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REPORT TO THE CONGRESS

Examination Into The Transfer Of
52 Federal Supply Classes From
The Department Of Defense To The
General Services Administration

B-161319

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

MARCH 9, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B- 161319

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on an examination into the transfer of 52 Federal supply classes from the Department of Defense to the General Services Administration. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U S C 53), and the Accounting and Auditing Act of 1950 (31 U S C 67)

Copies of this report are being sent to the Director, Bureau of the Budget, the Secretary of Defense, and the Administrator of General Services.

A handwritten signature in cursive script that reads "James B. Stewart".

Comptroller General
of the United States

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ABBREVIATIONS

DGSC	Defense General Supply Center
DOD	Department of Defense
DSA	Defense Supply Agency
GAO	General Accounting Office
GSA	General Services Administration

D I G E S T

BEST DOCUMENT AVAILABLE

WHY THE EXAMINATION WAS MADE

Beginning in October 1963 the Department of Defense (DOD) transferred inventories of handtools and paint valued at about \$65 million to the General Services Administration (GSA). This major transfer of supply management responsibility between the two agencies was the first of a series of transfers designed to develop a coordinated national supply system and thus eliminate overlap and duplication between individual supply systems.

In May 1967 the General Accounting Office (GAO) reported to the Congress (B-161319) that after the transfer a review of handtool and paint inventories at DOD supply depots showed that large quantities of GSA-managed stocks on hand had not been recorded on inventory records and were therefore "lost" to the supply system. Physical inventories of DOD depots during that review showed unrecorded stocks valued at about \$4 million. GAO made several proposals to the Secretary of Defense and the Administrator of General Services that would improve the efficiency of future stock transfers.

This report concerns the transfer on July 1, 1967, of stocks valued at about \$19.5 million and representing 52 Federal supply classes. It results from a follow-up of GAO's prior work and primarily evaluates the effectiveness of the transfer procedures.

FINDINGS AND CONCLUSIONS

DOD and GSA had taken considerable action to solve mutual problems relating to the 52-class transfer. (See p. 7.) However, some of the problems cited in GAO's May 1967 report still existed.

Inventory tests by GAO at selected DOD depots after the 52-class transfer showed substantial quantity differences between GSA's recorded inventory and actual stocks on hand. After GAO brought these discrepancies to GSA's attention, DOD took physical inventories at several depots and compared their counts with GSA's inventory records. These comparisons showed that stocks valued at about \$3.8 million had not been recorded on GSA inventory records and therefore were "lost" to the supply system. (See p. 9.)

Subsequent physical inventories showed additional stocks valued at about \$1 2 million that had not been recorded on GSA inventory records. (See p 11.)

During the period in which the stocks were "lost" to the supply system:

- GSA purchased identical stocks at a cost of \$44,000 (see p. 14) and
- GSA did not, in some cases, fill requisitions for GSA-managed items on a timely basis, because it did not know that the items were on hand (See p. 13.)

GAO believes that these deficiencies arose because the transfer procedures adopted as a result of GAO's May 1967 report had not been effectively implemented with respect to the 52 classes. (See p. 20.) More specifically, GAO concluded that stocks were "lost" because, at the time of transfer, DOD inventory records were in error and, after the transfer, controls over GSA-managed stocks in DOD depots were not effective. (See p 15 to 19.)

RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the Chairman of the joint DOD/GSA Material Management Review Committee, which has responsibility for coordinating and monitoring transfers between the two agencies, take action that will provide better control over stocks before and after transfers. Specifically, GAO recommends that

- transfer procedures adopted as a result of GAO's prior report be adequately implemented
- physical inventories based on up-to-date stock locator records be taken of all stocks to be transferred
- periodic physical inventories be made of stocks remaining in the custody of the transferring agency and all resulting changes be transmitted to the managing agency
- GSA's inventory records show all GSA-managed stocks stored at DOD depots

AGENCY ACTIONS AND UNRESOLVED ISSUES

Both the Administrator of General Services and the Director, Defense Supply Agency, agreed with GAO's recommendations. They advised GAO that additional management controls would be applied to future transfers to ensure that past difficulties were not repeated. (See p 21.)

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MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is issuing this report to the Congress because of expressed interest by the Congress in the development of a national supply system and by the Joint Economic Committee in GSA and DOD supply programs.

CHAPTER 1

INTRODUCTION

The General Accounting Office has examined into the transfer of supply management responsibilities from the Department of Defense to the General Services Administration for certain items in 52 Federal supply classes. The scope of the examination is described in chapter 5.

DOD and GSA supply systems are the major supply sources available to military and civilian agencies of the Federal Government. Within GSA, the Federal Supply Service procures and distributes common-use supplies and equipment and within DOD, the Defense Supply Agency (DSA) carries out this function.

Our examination was directed primarily toward (1) evaluating DOD and GSA policies and procedures concerning the transfer of management responsibilities for items in the 52 Federal supply classes and (2) determining what action had been taken by DOD and GSA to prevent the recurrence of the deficiencies pointed out in our May 1967 report. We did not evaluate the overall inventory management activities of either DOD or GSA; instead, we directed the examination toward those matters appearing to need attention.

DEVELOPMENT OF NATIONAL SUPPLY SYSTEM

accounting for?
? // To develop a coordinated national supply system, DOD and GSA by agreement in June 1963 made GSA responsible for the management of certain handtool and paint stocks in 12 Federal supply classes. From October 1963 to February 1966, DOD transferred to GSA certain handtool and paint stocks valued at about \$65 million.¹ This transfer of supply management responsibility was the first of a series of major transfers between the two agencies.

¹The value of the transferred stocks was based on DOD's unit selling prices.

In December 1964 DOD and GSA agreed on a method for assigning supply management responsibilities for various other materials required by the Government. The agreement provided for a joint DOD/GSA Material Management Review Committee to analyze the Government's supply needs and to identify those item groupings for which only one of the two agencies should be responsible in order to eliminate overlap and duplication between the two supply systems. The Committee decided, on the basis of its review of 152 classes of supplies managed by DOD, that management responsibility for 99 classes would remain with DOD and for 53 classes would be transferred to GSA.

152
99
53

Supply management was transferred to GSA for the 52 classes on July 1, 1967, and for the 53d class plus some residual materials on July 1, 1968.

For an additional 54 Federal supply classes, the Committee is to determine whether assignment should be to DOD or to GSA. At the conclusion of our fieldwork in February 1969, no date had been set for this determination.

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FIFTY-TWO CLASS TRANSFER

The 52-class transfer includes office supplies and furniture, packaging and abrasive materials, and building materials. Because supply operations of both DOD and GSA are financed through stock funds, the transfer of management responsibility, and the resulting change in accountability, required that the amount of stock funds be decreased for DOD and increased for GSA.

The stocks for which supply management responsibility was transferred to GSA had a recorded inventory value of \$14,639,534 (based on DOD's unit selling prices) as of June 30, 1967, as shown below.

<u>Defense Supply Center</u>	<u>Number of Federal supply classes transferred</u>	<u>Inventory value</u>
Defense General Supply Center, Richmond, Virginia	42	\$11,593,358
Defense Construction Supply Center, Columbus, Ohio	8	1,109,732
Defense Industrial Supply Cen- ter, Philadelphia, Pennsyl- vania	<u>2</u>	<u>1,936,444</u>
Total	<u>52</u>	<u>\$14,639,534</u>

The inventory values were based on physical inventories made before the transfer date--July 1, 1967. After this principal transfer, numerous adjustments were made, and, according to GSA's records, the final value of the stocks transferred was about \$19.5 million.

At the time of the transfer, the stocks were located at six major DOD depots and about 20 minor depots. The transfer procedures provided that stocks at the major depots would remain in storage until exhausted through issuance and that stocks at the minor depots would be either moved to GSA depots or disposed of within 6 months after the effective transfer date. As of June 30, 1968, GSA's records showed that GSA-managed stocks valued at about \$7.1 million remained at the six major depots and that GSA-managed stocks, valued at a total of about \$2.2 million, previously located at the 20 minor depots had been either removed or disposed of after the transfer.

The principal DOD and GSA officials responsible for the administration of the activities discussed in this report are listed in appendix III.

CHAPTER 2

IMPROVEMENTS MADE SINCE PRIOR TRANSFER

In May 1967 we issued a report to the Congress entitled "Examination Into the Transfer of Handtool and Paint Stocks From the Department of Defense to the General Services Administration" (B-161319). In that report we showed that, after the transfer, a complete physical inventory at DOD depots had revealed that GSA-managed stocks valued at about \$4 million had not been recorded on GSA's inventory records.

The report noted that, while these stocks were unrecorded and therefore "lost" to the supply system, GSA purchased about \$1.1 million worth of identical stocks. We believed that the problems reported were due to inaccurate inventory records, ineffective controls over GSA-managed stocks located in DOD depots, and a lack of full coordination between DOD and GSA in solving mutual transfer problems.

As a result of our May 1967 report to the Congress, DOD and GSA acted to prevent a repetition of the problems caused by inaccurate inventory records and ineffective controls over stocks. As part of this action, the joint DOD/GSA Committee, established in December 1964, developed procedures for (1) transferring supply management responsibility and, where applicable, physical assets of the 52 classes of stocks and (2) coordinating and monitoring the various aspects of that transfer and all future transfers between the two agencies.

The transfer procedures fixed responsibilities and provided methods for achieving an economical and controlled transfer without interrupting supply support during the transition period. DOD and GSA negotiated a time-phased plan, as part of the transfer procedures, for (1) the transfer of supply management data, including inventory, location, condition, and demand records, and (2) the performance of various tasks associated with the transfer.

In line with the proposals made in our prior report to the Congress, the DOD/GSA Committee prescribed a complete physical inventory of the 52-class stocks scheduled for transfer. The Committee assigned the responsibility for the inventory to DOD; GSA representatives were to participate to the extent they desired. According to DOD records, the physical inventories taken before the July 1, 1967, transfer date showed stock overages of \$1,336,317 and shortages of \$1,336,597, resulting in inventory record adjustments totaling about \$2.7 million.

In addition to these adjustments there was improved coordination between DOD and GSA in executing the 52-class transfer. Before the transfer, for example, DOD and GSA personnel met regularly to exchange information and to discuss and resolve problems. After the transfer, a working group representing both DOD and GSA was appointed to discuss and resolve mutual transfer problems.

As a result of the foregoing actions, the 52-class transfer was handled more effectively than that of the handtool and paint transfer covered in the May 1967 report. We found, however, that some of the problems cited in that report still existed. Details of our findings follow.

CHAPTER 3

INVENTORY RECORD ACCURACY

At selected DOD depots our tests of the accuracy of GSA inventory records showed substantial differences between recorded inventory quantities and on-hand quantities. After we brought these discrepancies to the attention of GSA officials, physical inventories were taken at three major and 15 minor DOD depots and compared with GSA's inventory records. These comparisons showed that stocks, valued at about \$3.8 million, had not been recorded and were consequently "lost" to the supply system. The value of the "lost" stocks was \$435,640 at the major depots and about \$3.4 million at the minor depots.

Later, physical inventories taken at GSA's request showed that additional stocks, valued at about \$1.2 million, were on hand in DOD depots and should have been recorded on GSA's inventory records.

Inaccurate inventory records increase the possibility that orders will not be filled on a timely basis and that effective supply support will not be furnished to military and civilian agencies. For instance, inventory records showing more stocks than those actually on hand can cause untimely resupply actions, and consequently shortages and the inability to fill orders. Conversely, inventory records not showing all stocks on hand can cause procurements that were unnecessary or could have been deferred. Also, orders may go unfilled that could have been filled if all available stocks had been recorded.

MAJOR DEPOTS

During April through June 1968, we tested, for selected items, the accuracy of GSA inventory records of the 52 classes of stocks stored at three major DOD depots--Ogden, Utah; Richmond, Virginia; and Tracy, California. Our tests included 166 items--2.3 percent of the more than 7,200 items comprising the 52-class transfer--recorded as being located at the DOD depots we visited.

Our tests, which included the taking of physical inventories, showed substantial quantity differences between GSA's records and actual stocks on hand. Because of our findings and at our request, DOD personnel, during the period June through August 1968, took 116 physical inventories at the three depots of 70⁽¹⁾ stock items. These items had recorded stock balances valued at about \$1.2 million. DOD's physical inventories resulted in adjustments totaling about \$828,000 to GSA's inventory records. The following table shows, by depot, the number of items physically inventoried by DOD, the errors found, and the dollar value of the adjustments.

DOD supply depot	<u>Number of items</u>		<u>Value of stock</u>		Value of adjust- ments (note a)
	<u>Physi- cally inven- toried</u>	<u>Recorded in error</u>	<u>On hand but not recorded</u>	<u>Recorded but not on hand</u>	
Ogden	39	33	\$241,805	\$377,548	\$619,353
Richmond	50	43	148,250	11,166	159,416
Tracy	<u>27</u>	<u>24</u>	<u>45,585</u>	<u>4,070</u>	<u>49,655</u>
Total	<u>116</u>	<u>100</u>	<u>\$435,640</u>	<u>\$392,784</u>	<u>\$828,424</u>

^aBoth the inventory value and the dollar value of the required adjustments are based on the GSA unit selling price at the time of our examination.

At the time of our tests, the value of GSA-managed stocks at Ogden was \$2.7 million, at Richmond \$1.7 million, and at Tracy \$.9 million.

The disclosure--through our tests and DOD's physical inventories--of the high percentage of inaccurate inventory records and of the fact that quantities of GSA-managed stock had been stored at DOD depots without GSA's knowledge

¹DOD's inventory of 70 items required 116 separate physical counts because, in some cases, stocks of the same item were stored at more than one depot.

prompted the two agencies to discuss and develop a program leading to GSA's participation in DSA's stock location audit reconciliations. A stock location audit reconciliation is a process, based on recently verified stock location records, which is designed to identify stock items having a recorded warehouse location but no balance on inventory records, or vice versa.

The program became operational in May 1969, when GSA developed a computerized procedure for comparing DSA's stock locator information with GSA's inventory record balances. GSA automatically requests DSA to physically inventory any stock item for which the computerized comparison procedure shows a discrepancy.

Before the program was fully operational, however, GSA instituted an interim procedure for requesting a physical count by DSA whenever the inventory record for an item stored at a DOD depot showed a zero balance. According to GSA, during December 1968 to April 1969, the interim procedure resulted in DSA's finding that GSA-managed stocks valued at about \$1.2 million were on hand in DOD depots but had not been recorded on GSA's inventory records. These "found" stocks were in addition to those valued at \$435,640, shown in the table on page 10.

MINOR DEPOTS

In May 1968 we requested Sharpe Army Depot, Lathrop, California, to furnish us with a machine print-out of all GSA-managed stocks on hand. The print-out showed that GSA-managed stocks valued at about \$226,000 on the basis of GSA's unit selling prices, were on hand, but GSA's inventory records showed no stocks on hand at this depot. At our request Sharpe representatives immediately informed GSA in Washington, D.C., of this matter and requested disposition instructions for these stocks, which, the representatives said, occupied critically needed storage space.

In November 1968, with GSA concurrence, the Army instructed its 20 stock-distribution depots in the United States to identify and physically inventory all GSA stocks on hand. As a result of this action, GSA-managed stocks

valued at a total of over \$3.4 million were identified and inventoried at 15 of the depots. None of these stocks had been recorded on GSA's inventory records.

EFFECTS OF INACCURATE INVENTORY RECORDS
ON SUPPLY SUPPORT

From the 70 stock items physically inventoried by DOD at our request, we selected 18 items which had at certain locations a zero balance on GSA's records but for which we had found stocks on hand valued at about \$396,000.

To determine the effect of understated inventory records on supply support, we analyzed the stock transaction histories of these items. The histories of eight of the items, with stocks valued at about \$160,000, showed that, after GSA records had been corrected as a result of our tests and DOD's physical inventories, stocks valued at over \$57,000 had immediately been released by GSA to fill back orders.¹ Some of these back orders had been outstanding for more than 100 days.

Overstated inventory records also had an adverse effect on GSA's supply support. For example, GSA informed us that it had written off stocks--valued at over \$1 million and recorded as being at five major DOD depots--after these depots had issued warehouse denials² in response to requisitions for the stocks. We were informed also that, before these stocks were written off, the depots had, at the request of GSA, physically verified that the stocks were not on hand.

Also, at the Ogden depot, where our tests and DOD's physical counts showed that stocks recorded and valued at about \$378,000 were not on hand. Our review of the

¹ Back orders are requisitions for material which could not be filled within prescribed time periods by the storage depot and which GSA records as a commitment against future stock replenishment.

² Warehouse denials are notifications from a storage depot to requisitioners that the depot is unable to fill the requisitions because of a lack of stock. Denials generally occur when inventory records overstate the quantity of stock on hand.

warehouse denial rate, which is used by DOD as a measure of supply support effectiveness, for a 10-month period showed that the average denial rate on orders for GSA-managed stocks during that period was almost three times higher than the denial rate on all other orders received at Ogden.

EFFECTS OF INACCURATE INVENTORY
RECORDS ON PROCUREMENT

Our test of the 70 stock items and DOD's physical counts, as noted on pages 9 and 10, showed unrecorded stocks for 40 of the 70 items. Our analysis of the transaction histories of the 40 items for the 12-month period immediately following the 52-class transfer on July 1, 1967, showed that GSA had purchased stocks identical to those on hand for 12 of the 40 items at a cost of about \$44,000. We believe that purchase would have been deferred had GSA records shown that the stocks were on hand.

We noted that GSA had scheduled purchases of items identical to some of the unrecorded items. After we brought this matter to GSA's attention, it canceled scheduled purchases totaling about \$21,400.

We found that, during the 4-month period following our disclosure of the overstated balance, GSA held back orders for two of the items. Had GSA's on-hand records for these items been accurate, timely action to replenish the stock could have been taken and back orders would have been unnecessary.

PRIMARY CAUSES OF INACCURATE INVENTORY RECORDS

We examined into the reasons for quantity differences between physical counts of GSA-managed stocks at DOD depots, and GSA's recorded inventory.

Pretransfer physical inventories

We found that, although the procedures developed for the 52-class transfer required a physical inventory of all stocks to be transferred, not all stocks were physically inventoried. At the Defense General Supply Center (DGSC), Richmond, Virginia, which had the largest quantity of stock items transferred, we were informed that only stocks having a recorded balance as of April 4, 1967, were inventoried prior to the July 1, 1967, transfer date. This method excluded from the pretransfer physical inventory all items of stock on hand for which the inventory records showed a zero balance.

We analyzed the stock transaction histories of 23 stock items, previously managed by DGSC, to find out whether receipt or issue transactions indicated that any of these items had been on hand, despite recorded zero balances, as of April 4, 1967. We found that two of these items had been on hand on that date. Because of the erroneous zero balances, these two items had been omitted from the pretransfer physical inventories, but we determined that stocks of these two items, valued at about \$17,300, were on hand.

Pretransfer stock location audits

Pretransfer physical inventories may have been taken on the basis of inaccurate stock locator records, which would have further contributed to inaccurate inventory records at the time of transfer. Recognizing the importance of accurate stock locator records, DSA, has established a 99.1-percent accuracy goal for locator records

and prescribes complete semiannual stock location audits¹ to maintain this degree of accuracy.

The primary function of a warehouse locator file is to furnish the exact locations of stocks within the warehouse. Because of stock receipts, issues, movements, or other location changes, daily updating of the locator file is required to keep it current. Periodic stock location audits are made to update and ensure the overall accuracy and reliability of the locator file. Unless the file is carefully maintained, it becomes progressively less accurate as the intervals between location audits increase.

We were informed at DGSC that no attempt had been made to coordinate the pretransfer physical inventory with a stock location audit, although coordination would have ensured physical counts at recently verified locations. We calculated that, at the seven principal storage locations in the DSA depot system, an average of about 4 months had elapsed between the completion of stock location audits and the pretransfer physical inventories. In our opinion this delay could have lessened the accuracy of physical inventories because there was no assurance that physical counts were being made at current and verified locations. Accordingly, we believe that an attempt should have been made to coordinate the semiannual stock location audits with the pretransfer physical inventories.

We tested the accuracy of stock location records for 34 GSA-managed items at the Tracy depot. Our test, about 3 months after a semiannual location audit, showed that, of 78 recorded warehouse locations (supposed to have stocks), 15 had no stocks. By physically checking locations which records showed to be exhausted for the 34 items, we found that three locations had stocks.

¹A stock location audit consists of a physical verification of a given stock item's storage location, condition, and unit-of-issue data, as recorded in a depot's central or master stock locator file.

Physical inventories after the transfer

We found that DOD and GSA stock transfer procedures did not require periodic physical inventories of GSA-managed stocks stored at DOD depots. Consequently, after the transfer of management responsibility, GSA's stocks were not counted during the periodic inventories at DOD depots.

Complete or sample physical inventories are taken periodically at DOD depots to reconcile the quantities shown on the stock records with the quantities actually on hand. If these inventories are not taken, the accuracy of the stock records is not ensured. A recent study by the Navy showed that, even when complete inventories were taken at 6-month intervals, the inventories revealed a 15-percent variance between the quantities of stocks on hand and those shown on the stock records. The study also showed that when inventories were taken at 1-year intervals, the variance increased to 20 percent.

We believe that many of the discrepancies which we noted in GSA's inventory records would have been identified earlier if GSA-managed stocks had been inventoried periodically.

Stock location audits after the transfer

As stated previously, DSA requires semiannual stock location audits for updating the warehouse records which show location, condition, and unit of issue of each item in the warehouse. After completion of the stock location audits, the depots forward stock location audit reconciliation cards¹ to the Defense supply centers for comparison

¹A stock location audit reconciliation card is a machine-processable card prepared by the depot after completion of a stock location audit. The card serves as notification to the Defense Supply Center that stock of a given item is stored at the depot.

with their inventory records to identify potentially inaccurate inventory records. A stock locator audit reconciliation identifies stocks which (1) have a zero balance on inventory records but have a recorded warehouse location or (2) have a balance on inventory records but no recorded warehouse location. When potentially inaccurate records are identified, special inventories are taken so that differences can be reconciled and inventory records can be corrected.

During our examination, we were informed that GSA generally did not participate in the DOD stock locator audit reconciliation program. We noted that, of \$436,000 worth of unrecorded GSA stocks which we identified at DOD depots and which DOD's physical counts confirmed, about \$400,000 consisted of stocks for which GSA records showed a zero balance. We believe that GSA's participation in the DOD stock locator audit reconciliation program, as noted on page 11, would help disclose unrecorded stocks on hand.

The effectiveness of a stock location audit reconciliation was demonstrated at DOD's Memphis, Tennessee, depot. Cooperatively, GSA and DOD identified unrecorded handtools at Memphis valued at over \$268,700. The handtools were first noted by DOD during a stock location audit in February 1968. After DOD determined that the handtools were GSA-managed, it notified GSA and later, at GSA's request, inventoried the handtools.

Stock adjustments after the transfer

We found that GSA's inventory records did not always show stocks on hand because GSA was not informed of all stocks for which management responsibility was transferred or of all stocks received at DOD depots after the initial transfer date. Such stocks consisted of deliveries from vendors and returns of unused items from requisitioners, and items that had been restored to an issuable, and therefore transferrable, condition after the July 1, 1967, transfer date. We noted that the transfer procedures specified that DOD would advise GSA of all GSA-managed stocks received at DOD depots after the official transfer date

and would follow the reporting format used for the July 1, 1967, transfer.

As stated on page 11, about \$226,000 worth of GSA-managed stocks stored at Sharpe Army Depot had not been recorded on GSA's inventory records. The Army found that most of these stocks had been returned from requisitioners but had not been reported to GSA. The Army stated that the depot's inability to maintain updated records had contributed to the problem at Sharpe.

According to the transfer procedures, defective stocks were not eligible for transfer to GSA until restored to an acceptable condition. At the Ogden depot, our tests identified, and DOD's physical counts confirmed, stocks valued at about \$174,000 which had not been transferred to GSA because they were not in an acceptable condition on the transfer date. Although the depot subsequently restored the stocks to an acceptable condition, this fact was not shown on DOD's records; consequently, GSA was not informed of the restored stocks.

CHAPTER 4

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS

CONCLUSIONS

Since issuance of our May 1967 report, DOD and GSA have attempted to improve their coordination as a means of solving mutual inventory problems, particularly the verification of DOD inventory records at the time stocks are transferred to GSA. We believe however, that established transfer objectives have not been fully achieved, and some of the deficiencies cited in our May 1967 report still exist.

We believe that these deficiencies still existed because the transfer procedures adopted as a result of our prior report were not effectively implemented. The transfer procedures required complete physical inventories of all stocks to be transferred, but the inventories taken did not include all of these stocks. We believe also that DOD and GSA have not given enough attention to the accuracy of GSA inventory records of stocks held in DOD depots after the transfer of management responsibility.

RECOMMENDATIONS

We recommend to the Chairman of the joint DOD/GSA Material Management Review Committee that

- transfer procedures adopted as a result of our prior report be adequately implemented,
- physical inventories, based on up-to-date stock locator records, be taken of all stocks to be transferred,
- stocks remaining in the custody of the transferring agency be physically counted periodically and that all resulting changes be transmitted to the managing agency,

--GSA's inventory records show all GSA-managed stocks stored at DOD depots.

AGENCY COMMENTS

The Administrator of General Services, by letter dated July 15, 1969 (see app. I), agreed with our recommendations. He informed us that on future transfers the joint DOD/GSA Committee would establish controls to ensure that inventories subject to transfer would include all appropriate stocks located at DOD depots.

In a letter dated August 11, 1969 (see app. II), the Director of DSA stated that DOD concurred with our recommendations. He referred to a DOD instruction which promulgated policies and procedures considered necessary to effectively minimize imbalances between amounts shown on stock records and amounts of physical assets. In addition, he stated that future transfer plans, with management surveillance as a fundamental concern, would provide for continued cooperative action to assure that difficulties caused by inaccurate data and ineffective controls are not repeated.

We believe that the DOD instruction, because of its scope and emphasis on location audit and reconciliation, should, if properly applied, result in eliminating many of the problems found during our examination.

The Director questioned whether any of the stocks identified in our report as unrecorded on GSA records may have been stocks recorded on DOD records and awaiting transfer to GSA. Such was not the case. During our examination we tested DOD transaction records for over 80 percent of those stocks valued at about \$436,000 which were on hand at DOD depots but not recorded on GSA records. As stated on page 19, at the Ogden depot, we found stocks valued at about \$174,000 which were erroneously shown on DOD records as defective and ineligible for transfer and which, consequently, had not been transferred to GSA. None of the remaining items tested were recorded on DOD records.

CHAPTER 5

SCOPE OF EXAMINATION

During our examination, we reviewed policies, procedures, and agreements relating to the 52 Federal supply class transfer, made physical inventories at selected DOD depots, observed physical inventory counts made by DOD personnel at these depots, and reviewed GSA inventory and procurement records.

We made our examination primarily at the GSA Central Office in Washington, D.C. In addition, we visited the GSA regional office in San Francisco, California; DOD depots in Richmond, Virginia; Tracy, California; Ogden, Utah; and Lathrop, California; and the Defense General Supply Center, Richmond, Virginia.

APPENDIXES

GENERAL SERVICES ADMINISTRATION

Washington, D C 20405



JUL 15 1969

Honorable Elmer B. Staats
Comptroller General of the
United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Staats:

Reference is made to Mr. Crawford's letter of May 29, 1969, regarding the GAO Draft Report on the "Transfer of 52 Federal Supply Classes from DOD to GSA."

We have carefully reviewed the report and agree with the recommendations contained therein. The deficiencies noted were also recognized by GSA and DSA and a joint working group was appointed to resolve areas in management controls. The group utilized the findings of the GAO as well as its own during the period from September 1968 to April 30, 1969. In addition, during that period, GSA and DSA held extensive discussions concerning the procedures for the stock locator audit and reconciliation of locator records with the accountable inventory records. In May 1969, GSA became a participant with the defense depot personnel in the locator audit and reconciliation.

On future transfers, the joint GSA/DSA Material Management Review Staff will establish controls to assure that inventories subject to de-capitalization will include all stocks at Military Service locations which are subject to transfer.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert L. Kunzig".

Robert L. Kunzig
Administrator

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11 AUG 1969

IN REPLY
REFER TO DSAH-OSCP

Mr C M. Bailey
Director, Defense Division
United States General Accounting Office
Washington, D. C. 20548

BEST DOCUMENT AVAILABLE

Dear Mr Bailey.

Reference is made to your letter of June 2, 1969, which forwarded for review and comment a draft report entitled "Examination into the Transfer of 52 Federal Supply Classes from the Department of Defense to the General Services Administration" (OSD Case #2957)

The Department of Defense (DoD) is in accord with the recommendations contained in the draft report. Inventory and record-keeping accuracy has been, and will continue to be, a subject of constant management attention within the DoD. Department of Defense Instruction 4140.35, 10 January 1969, Physical Inventory Control for DoD Supply System Materiel, now in process of implementation, promulgates policy and procedures considered necessary to effectively minimize imbalances between stock records and physical assets.

Under present Defense Supply Agency (DSA) policy, items scheduled for transfer to the General Services Administration (GSA) are inventoried prior to the effective transfer date. Also, a semi-annual reconciliation is performed between depot locator and accountable records. These policies are in consonance with recommendations contained in the draft report.

While the draft report indicates improvement has been made in transfers between the DoD and the GSA, it concludes that established transfer objectives have not been fully accomplished. Therefore, additional measures, such as constant management surveillance, must be taken if established transfer objectives are to be met. The draft report does not, however, depict the fact that considerable management attention was afforded the "52 Class" transfer.

Prior and subsequent to the 1 July 1967 "52 Class" transfer, DSA and GSA personnel met regularly to discuss and determine actions required to resolve known problem areas. For example, DSA and GSA personnel, through detailed research, found and corrected record inaccuracies.

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11 AUG 1969

DSAH-OSCP
Mr. C. M. Bailey

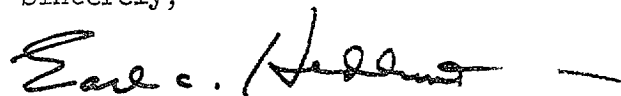
which were caused by: (a) erroneous denials from DSA depots, (b) GSA processing of over- and under-shipments as stock exhaustion denials, (c) duplicate capitalization by GSA, (d) erroneous decapitalization by DSA, and (e) failure of GSA to process corrected capitalization transaction on a timely basis. Additionally, a DSA and GSA review of GSA transaction register data disclosed instances wherein record adjustments were initially categorized as inventory adjustments, whereas the GSA record had actually been adjusted due to a catalog change. These meetings also resulted in a proposal whereby DSA depots and GSA will reconcile locator record data on a scheduled basis.

The draft report states that stock was on hand at DoD depots without being recorded on the GSA record. Present DoD policy requires that Losing Inventory Managers (LIM) monitor to completion undelivered purchases. In this respect, depots report materiel receipts to the LIM for subsequent decapitalization. Therefore, materiel at a depot could have been on the LIM's record awaiting decapitalization. The draft report does not indicate whether or not this aspect was related to stock in the depot not on the GSA record.

Future transfer plans, with management surveillance as a keynote, will continue to provide for joint and fully cooperative action to assure past difficulties caused by inaccuracies in data and ineffective controls are not repeated.

The opportunity to review and comment on this draft report is appreciated.

Sincerely,



EARL C. HEDLUND
Lieutenant General, USAF
Director

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF DEFENSE AND
THE GENERAL SERVICES ADMINISTRATION
RESPONSIBLE FOR ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
Melvin R. Laird	Jan. 1969	Present
Clark M. Clifford	Mar. 1968	Jan. 1969
Robert S. McNamara	Jan. 1961	Feb. 1968
ASSISTANT SECRETARY OF DEFENSE (INSTALLATION AND LOGISTICS):		
Barry James Shillito	Feb. 1969	Present
Thomas D. Morris	Sept. 1967	Jan. 1969
Paul R. Ignatius	Dec. 1964	Aug. 1967
DIRECTOR, DEFENSE SUPPLY AGENCY:		
Lt. Gen. Earl G. Hedlund	July 1967	Present
Vice Adm. J. M. Lyle	July 1964	June 1967
<u>GENERAL SERVICES ADMINISTRATION</u>		
ADMINISTRATOR OF GENERAL SERVICES:		
Robert L. Kunzig	Mar. 1969	Present
Lawson B. Knott, Jr.	Nov. 1964	Feb. 1969
COMMISSIONER, FEDERAL SUPPLY SERVICE:		
Lewis E. Spangler (acting)	Dec. 1969	Present
Arthur F. Sampson	June 1969	Dec. 1969
Lewis E. Spangler (acting)	May 1969	June 1969
H. A. Abersfeller	May 1964	Apr. 1969