. Our review was limited to the production of conventional ammunition under the control of the Ammunition Command and accordingly did not include finished ammunition stored at depots and installations. The Army reported finished conventional ammunition of \$25.2 billion stored at the depots and GAO estimated another \$18.4 billion at the installations. Appendix I details our scope and methodology and the locations we visited in conducting our work. Our audit work was performed primarily between June 1990 and March 1992 in accordance with generally accepted government auditing standards. We discussed the results of our work with DOD, Army Materiel Command, and Ammunition Command officials. In addition, DOD provided written comments on a draft of this report. These comments are evaluated in the Agency Comments and Our Evaluation section of this report. DOD's written comments are presented in appendix II.

Conventional Ammunition in Production Not Accurately Accounted for and Not Effectively Controlled

The Ammunition Command has limited ability to account for, control, monitor, and track an estimated \$3.7 billion in conventional ammunition components. Specifically, \$3.6 billion in inventory-on-hand at September 30, 1991, and over \$100 million ammunition components shipped to about 185 contractor-owned and -operated facilities was not accurately accounted for during fiscal year 1991. The Ammunition Command's existing systems and procedures do not effectively account for and control (1) the movement of ammunition components throughout the production process, (2) government furnished material at contractor-owned and -operated facilities, and (3) reconciliations between its records and individual plant inventory records. Consequently, the Ammunition Command has no assurance that its ammunition and component parts are

accounted for and protected, or that any ammunition loss or theft would be promptly detected.

The Ammunition Command Lacks Logistics Control Over Movement of Ammunition Components

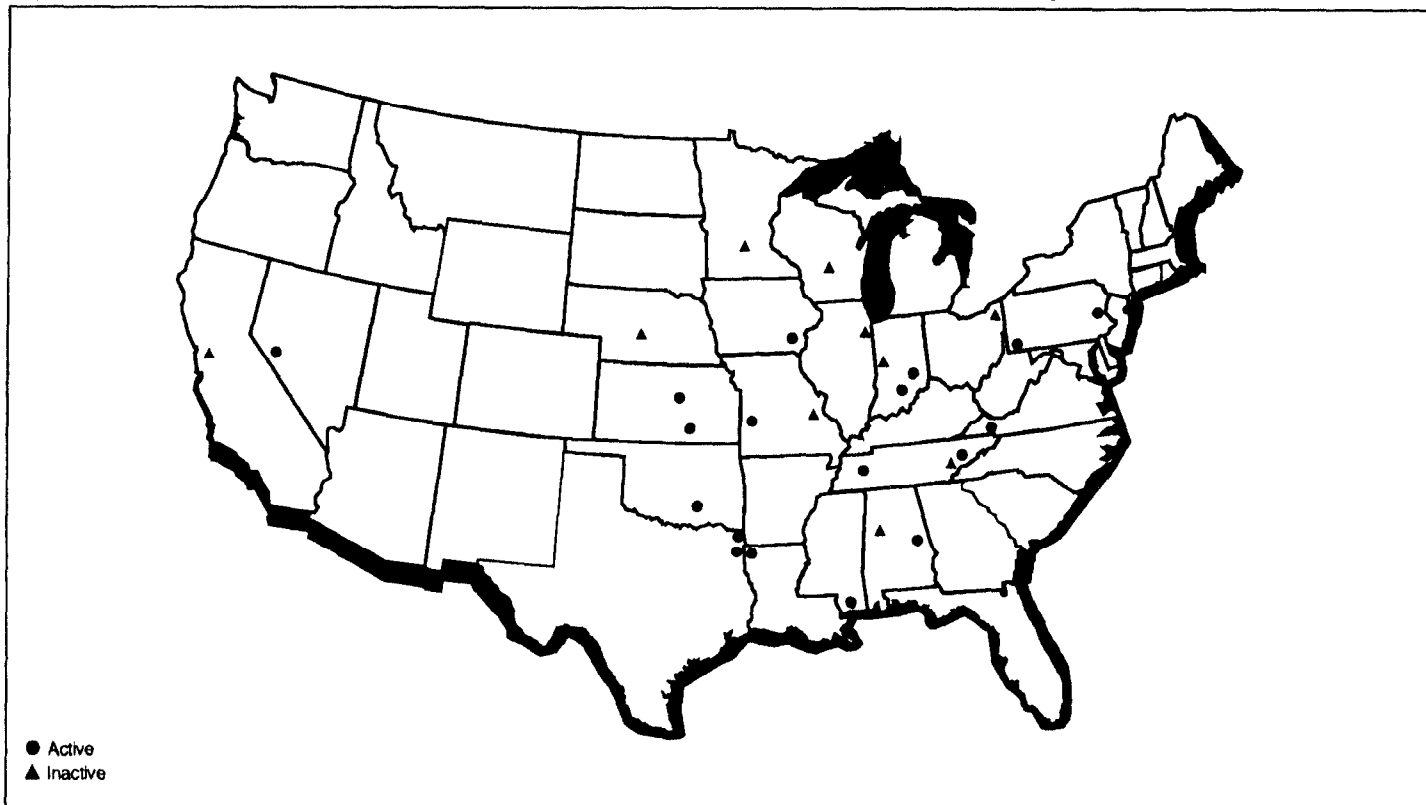
Of the \$3.6 billion in inventories reported as of September 30, 1991, we found that the Ammunition Command had no logistics records for an estimated \$760 million in work-in-process and in-transit inventory at government-owned plants. The remaining \$2.84 billion included \$1.9 billion of material in the warehouses but not yet requisitioned for production at government-owned plants and \$940 million in work-in-process at contractor-owned plants. Specifically, the Ammunition Command did not maintain logistics records when components were moved into work-in-process and were in transit. Without logistics records to maintain control over movement of ammunition components at government-owned plants, the Ammunition Command loses the ability to (1) ensure that raw materials in the production process are maintained within prescribed levels, (2) account for, track, and control sensitive and marketable ammunition components used in the production, and (3) detect any lost or stolen government property.

Army Regulation 735-5 requires that responsible Army components continually account for all Army property from acquisition through sales to customers or disposal. In addition, Army Regulation 37-1 requires that management controls be established to account for any government furnished material requested, issued, received, and consumed by contractors, and to provide audit trails to reconcile logistics records with contractor records.

Controlling the Fund's inventories is very complex because it involves large quantities of ammunition components (1,600 different types) which are sensitive and susceptible to theft. Without having effective controls over conventional ammunition inventories, the Ammunition Command cannot know the amount and location of its inventory and cannot tell if it is missing.

Further, controlling the movement of ammunition and component parts is critical because production involves acquiring and moving raw materials and component parts, in various stages of production, among a vast network of production facilities located throughout the United States. Figure 1 shows the locations of government plants under the Ammunition Command. Not shown is the network of the approximate 185 contractor plants.

Figure 1: Army Armament, Munitions, and Chemical Command Government-owned Plant System



Source: U.S. Army Armament, Munitions, and Chemical Command

Within the production plants, raw materials and component parts can be moved to and from warehouses and production floors. In addition, a finished product can also be brought to a testing site and returned to the plant.

Although the Ammunition Command has established procedures in its Commodity System to account for raw material and items in varying stages of production in plant warehouses, we found that these procedures were not followed. Controls in the Commodity System are designed to deny plants' requests for warehouse inventory if the Ammunition Command's logistics records do not agree with the requesting plant's records for that item. However, Ammunition Command and plant officials

told us that the plants circumvent the Commodity System's controls. To sustain production operations, plants do not always requisition through the formal system, but instead retrieve inventory directly from the warehouse and use manual records to account for the inventory activity. However, these manual or "cuff" records are not always sent to the Ammunition Command. For example, we were informed in November 1991 by an Army Materiel Command official that one government-owned, contractor-operated ammunition production plant had "cuff records" for approximately \$54.9 million government furnished material that had not been recorded in the Fund.

Further, the Ammunition Command had not instituted certain basic control measures that are commonly used in manufacturing processes as inventory is requisitioned from the warehouses (raw materials) to the production process. These controls could be used at various phases of the manufacturing process. By relating units of input to output, the controls are intended to identify potential waste, rework, or theft requiring further investigation.

No Logistics and Accounting Control Over Government Furnished Material at Contractor-owned Plants

The Ammunition Command does not account for and control over \$100 million in government furnished material at contractor-owned plants. As a result, the Ammunition Command does not know the quantity or value of government furnished material at these plants.

Federal Acquisition Regulation (FAR), 48 C.F.R., Part 45, states that, in general, the contractor records for government furnished property are the official government property records. This section of the FAR requires that contractors maintain approved property control systems for government furnished material, including material with sub-contractors. The FAR also states that duplicate official records shall not be furnished to or maintained by government personnel except under specific conditions. In addition, the Defense FAR Supplement, 48 C.F.R., Part 245.5, requires contractor facilities to report the estimated dollar value for all government furnished material in their possession on Form DD 1662. In addition, Army Regulations 37-1 and 735-5 specify that Army commands will maintain financial accounting control over government furnished property.

We found that the Ammunition Command, through the Commodity System, removes the quantity and value of government furnished material from logistics and financial records when materials are shipped to contractor-owned facilities and, thus, there are no Ammunition Command

records of these materials held by contractors. In addition, our review of the Form DD 1662 showed that it did not require identification of the agency that had provided the government furnished material and the quantity and national stock number for each such item.

Because these contractors could be dealing with multiple agencies, individual agencies could not easily determine how much was attributable to their respective activities. To estimate how much government furnished material the approximate 185 contractors had from the Fund, we asked the contractors at the private plants for detailed information on the quantity and value of their government furnished material received from the Ammunition Command that was still on-hand as of September 30, 1991. The 69 contractors who responded to our survey reported holding approximately 917¹ types of ammunition components and other material valued at over \$100 million as of the end of fiscal year 1991.

The following are examples of government furnished material reported by 3 of the 69 contractors:

- 50,000 pounds of propellant grains and over 3.1 million other ammunition components, such as rocket motors, warheads, fuses, and grenades, estimated to be worth approximately \$54 million;
- 77,000 pounds of sensitive explosives estimated to be worth about \$1.9 million; and
- 1.2 million pounds of a form of uranium used for manufacturing various antitank ammunition.

Five contractors reported that the government furnished material they held was excess and that they had held some of the components for years.

Because the Ammunition Command did not have logistics records for government furnished material, and because the contractors' Form DD 1662s did not sufficiently detail information on individual items, we could not determine the extent of government furnished material that should have been reported by the Command. However, at one contractor location, we identified the following three examples of the effect of not having accounting control over this material.

- The Ammunition Command's failure to maintain logistics records for government furnished material contributed to the Army incurring an

¹These 917 components are measured in terms of number of components, pounds, or square feet of material. Using these measurement criteria, there were about 20.7 million ammunition components, 2.3 million pounds, and 81,000 square feet of material.

estimated \$500,000 loss. Specifically, the Ammunition Command had allowed the contractor to take ownership of government furnished material to settle a potential claim of about \$152,000 in fiscal year 1990. Because it had not maintained independent control over this material, the Ammunition Command had no records of its value. After the contractor took ownership of the government furnished material, a DOD property administrator valued the material at approximately \$666,000.

- We observed that the contractor had 300 safe and arming devices valued at \$6,000, which had not been used since 1987. When we brought this oversight to the Ammunition Command's attention, the contract administrator transferred the material to an existing contract that could use those components.
- The contractor's records showed 130,000 excess detonators valued at about \$19,500 that were used with bombs and missiles. The Ammunition Command classifies detonators as a sensitive item. These materials require a high degree of protection to prevent acquisition by terrorists or other criminal elements through loss or theft.

A DOD survey reported that the same contractor did not maintain subcontractor inventory records or take a physical inventory of the quantity and value of government furnished material at the same subcontractor facility during fiscal year 1991. The survey also identified 494 components of subcontractor-held government furnished material valued at a little over \$1 million.

Government-owned Plant Records Not Reconciled With Ammunition Command Records

The Ammunition Command did not reconcile inventory records for its government-owned plants with \$3.6 billion of inventory it reported on hand as of September 30, 1991. Although the Ammunition Command compares the plants' annual physical inventory records to its logistics records, we found large, unreconciled differences. Matching of the Commodity System and individual plant inventory records and prompt resolution of any differences is essential to ensure that the Ammunition Command has accurate information on the status of ammunition inventories needed to effectively manage inventory and detect loss or theft.

The Ammunition Command's Regulation 700-23 requires that each ammunition plant conduct an annual physical inventory of ammunition or components on-hand and that inventory records at each plant location be reconciled with the Ammunition Command's logistics records once a year. Research and correcting adjustments are to be completed within 45 days

after differences have been identified. If the Ammunition Command cannot satisfactorily resolve differences within the 45-day period, it is required to initiate a "Request for Investigation" to the appropriate plant which then has 90 days to research and document to the Ammunition Command how the difference occurred. Ammunition Command officials stated that if the differences cannot be resolved by the plants, its logistics records are adjusted to reflect the balance in the plants' inventory records. As a result of this practice, the Ammunition Command showed a net physical inventory loss of \$3.4 million for fiscal year 1991.

As discussed previously, the Ammunition Command had no logistics records for \$760 million of its work-in-process and in-transit inventory. Consequently, the Ammunition Command could not compare these records with plant records. For the \$1.9 billion of reported inventory on-hand, the Ammunition Command either did not or could not perform reconciliations. For example, at the government-owned and -operated plant we visited, we found that the Ammunition Command had waived the plant's annual physical inventory requirement for fiscal year 1990. Furthermore, we were told by plant officials that a complete inventory of ammunition-on-hand had not been taken for the past 2 years. Also, the Army Audit Agency reported that two ammunition facilities had not submitted inventory information to the Ammunition Command for the annual reconciliation.²

The three government-owned and contractor-operated plants we visited submitted inventories for their 245 different types of ammunition components. The Ammunition Command told us that plant record information submitted to the Ammunition Command's headquarters during fiscal year 1991 on these 245 types of ammunition contained 170 discrepancies when compared with the Ammunition Command's logistics records maintained in the Commodity System. At the time of our review, the Ammunition Command was still researching these discrepancies to determine whether the plants' or the Ammunition Command's logistics records were correct.

We also found large variances between the two sets of records for many of the individual items. We judgmentally sampled 42 of the 170 discrepancies and found that more than half of the records varied by 90 percent or more.

A comparison of the Ammunition Command's logistics records with the records at one government-owned plant showed that for one component,

²Army Audit Agency, Management of Ammunition Components, CR 92-202, January 27, 1992.

the plant's records had a zero balance while the Ammunition Command logistics records reported 272,908 on-hand. For another item, the logistics records had 65,440 units less than what was reported in the plant's custodial records. Three other items had zero balances in the plant's records and 13,924, 4,772, and 1,280 recorded as on-hand in the Ammunition Command's logistics records.

Although differences should have been resolved within 45 days by the Ammunition Command and 90 days by the plants, we were told that 87 discrepancies discovered and reported during the inventory reconciliation process for fiscal years 1990 and 1991 remained unresolved. The Ammunition Command official told us that some were over 1-year old.

Inventory Control Problems Recognized but Weaknesses Remain

The Ammunition Command has acknowledged problems in its ability to effectively control its inventories. However, this occurred as a result of Army Audit Agency reports in 1984, 1986, and 1991. Further, the Ammunition Command has not satisfactorily resolved these deficiencies. According to Army Materiel Command officials, the current system development project will address only inventory weaknesses identified at the government-owned and contractor-operated plants.

In its fiscal year 1984, 1986, and 1991 annual assurance statements to the Army Materiel Command, the Ammunition Command reported that management of ammunition component inventories was a material weakness.³ In the corrective action plan accompanying the 1991 report, the Ammunition Command tasked Property Administrators to develop a plan to monitor the (1) amount of material requisitioned for work-in-process, (2) inventory of work-in-process, (3) return of excess work-in-process material to the Fund account, and (4) reasonableness of consumption reporting. The plan also calls for providing better training, developing desk procedures, issuing a memorandum referencing pertinent regulations and time frames, and establishing quality control for matching custodial and logistics inventory records.

Army Materiel Command officials told us that full implementation of the Standard Depot System will correct the Ammunition Command's inventory control deficiencies at all government-owned, contractor-operated plants. The Depot System is scheduled to be implemented in four phases at these ammunition plants and completed by

³While the Ammunition Command considered its controls over ammunition component inventories to be a material weakness in 1991, the Army Materiel Command subsequently determined that this was not a material weakness. Therefore, the Army did not report it as an overall weakness.

June 1994. At the government-owned, contractor-operated facilities, the Depot System should provide the ability to account for and control work-in-process inventories. As discussed in the previous section on logistics control over movement of ammunition components, the Depot System also should give the government the capability to incorporate a basic manufacturing control, that is, to relate units of input to output and thereby identify potential waste, rework, theft, or other indicators that require investigation.

Meanwhile, weaknesses in the Ammunition Command's logistics systems will continue to place the Ammunition Command at risk of undetected loss or theft of its highly sensitive ammunition inventories at government plants. The Depot System does not address current weaknesses in accounting for and controlling conventional ammunition at the contractor-owned facilities. Unless inventories of ammunition components are complete and accurate at the plants, the Depot System will not have a reliable baseline from which it can operate.

Full Cost of Producing Conventional Ammunition Not Accumulated and Reported as Production Costs

The Army's current accounting, control, and reporting systems do not provide a reliable basis for determining the total cost of producing conventional ammunition. Although it was impractical to determine the total amount of unidentified ammunition production costs for fiscal year 1991, we identified examples of these costs totaling about \$68.3 million.

According to Army Regulation 37-1, identifying the cost of Army operations provides a basis for making valid budget estimates or determining the most cost-effective use of Army resources. The regulation states that by identifying operating costs, the Army can compare the costs of similar operations. The regulation also states that the costs of an inventory operation include direct materials costs (costs of goods consumed in the production process) and indirect costs (including costs of goods incorporated in the production of inventory and overhead costs).

Army Materiel Command Regulation 37-13 only requires that the Fund account for inventory consumed in assembly—direct material costs. The Commodity System accumulates and reports these costs by generating monthly consumption reports for the Ammunition Command.

The Federal Acquisition Regulation, 48 C.F.R., Part 31, contains standards for determining which costs for contractor-operated plants may be reimbursed under cost reimbursement contracts. These standards are

useful in determining the government's cost of producing conventional ammunition. We found three instances in which production costs that were reimbursable under the FAR when incurred by a contractor were not recognized as production costs when incurred by the government. These unrecognized indirect production costs included:

- approximately \$6 million in depreciation,
- about \$3.3 million to operate and maintain plant production equipment, and
- \$59 million in Ammunition Command headquarters costs which represent outstanding bad debt as of September 30, 1991.

Other unrecognized indirect costs which we were unable to quantify include civilian and military personnel costs as well as the depreciation associated with approximately \$4.4 billion in assets at the government plants.

Financing all ammunition production costs through the Fund would facilitate the Army's identification of its full production costs. Costs in revolving funds can be more accurately identified to periods, organizations, cost pools, and jobs than costs in other appropriations. The Army currently only finances its direct material costs of ammunition production through the Fund; indirect costs are financed directly by appropriated funds.

Conclusions

Effective inventory and financial management requires strong systems of cost accounting and internal controls to safeguard assets, accurately determine the cost of operations, and to help ensure the integrity and reliability of financial information used by management. However, by not having adequate systems, policies, and procedures, the Army has left conventional ammunition susceptible to theft and loss and cannot accurately track the movement of ammunition components or the total costs involved in producing these materials.

Recommendations

We recommend that the Secretary of the Army direct the Commander of the Army Materiel Command in conjunction with the Commander of the Armament, Munitions, and Chemical Command to take the following actions to correct weaknesses in logistics control and accounting at government-owned plants.

- Establish internal control policies and procedures to account for and track government furnished material and ammunition components in the Commodity System as they move within and among Ammunition Command production plants.
- Schedule and conduct a wall-to-wall inventory of all ammunition components at the production plants concurrent with the implementation of the Standard Depot System to establish an accurate baseline.
- Follow established reconciliation policies and procedures requiring (1) individual plants to annually submit their inventory records to the Ammunition Command, (2) the Ammunition Command to compare plant records with its central accountable records in the Commodity System, and (3) any difference to be resolved within the 45- and 90-day criteria.
- Accumulate and report all costs relevant to ammunition production through the Conventional Ammunition Working Capital Fund.

For contractor-owned facilities, we recommend that the Secretary of the Army direct the Commander of Army Materiel Command in conjunction with the Commander of the Armament, Munitions, and Chemical Command to take the following actions.

- Establish internal control policies and procedures to maintain auditable financial records in the Commodity System to account for and track government furnished material.
- Modify existing policies and procedures in consultation with DOD for Form DD 1662 annual reports of government furnished material to identify the government agency providing the government furnished material and the units of government furnished material provided by national stock number.
- Reconcile Form DD 1662 annual reports of government furnished material to the Ammunition Command auditable financial records in the Commodity System.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD officials agreed that they need better financial controls and reporting of production costs for conventional ammunition. Specifically, DOD concurred with our findings except for two relating to the control over government material furnished to contractors. DOD concurred with all of the recommendations except for one, which proposed a modification to the DD Form 1662 annual reports of government furnished material.

DOD partially concurred with our finding that the Ammunition Command lacks logistics control over movement of ammunition components at government-owned plants. DOD stated that it believes that adequate checks and balances are in place within the Commodity System to track work-in-process, but agrees that several measures need to be taken to assure more accurate management. Further, although DOD acknowledged that there are opportunities for errors that could cause accountable records to vary from the quantity on hand, it did not agree that such errors result in an absence of control over the movement of ammunition components. Also, DOD stated that conventional ammunition and components are received and stored in sites subject to rigid security so that the possibility that thefts could be covered up by errors in accountable records and not be disclosed is highly unlikely. According to DOD, the Standard Depot System will enhance the Ammunition Command's ability to research and spot any errors generated by contractors at government-owned plants. As stated earlier in this report, Commodity System control features had not been rigorously followed. Until the Army completes its implementation of the Standard Depot System, these control problems will continue to exist as will unnecessary exposure to losses and costs.

DOD also partially concurred with our finding and recommendation calling for improved Army logistics and accounting records over government furnished materials. According to DOD, a procedure is in place for contractor-owned plants to report to the government any excess material, and amending the DD Form 1662 in the proposed manner would (1) destroy the purpose of that reporting format and (2) be a costly burden to place on industry and the government. DOD stated that while some excess components remain with the contractors as scrap or residue, receipt of an equal number of end items corresponding to components shipped assures that components are controlled by the contractors. However, as discussed in this report, at least five contractors had held excess ammunition components for several years and the Army's lack of knowledge regarding items held by one of those contractors caused a \$500,000 loss to the government.

In addition, DOD stated that access to information that supports the annual reports from contractors on government furnished materials (DD Form 1662) by means of integrated systems is a departmental goal set by the Corporate Information Management Initiative. While we agree that access to detailed information that supports the DD Form 1662 through the use of integrated systems will accomplish the same objective as modifying the

DD Form 1662, these systems are long-term efforts. Interim actions, such as requiring detailed support along with the DD Form 1662, are necessary while DOD is in the process of developing and implementing its integrated system.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Secretary of Defense, the Comptroller and the Chief Financial Officer of the Department of Defense, the Director of the Office of Management and Budget, interested congressional committees, and other parties. Please contact me or Terry Carnahan, Senior Assistant Director, at (202) 275-7095 if you have any questions concerning this report. Major contributors to this report are listed in appendix III.

Sincerely yours,



David M. Connor
Director, Defense Financial Audits

Scope and Methodology

We performed our work at the U.S. Army Armament, Munitions, and Chemical Command Headquarters, Rock Island, IL, and five ammunition production plants described as follows: (1) one government-owned and -operated plant: the Crane Army Ammunition Activity, Crane, Indiana, (2) three government-owned, contractor-operated plants: the Indiana Army Ammunition Plant, Charlestown, Indiana; Iowa Army Ammunition Plant, Middletown, Iowa; and the Radford Army Ammunition Plant, Radford, Virginia, and (3) one contractor-owned and -operated facility.

We selected these plants to visit because they (1) accounted for 34 percent of conventional ammunition orders and (2) provided a representative sample of different types of the Ammunition Command production facilities, such as propellant and explosive plants and assembling plants.

To evaluate the Ammunition Command's ability to account for and control assets used in the production of conventional ammunition, we (1) analyzed reported annual inventory discrepancies for fiscal year 1991 using a judgmental sample of the three government-owned and -operated plants and (2) aged an Ammunition Command consumption report documenting when materials were requisitioned into and used in the production process. In addition, to determine the amount of government property in the hands of contractors, we analyzed contractors' Form DD 1662 submissions and the 69 responses from all of the Ammunition Command's 185 contractors from which we requested supplementary information.

Our evaluation of whether the Ammunition Command was able to account for and report the cost of conventional ammunition production was based primarily on an analysis of the costs contractor-operated plants are permitted to seek reimbursement for with the costs government-operated plants reported as ammunition production costs. In determining production costs applicable to government-owned plants, we (1) assumed 30-year useful life for reported fiscal year 1991 production plant improvements, (2) identified equipment operations and maintenance costs based on plants' reported fiscal year facilities contracts, and (3) calculated bad debt expense based on outstanding advance progress payments that are owed to the government by contractors.

In addition, we also interviewed cognizant Army Materiel Command and Ammunition Command officials and reviewed applicable laws and regulations and relevant prior GAO and Army Audit Agency and Federal

**Appendix I
Scope and Methodology**

Managers' Financial Integrity Act reports to accomplish both our reporting objectives.

Comments From the Department of Defense



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JUL 31 1992

(Management Systems)

Mr. David M. Connor
Director, Defense Financial Audits
Accounting and Financial Management
Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Connor:

This is the Department of Defense (DoD) response to the General Accounting Office Draft Report, "FINANCIAL AUDIT: Army Does Not Effectively Account For and Control Conventional Ammunition and Production Costs," dated June 10, 1992 (GAO Code 917224/OSD Case 8674-J).

The DoD generally concurs with the report. Detailed DoD comments on the report findings and recommendations are provided in the enclosure.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Alvin Tucker".

Alvin Tucker
Deputy Comptroller
(Management Systems)

Enclosure

GAO DRAFT REPORT--DATED JUNE 10, 1992
(GAO CODE 917224) OSD CASE 8674-J

"FINANCIAL AUDIT: ARMY DOES NOT EFFECTIVELY ACCOUNT FOR AND
CONTROL CONVENTIONAL AMMUNITION AND PRODUCTION COSTS"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- **FINDING A: Ammunition Command.** The GAO reported that the Ammunition Command--a component of the Army Materiel Command--is responsible for the production of conventional ammunition for the DoD. According to the GAO, production is financed through a revolving fund, the Conventional Ammunition Working Capital Fund--which, at the end of FY 1991, reported raw materials and work-in-process of \$3.6 billion. The GAO explained that the Ammunition Command procures raw materials, directs movement of unfinished component parts through the production process, and temporarily stores finished ammunition until it is either sold to customers or otherwise disposed of. The GAO noted that a network of plants produce the ammunition--about 185 facilities are contractor-owned plants, and 16 are Government-owned plants, of which 13 are contractor-operated and 3 are Government-operated. The GAO observed that the Ammunition Command also has 11 inactive Government-owned facilities that can be readily mobilized to meet unexpected production needs. (pp. 1-3/GAO Draft Report)

DoD RESPONSE: Concur.

- **FINDING B: The Ammunition Command Lacks Logistics Control Over Movement of Ammunition Components.** Of the \$3.6 billion in inventories reported as of September 30, 1991, the GAO found that the Ammunition Command had no logistics records for an estimated \$760 million in work-in-process and intransit inventory at Government-owned plants. The GAO also found that the remaining \$2.84 billion included \$1.9 billion of material in the warehouses but not yet requisitioned for production at Government-owned plants and \$940 million in work-in-process at contractor-owned plants. The GAO explained that the Ammunition Command did not maintain logistics records when components were moved into work-in-process or were in transit. The GAO further

Enclosure
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Now on pp. 1-2.

explained that controlling the movement of ammunition and component parts is critical because production of conventional ammunition involves acquiring and moving raw materials and component parts that can be in various stages of production among a network of production facilities located throughout the U.S. The GAO reported that raw materials and component parts can be procured by the Ammunition Command, transferred to and from a number of production plants, as well as to and from the warehouses and production floors of the plants--and, in addition, a finished product can also be brought to a testing site and returned to the plant.

The GAO found that, although the Ammunition Command had established procedures to account for raw material and items in varying stages of production in plant warehouses, the procedures were not followed. The GAO explained that controls in the Commodity System were designed to deny plant requests for warehouse inventory if the Ammunition Command logistics records do not agree with the requesting plant records for that item. The GAO noted that, according to Ammunition Command and plant officials, the Commodity System controls are circumvented to sustain production operations. The GAO reported that plants do not always requisition through the formal system--instead, retrieving inventory directly from the warehouse. The GAO further reported that the plants use manual records to account for the inventory activity; however, the manual or "cuff" records were not always sent to the Ammunition Command. The GAO concluded that, without logistics records to maintain control over movement of ammunition components at Government-owned plants, the Ammunition Command loses the ability to (1) ensure that raw materials in the production process are maintained within prescribed levels, (2) account for, track, and control sensitive and marketable ammunition components used in the production, and (3) detect any lost or stolen Government property. (pp. 3-6, p. 13/GAO Draft Report)

DoD RESPONSE: Partially concur. The Army Armament, Munitions and Chemical Command (AMCCOM) uses the Commodity Command Standard System (CCSS) to account for component inventories supplemented by contractor custodial and work-in-process records. This is a multi-process that tracks the components until they are assembled into, or used to repair, end items. As production is completed the end item is accepted by the government into the CCSS (as end item stocks versus components) and the balance of components that are residual are returned to the component inventory. The system requires AMCCOM accountability officials and on-site

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staff to work system "rejects" to correct variances between the CCSS records and the actual material on hand at the assembly plant. Validating the inventory is a continuous process.

AMCCOM believes that adequate checks and balances are in place within CCSS to track work-in-process (WIP), but agrees that several measures need to be taken to assure more accurate management. AMCCOM initiated the WIP/Consumption Report on May 1, 1992, and is in the process of determining a balanced baseline for the inventory in the production process at Army Ammunition Plants. The Army is installing the Standard Depot System at the Army Ammunition Plants. Lake City Army Ammunition Plant went on-line in November 1991. Milan Army Ammunition Plant is scheduled for the first quarter of 1993; Holston Army Ammunition Plant for January 1993; and the remaining three Army Ammunition Plants in FY 1993. This will provide a standard means for all government-owned, contractor-operated (GOCO) plants to conduct business. The Standard Depot System will enhance AMCCOM's ability to research and spot any errors generated in the GOCO reporting.

While AMCCOM has a control system as described, it is recognized there are opportunities for error that could cause the accountable record to vary from the quantity on hand. However, the Army does not agree that such errors result in an absence of AMCCOM controls over the movement of ammunition components. Conventional ammunition and components are received and stored in secure sites subject to rigid security so that theft, covered by accountability errors, is highly unlikely. AMCCOM is aggressively pursuing immediate, mid and long-term solutions to discipline the current system at all points in the process described.

- **FINDING C: No Logistics and Accounting Control Over Government Furnished Material at Contractor-Owned Plants.** The GAO reported that the Ammunition Command did not account for and control over \$100 million in Government furnished material at contractor-owned plants and, as a result, does not know the quantity or value of Government furnished material at contractor-owned plants. The GAO found that the Ammunition Command, through the Commodity System, removes the quantity and value of Government furnished material from logistics and financial records when materials are shipped to contractor-owned facilities and, thus, there are no Ammunition Command records of these materials held by contractors. The GAO review of the DD Forms 1662--"DoD Property in the Custody of Contractors"--showed that the

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Form did not require identification of the agency that had provided the Government furnished material or the quantity and national stock number for each item. The GAO reported that, because contractors could be dealing with multiple agencies, individual agencies could not determine how much was attributable to their respective activities.

To estimate how much Government furnished material the approximate 185 contractors had from the Fund, the GAO asked the contractors at the private plants for detailed information on the quantity and value of Government furnished material received from the Ammunition Command that was still on-hand as of September 30, 1991. The GAO reported that the 69 contractors, who responded to the survey, reported holding approximately 917 types of ammunition components and other material valued at over \$100 million as of the end of FY 1991. The GAO noted five contractors reported that the Government furnished material they held was excess and that some of the components had been held for years. The GAO observed that, because the Ammunition Command did not have logistics records for Government furnished material, and because the contractors' DD Forms 1662 did not sufficiently detail information on individual items, a determination could not be made of the extent of Government furnished material that should have been reported by the Command. (pp. 6-8, p. 13/GAO Draft Report)

Now on pp. 6-8.

DoD RESPONSE: Partially concur. There is a procedure in place, in accordance with the Federal Acquisition Regulations, for contractor-owned and operated plants to report excess Government Furnished Material to the Ammunition Command. Such material is reported to the contracting officer either by memorandum or an Inventory Schedule B. In return, disposition instructions are provided to the commercial contractor. The material is dropped from contractor records when consumed. The Command has Material Release Order procedures to ship ammunition components from stock and procedures to direct ship from component producers to the contractors. The Ammunition Command has very rigid material acceptance procedures in use by contractors for end items to be delivered under its contracts. While some excess components remain with the contractors as scrap or residue, receipt of an equal number of end items corresponding to components shipped assures that components are controlled by the contractors.

- **FINDING D: Government-Owned Plant Records Not Reconciled With Ammunition Command Records.** The GAO found that the Ammunition Command did not reconcile inventory records for the Government-owned plants with \$3.6 billion of inventory

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reported on hand as of September 30, 1991. The GAO explained that, although the Ammunition Command compared the plants' annual physical inventory records to the logistics records, there were large, unreconciled differences.

The GAO explained that, because the Ammunition Command had no logistics records for \$760 million of the work-in-process and intransit inventory, the Command could not compare the Commodity System records with plant inventory records. The GAO found that, for the \$1.9 billion of reported inventory on-hand, the Ammunition Command either did not or could not perform reconciliations.

The GAO explained that the three Government-owned and contractor-operated plants it visited submitted inventories for 245 different types of ammunition components. The GAO commented that, according to the Ammunition Command plant record information submitted to the Command headquarters during FY 1991 on the 245 different types of ammunition there were 170 discrepancies when compared with the Ammunition Command logistics records maintained in the Commodity System. The GAO explained that, at the time of its review, the Ammunition Command was still researching the discrepancies to determine whether the plant records or the Ammunition Command logistics records were correct. The GAO reported that, although differences should have been resolved within 45 days by the Ammunition Command and 90 days by the plants, 87 discrepancies discovered and reported during the inventory reconciliation process for FY 1990 and FY 1991 remained unresolved--some of which were over 1 year old. The GAO concluded that matching the Commodity System and individual plant inventory records and prompt resolution of any differences is essential to ensure the Ammunition Command has accurate information on the status of ammunition inventories to effectively manage inventory and detect loss or theft. (pp. 9-10, p. 13/GAO Draft Report)

DoD RESPONSE: Concur. The DoD agrees that the custodial records at the assembly plants are the best representation of what has been received from vendors of ammunition components. The problem identified by the GAO is that the Ammunition Command records vary from the contractor custodial records. That occurs when manual or system errors occur during the process. Upon detection of an incorrect balance, the Ammunition Command takes action through its Production Directorate to validate the existence of a variance. The Defense Supply Directorate or accountable

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officer then initiates an investigation and the assemblyplant usually is directed to complete the analysis before the reconciliation is completed.

- **FINDING E: Inventory Control Problems Recognized But Weaknesses Remain.** The GAO found that, in FY 1984, FY 1986, and again in FY 1991, in the annual assurance statement to the Army Materiel Command, the Ammunition Command reported management of ammunition component inventories was a material weakness; however, the Army Materiel Command subsequently determined that this was not a material weakness. The GAO noted that, as a result, management of component inventories was not reported by the Army as an overall weakness. The GAO explained that, in the plan of corrective actions accompanying the 1991 report, the Ammunition Command tasked Property Administrators to develop a plan to monitor the (1) amount of material requisitioned for work in process, (2) inventory of work in process, (3) return of excess work-in-process material to the Fund account, and (4) reasonableness of consumption reporting. The GAO noted that the plan calls for providing better training, developing desk procedures, issuing a memorandum referencing pertinent regulations and time frames, and establishing quality control for matching custodial and logistics inventory records.

The GAO reported that, according to Army Materiel Command officials, full implementation of the Standard Depot System would correct the inventory control deficiencies at all Government-owned, contractor-operated plants. The GAO further reported that the Depot System is intended to provide for the management and control of industrial, financial, and personnel resources associated with Army general supplies, and ammunition at all Government-owned facilities. According to the GAO, the Depot System implementation was planned to occur in four phases at the ammunition plants and to be fully implemented by June 1994. The GAO explained that the implementation effort is intended to provide the ability to account for and control work-in-process inventories at Government-owned and contractor-operated plants.

The GAO concluded that, in the interim, existing weaknesses in the Ammunition Command logistics systems will continue to place the Ammunition Command at risk of undetected loss or theft of its highly sensitive ammunition inventories at Government-owned plants. The GAO further concluded that the Depot System does not address current weaknesses in accounting for and controlling conventional ammunition at

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the contractor-owned facilities and, unless inventories of ammunition components are complete and accurate at the plants, the Depot System will not have a reliable baseline from which it can operate. (pp. 10-12/GAO Draft Report)

DoD RESPONSE: Concur. Adequate checks and balances are in place to track contractor work-in-process. However, several measures need to be taken to assure more accurate information. The Ammunition Command Production Directorate assumed management of the work-in-process/Consumption Report process on May 1, 1992, and currently is arriving at a balanced baseline for the inventory in the production process. While there is not a one-to-one inventory balance on hand in the system, there is an overall disciplined process. The material is requisitioned and is released to the plant custodial record while in the production phase; the balance is added to an Industrial Balance Report. As the stocks are consumed, they are reported to the Ammunition Command through the Consumption Report required by the contract. The Consumption Report, in turn, is reconciled to the Ammunition Command Industrial Balance Report on a monthly basis. Excess serviceable components are returned and recorded as hand stock balances for future use or disposition. Implementation of the Standard Depot System will provide a standard means for all the Government-owned plants to conduct business. The new system will provide a standard depot history to enhance the Department's ability to research and identify errors generated at the Government-owned plants.

- **FINDING F: Full Cost of Producing Conventional Ammunition Not Accumulated and Reported as Production Costs.** The GAO found that the current Army accounting, control, and reporting systems do not provide a reliable basis for determining the total cost of producing conventional ammunition. The GAO explained that, while it was not practical to determine the total amount of additional production costs not identified as ammunition production costs in FY 1991, there were examples of those costs totaling about \$68.3 million.

The GAO explained that the Federal Acquisition Regulation, contains standards for determining which costs for contractor-operated plants may be reimbursed under cost reimbursement contracts and are useful in determining the Government's cost of producing conventional ammunition. The GAO found three instances in which production costs that are reimbursable under the Federal Acquisition Regulation when

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incurred by a contractor were not recognized as production costs when incurred by the Government, as follows:

- approximately \$6 million in depreciation;
- about \$3.3 million to operate and maintain plant production equipment; and
- \$59 million in Ammunition Command headquarters costs which represent outstanding bad debt as of September 30, 1991.

The GAO reported that there were other indirect costs, such as civilian and military personnel costs, which could not be quantified--as well as the depreciation associated with approximately \$4.4 billion in assets at the Government-owned plants.

The GAO concluded that financing all ammunition production costs through the Fund should facilitate Army identification of its full production costs. According to the GAO, costs in revolving funds can be more accurately identified to periods, organizations, cost pools, and jobs than costs in other appropriations. The GAO noted that the Army currently only finances direct material costs of ammunition production through the Fund; indirect costs are financed directly by appropriated funds. (pp. 12-13/GAO Draft Report)

Now on pp. 11-12.

DoD RESPONSE: Concur. Current Army financing of ammunition production is in accordance with the Conventional Ammunition Working Capital Fund Charter. All ammunition production costs allowable by the charter are currently being accounted for, as reported. Any changes in the current concept, to include additional ammunition related costs in the Conventional Ammunition Working Capital Fund, will impact the Conventional Ammunition Working Capital Funds and Military Service ammunition budgets. Therefore, any change must be made considering budget lead times required to implement such a decision.

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RECOMMENDATIONS

- **RECOMMENDATION 1:** For Government-owned facilities, the GAO recommended that the Secretary of the Army direct the Commander of the Army Materiel Command, in conjunction with the Commander of the Armament, Munitions, and Chemical Command, to establish internal control policies and procedures to account for and track Government furnished material and ammunition components in the Commodity System as the material and components move within a plant, and among the Ammunition Command production plants. (pp. 13-14/GAO Draft Report)

DoD RESPONSE: Concur. The DoD agrees that there is a need to improve financial accountability for materials under DoD jurisdiction. The Command will strengthen the current system and introduce improvements to current procedures. The Command also will strive for contractual incentives for contractors to improve controls over Government property. The Army is aggressively pursuing short, mid and long-term solutions to the identified problems. Finally, the Army is looking to strengthen its current system at all the points in the process described in the finding. The Ammunition Command is conducting a 3-day workshop at all assembly plants in July to kick-off the effort. By August 31, 1992, the Secretary of the Army will direct that the Commander of the Army Materiel Command and the Commander of the Armament, Munitions, and Chemical Command make identified improvements.

- **RECOMMENDATION 2:** For Government-owned facilities, the GAO recommended that the Secretary of the Army direct the Commander of the Army Materiel Command in conjunction with the Commander of the Armament, Munitions, and Chemical Command, to schedule and conduct a wall-to-wall inventory of all ammunition components at the production plants concurrent with the implementation of the Standard Depot System. (pp. 13-14/GAO Draft Report)

DoD RESPONSE: Concur. The ammunition plants are conducting wall-to-wall inventories as conversion to the standard depot system is accomplished. The Conventional Ammunition Working Capital Fund currently is funding 100 percent annual inventories at all assembly plants. The Ammunition Command will hold contractors accountable for these inventories. Inventories will be scheduled on a staggered schedule so

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that Ammunition Command personnel will be on location to oversee the inventories. The inventories will be completed in accordance with the conversion schedule for the Standard Depot System.

- **RECOMMENDATION 3:** For Government-owned facilities, the GAO recommended that the Secretary of the Army direct the Commander of the Army Materiel Command, in conjunction with the Commander of the Armament, Munitions, and Chemical Command, to follow established reconciliation policies and procedures requiring (1) individual plants to annually submit inventory records to the Ammunition Command, (2) the Ammunition Command to compare plants' records with central accountable records in the Commodity System, and (3) the resolution of any difference within the 45 and 90 day criteria. (pp. 13-14/GAO Draft Report)

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DoD RESPONSE: Concur. The recommended requirement already is found in Armament, Munitions, and Chemical Command Regulation 700-23. It is accomplished by the ammunition plants submitting inventory data to the Command. The 45 and 90-day criteria are set forth in Army Regulation 735-5. The Command is taking the following actions to improve reconciliations. A "senior level empowered team" is investigating the timeliness and accuracy of the reconciliations. The team is reviewing innovative ways to complete the labor intensive efforts. Initially, the most promising action is to discipline the system (automation and people) so that errors are minimized--thus, reducing the need for reconciliations. The Army changed its audit match of records from an annual to a quarterly cycle. New off-the-shelf or commercial practice control systems are being investigated. However, progress cannot occur until a one time baseline match has been achieved. Emphasis via workshops, contractual incentives, and revised regulatory requirements to reduce reconciliation time also are being considered. Mandatory reconciliations and inventory requirements will be implemented. The Contract Data Requirements List and Scopes of Work are being updated to reflect required timely report submissions and timely research and resolution of differences. In the larger scope, the Command is intent on reducing errors that will result in reduced requirements for reconciliations. The team of experts will be looking at reduced time frames and incentives to complete reconciliations at the assembly plants. The cited improvements will be introduced before the close of the fiscal year. The Assistant Secretary of the Army (Financial Management) has been requested, concurrent with this response, to direct the Commander of

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the Army Materiel Command and the Commander of the Armament, Munitions, and Chemical Command to continue with these improvements.

- **RECOMMENDATION 4:** For Government-owned facilities, the GAO recommended that the Secretary of the Army direct the Commander of the Army Materiel Command, in conjunction with the Commander of the Armament, Munitions, and Chemical Command, to accumulate and report all costs relevant to ammunition production through the Conventional Ammunition Working Capital Fund. (pp. 13-14/GAO Draft Report)

DoD RESPONSE: Concur. The issue of which costs are relevant to ammunition production currently is under consideration by the DoD Comptroller. This recommendation will be considered in the process of resolving that issue. Currently, all costs are recorded by the Conventional Ammunition Working Capital Fund, in accordance with the Conventional Ammunition Working Capital Fund Charter, regulations, and program decisions. Any changes made to the recording and reporting of ammunition costs will require changes to the charter, unit cost guidance, and the Conventional Ammunition Working Capital Fund and customer budgets. Any approved changes in the determination of ammunition costs should be made in connection with the budget cycle. The Assistant Secretary of the Army (Financial Management) has been requested, concurrent with this response, to direct the Commander of the Army Materiel Command and the Commander of the Armament, Munitions, and Chemical Command to identify those costs relevant to ammunition production and provide recommended changes to the Conventional Ammunition Working Capital Fund charter.

- **RECOMMENDATION 5:** For contractor-owned facilities, the GAO recommended that the Secretary of the Army direct the Commander of Army Materiel Command, in conjunction with the Commander of the Armament, Munitions, and Chemical Command, to establish internal control policies and procedures to maintain auditable financial records in the Commodity System to account for and track Government furnished material. (p. 14/GAO Draft Report)

DoD RESPONSE: Concur. The DoD agrees that improvements in financial records to control DoD property with contractors are required. By August 31, 1992, the Secretary of the Army will direct the Commander of the Army Materiel Command and the Commander of the Armament, Munitions, and Chemical

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Command to make required improvements to account for Government furnished material.

- **RECOMMENDATION 6:** For contractor-owned facilities, the GAO recommended that the Secretary of the Army direct the Commander of the Army Materiel Command, in conjunction with the Commander of the Armament, Munitions, and Chemical Command, in consultation with the DoD to modify existing policies and procedures for DD Form 1662 annual reports of Government furnished material to identify the Government agency providing the Government furnished material and the units of Government furnished material provided by national stock number. (p. 14/GAO Draft Report)

DoD RESPONSE: Partially concur. The DoD does not agree with the need to provide detailed information specifically on the the DD Form 1662. The DD Form 1662 is an annual report of all classes of property in the possession of contractors (see Federal Acquisition Regulation 45.505-14, Defense Federal Acquisition Regulation Supplement 245.505-14, and DoD 4161.2-M) that is prepared based on the official Government property records maintained by contractors. The report shows the total acquisition cost of property under a contractor's control. The DD Form 1662 is not a record of property to show the detailed data, as proposed by the GAO. There could be hundreds of different national stock numbers on a single contract. Each DD Form 1662 reports the amount of property contained under various contracts at various contractor locations. Amending the DD Form 1662 in the proposed manner would (1) destroy the purpose of that reporting format, and (2) be a costly burden to place on industry and the Government.

The basic information to be maintained by contractors for contract property (see Federal Acquisition Regulation 45.505) includes: (a) the name, description, and National Stock Number (if furnished by the Government or available in the property control system); (b) quantity received (or fabricated), issued, and on hand; (c) unit price (and unit of measure); (d) contract number; (f) location, etc. Also see Federal Acquisition Regulation 45.505-3 regarding records of material. Detailed data are available in the official Government records maintained by contractors, but that data are not reportable on the DD Forms 1662.

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The DoD agrees that access to information that supports the DD Form 1662 by means of integrated systems is a departmental goal. This goal has been set by the Department's Corporate Information Management Initiative.

- **RECOMMENDATION 7:** For contractor-owned facilities, the GAO recommended that the Secretary of the Army direct the Commander of Army Materiel Command, in conjunction with the Commander of the Armament, Munitions, and Chemical Command, to reconcile Form DD 1662 annual reports of Government furnished material to the Ammunition Command auditable financial records in the Commodity System. (p. 14/GAO Draft Report)

DoD RESPONSE: Concur. The DoD agrees that the Command should undertake actions to reconcile the financial balances of Government furnished material with the balances reported on the DD Forms 1662. By August 31, 1992, the Secretary of the Army will direct the Commander of the Army Materiel Command and the Commander of Armament, Munitions, and Chemical Command to commence such reconciliation actions.

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