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## Controls Over Army Working Capital Fund Inventory Stored by Organizations Other Than Defense Logistics Agency

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### **Acronyms**

AR	Army Regulation
ASL	Authorized Stockage List
AWCF	Army Working Capital Fund
CIIC	Controlled Inventory Item Code
DLA	Defense Logistics Agency
IAR	Inventory Adjustment Report
NIIN	National Item Identification Number
RIC	Routing Identification Code
SARSS	Standard Army Retail Supply System



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March 28, 2008

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Controls Over Army Working Capital Fund Inventory Stored by  
Organizations Other Than Defense Logistics Agency  
(Report No. D-2008-069)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report. The comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Carmelo G. Ventimiglia at (317) 510-4801, ext. 275 (DSN 699-4801) or Mr. Stephen C. Borushko at (317) 510-4801, ext. 221 (DSN 699-4801). See Appendix E for the report distribution. The team members are listed inside the back cover.

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## Department of Defense Office of Inspector General

Report No. D-2008-069

March 28, 2008

(Project No. D2007-D000FI-0056.000)

### Controls Over Army Working Capital Fund Inventory Stored by Organizations Other Than Defense Logistics Agency

#### Executive Summary

**Who Should Read This Report and Why?** DoD inventory managers and others who rely on the accuracy of Army Working Capital Fund inventory should read this report. The users of this audit report will benefit from the review of the controls over the Army Working Capital Fund inventory and will gain information that can improve accountability.

**Background.** The primary mission of the Army Working Capital Fund is to help the Army maintain constant readiness by providing supplies, equipment, and ordnance necessary to support the deployment and sustainment of its forces. Most of the \$17.9 billion in the Army Working Capital Fund inventory as of September 30, 2006, was stored at Defense Logistics Agency depots. The U.S. Army Materiel Command reported approximately \$2.3 billion of inventory stored at non-Defense Logistics Agency organizations as of September 27, 2006.

**Results.** Our overall audit objective was to evaluate the controls over the inventory of the Army Working Capital Fund stored at other than Defense Logistics Agency organizations. Specifically, we reviewed physical inventory controls at 6 of the 15 storage activities at Fort Campbell, Kentucky, and Fort Rucker, Alabama.

Effective physical inventories and security measures at the six storage activities resulted in accurate counts and safeguarded Army Working Capital Fund inventory. We did not identify any material internal control weaknesses. Inventory accuracy rates exceeded the Army goal of 95 percent accuracy. However, we identified control weaknesses in the timeliness of physical inventories, separation of duties, implementation of location audit programs, and inventory adjustment research.

Although the control weaknesses we identified did not result in significant discrepancies in the inventory records or in inventory accuracy rates below the Army goal, they could affect the accuracy of the inventory records through the unauthorized use, disposition, or loss of inventory. The control weaknesses could also affect the commanders' ability to effectively monitor the storage activity performance and to ensure that the reasons for inventory discrepancies are corrected. The Army Deputy Chief of Staff, G-4 needs to review and make appropriate changes to inventory guidance and performance measures as the Army prepares to implement the Global Combat Support System-Army. The commanders of the storage activities at Fort Campbell and Fort Rucker need to improve controls over Army Working Capital Fund inventory after first analyzing the costs and benefits of adjusting existing controls and implementing any new controls. See the Finding section for the detailed recommendations.

**Management Comments.** The Army Deputy Chief of Staff, G-4 concurred with Recommendations 1.a. and 1.b. and agreed to make appropriate changes to inventory guidance, location surveys, and performance measures. The Army will use the operational assessment of the Global Combat Support System-Army, Field/Tactical to solidify the process changes to inventory and location surveys and will update and change policy to support best business practices. The Army Deputy Chief of Staff, G-4 will also coordinate with the Logistics Support Activity, the Logistics Innovation Agency, and contractor support to build performance measures from the AJU-180 report into the Logistics Information Warehouse for use with the My Supply Support Activity tool. The Army will refine the performance measures as needed.

The commanders of the six storage activities at Fort Campbell and Fort Rucker concurred with Recommendation 2 and agreed to improve controls as necessary over Army Working Capital Fund inventory. The commanders of five storage activities agreed to perform a cost-benefit analysis to compare the option of adjusting existing controls to implementing new controls.

The Commander of the 597th Ordnance (Maintenance) Company agreed to improve controls by revising internal procedures and schedules; evaluating which items should be stocked; increasing training on policies, procedures, and systems; and coordinating with higher headquarters on periodic checks. The 597th Ordnance (Maintenance) Company will also implement a quarterly location survey with the assistance of a technical inspector to verify the serviceability of the stock.

Although not required to comment, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the draft report. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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## Background

The primary mission of the Army Working Capital Fund (AWCF) is to help the Army maintain constant readiness by providing supplies, equipment, and ordnance necessary to support the deployment and sustainment of its forces. The AWCF is a revolving fund, which is replenished by the reimbursements for goods and services that are provided by AWCF organizations.

The Army manages two AWCF activity groups: Industrial Operations and Supply Management, Army. Industrial Operations is a consolidation of the former Depot Maintenance and Ordnance activity groups. Supply Management, Army buys and maintains inventory for sale to Army operating units and other DoD customers. The major subordinate commands of the U.S. Army Materiel Command manage the AWCF inventory. Most of the \$17.9 billion in the AWCF inventory as of September 30, 2006, was stored at Defense Logistics Agency (DLA) depots. However, as of September 27, 2006, the U.S. Army Materiel Command reported approximately \$2.3 billion of inventory stored at organizations other than DLA. A three-digit Routing Identifier Code (RIC) identifies activities within established supply distribution systems, including those that store materiel. We visited 6 of the 15 storage activities at Fort Campbell, Kentucky, and Fort Rucker, Alabama. Table 1 lists the storage activities that we visited, by RIC and installation, and the major command that oversees them.

<b>Table 1. Storage Activities Visited</b>			
<b><u>RIC</u></b>	<b><u>RIC Name</u></b>	<b><u>Installation</u></b>	<b><u>Major Command Responsible</u></b>
ADL	Installation Supply Warehouse-Air	Ft. Campbell	IMCOM
AW3	Installation Supply Warehouse-Ground	Ft. Campbell	IMCOM
WD7	Special Operations Aviation Warehouse	Ft. Campbell	SOCOM
AW8	Director of Logistics Supply and Services Division	Ft. Rucker	IMCOM
W0H	Aviation Center Logistics Command Supply Support	Ft. Rucker	AMCOM
W66	597th Ordnance (Maintenance) Company	Ft. Rucker	FORSCOM
AMCOM	Aviation and Missile Life Cycle Management Command		
FORSCOM	Forces Command		
IMCOM	Installation Management Command		
SOCOM	Special Operations Command		

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**Inventory Identification.** Each line of inventory has classifications and unique identifiers. One classification is the Class of Supply, which is used to divide the lines of inventory into identifiable categories of material. The two primary classes of supply we reviewed during the audit were Class II (clothing, individual equipment, and tentage) and Class IX (repair parts and components). Another classification is the Controlled Inventory Item Code (CIIC), which is used to designate lines of inventory that are classified, sensitive, or pilferable. Controlled lines of inventory must be identified, accounted for, secured, segregated, or handled in a special manner to ensure their safety and integrity. Examples of controlled lines of inventory include lines with CIICs of C (confidential) or N (firearms piece parts and non-lethal firearms). See Appendix B for a list of CIICs. An additional identifier is the National Stock Number, which is the combined Federal Supply Classification and National Item Identification Number (NIIN). A supply condition code classifies each line of inventory in terms of readiness for issue and use or identifies action underway to change the status of material.

**Integrated Logistics Systems.** Storage activities use the Standard Army Retail Supply System (SARSS) to manage and control AWCF inventory stock. SARSS consists of multiple interrelated subsystems: SARSS-1, SARSS-2AC/2B, and SARSS Gateway. SARSS-1 is a real-time inventory control system. Storage activities use SARSS-1 to process the receipt, storage, and issue of stock. SARSS-2AC/2B is the management module and provides asset visibility and allows for the redistribution of items. SARSS Gateway is the interface point with the National Level Supply and feeds directly into the Commodity Command Standard System and the Logistics Modernization Program accounting systems.

In addition to the SARSS functions, Army inventory managers at all levels use the Integrated Logistics Analysis Program to collect, integrate, and display logistics and financial data. Inventory managers can use the Integrated Logistics Analysis Program to manage authorized stockage lists (ASLs),<sup>1</sup> check document numbers, and query for supply trends.

The Army will begin implementing the Global Combat Support System-Army in September 2007 to transform supply-chain business processes and thus enhance logistics support of Army tactical combat operations. The Global Combat Support System-Army will replace or integrate various legacy systems, including SARSS.

**Inventory Adjustments.** SARSS automatically adjusts the accountable record to the inventoried quantity when there is a discrepancy between the quantity inventoried by personnel and the quantity recorded in SARSS. SARSS generates an Inventory Adjustment Report (IAR) when an adjustment to the inventoried item results in a gain or loss that exceeds \$1,000 or if the adjustment is made to a controlled item with certain CIICs. SARSS automatically adjusts the accountable record without an IAR for uncontrolled items if the discrepancy between the inventoried quantity and the recorded quantity has a value of \$1,000 or less.

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<sup>1</sup> The ASL is the maximum quantity of an item authorized to be on hand and on order at any time.

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**Performance Standards Report.** The AJU-180 is a monthly performance report generated by SARSS that provides statistical data for assessing the effectiveness of all SARSS-1 storage activities. It enables managers at all levels to compare the storage activities and determine if any storage activity needs help or guidance. The report includes several performance measures, including the inventory accuracy rate, inventory adjustment rate, and the location accuracy rate. The inventory accuracy rate represents the percentage of lines that storage activity personnel physically inventoried that did not result in an IAR. The inventory adjustment rate represents the total value of inventory adjustments, excluding administrative adjustments,<sup>2</sup> in relation to the value of the ASL. The location accuracy rate indicates how well the inventory location records compared with the actual physical locations of the assets.

## Objective

Our overall audit objective was to evaluate the controls over the inventory of the AWCF stored at organizations other than DLA. Specifically, we reviewed physical inventory controls at six storage activities. See Appendix A for a discussion of the scope and methodology and for prior coverage related to the objective.

## Review of Internal Controls

We identified no material internal control weaknesses at Fort Campbell and Fort Rucker. Further, the discrepancies we found in the inventory records were insignificant compared to the quantity and value of the inventory reviewed. However, improvements could be made in the controls over the timeliness of inventories, separation of duties, implementation of location audit programs, and inventory adjustment research.

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<sup>2</sup> Administrative adjustments are the result of assembly, disassembly, stock numbers or unit-of-issue changes, transaction reversals, condition code changes, re-identification, and pseudoreceipts.

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# Adequacy of Controls Over Army Working Capital Fund Inventory

Effective physical inventories and security measures at the six storage activities resulted in accurate counts and safeguarded AWCF inventory. The inventory accuracy rates met or exceeded the Army performance goal. However, we identified weaknesses in the timeliness of physical inventories, separation of duties, implementation of location audit programs, and inventory adjustment research. These control weaknesses occurred because:

- personnel did not always follow regulatory guidance or the guidance was not clear,
- staffing issues and contract requirements limited the separation of duties and access to SARSS, and
- personnel did not always correctly identify or provide sufficient documentation to verify the cause of adjustments to the inventory records.

Although these control weaknesses did not result in significant inventory discrepancies or in unacceptable inventory accuracy rates for the records that we reviewed, they could affect the accuracy of the inventory records through the unauthorized use, disposition, or loss of inventory. The control weaknesses could also affect the commanders' ability to effectively monitor storage activity performance and to ensure that the reasons for inventory discrepancies are corrected.

## Criteria

**Office of Management and Budget Circular.** According to Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," December 2004, management is responsible for developing and maintaining effective internal controls. Internal controls should be designed to provide reasonable assurance regarding prevention, or prompt detection of, unauthorized acquisition, use, or disposition of assets. If weaknesses are found, management is responsible for redesigning or improving the controls. Management should perform a risk assessment that considers the costs and benefits of adjusting existing controls or implementing any new controls.

**Army Regulation.** Army Regulation (AR) 710-2, "Supply Policy Below the National Level," July 8, 2005, prescribes policy for supply operations below the national level.<sup>3</sup> It states that the purpose of a physical inventory is to determine the condition, location, and quantity of material on hand; to adjust stock records

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<sup>3</sup> The responsible official for AR 710-2 is the Deputy Chief of Staff, G-4.

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to reflect actual quantities; and to determine the correct cause of the discrepancies. The regulation requires that storage activity personnel research inventory adjustments of controlled items with certain CIICs (see Appendix B) and adjustments greater than \$1,000 in value. It also requires that research be completed within 30 calendar days following completion of the physical inventory or the adjustment to the accountable record. The regulation specifies that research ends when the cause of the adjustment has been determined or no specific cause can be identified. AR 710-2 also requires that each storage activity have a location audit program for inventory location, accuracy, and adjustments.

AR 710-2 establishes inventory management performance goals and states that commanders are responsible for ensuring the proper custody, safekeeping, and security of Government property. Furthermore, commanders are required to ensure that the actions of subordinates contribute to the proper custody, care, use, and safekeeping of all property within their command. The regulation also states that the accountable officers are the persons officially appointed in writing to maintain a formal set of accounting records of inventory. The accountable officers are accountable for inventory from the time of receipt at the storage activities until the inventory is issued, shipped, or dropped from accountability.

## **Tests of Inventory Controls**

We evaluated the following controls:

- physical security,
- physical inventories,
- separation of duties,
- location audits, and
- inventory adjustment research.

### **Physical Security**

Each of the six storage activities had a physical security program in place that included security measures to safeguard the property and to report any security breach or loss of property. As part of its physical security program, each storage activity had policies and procedures, such as key control plans and security checklists to safeguard AWCF inventory. Each storage activity had also implemented physical security devices. For example, RIC WOH had an alarm system, security cameras, and identification card access to prevent possible security threats.

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## Physical Inventories

Controls over the manner in which physical inventories were conducted at the six storage activities ensured accurate counts. We observed the physical inventories of 224 lines of inventory, verifying an on-hand quantity of 3,413 items with an approximate value of \$3.7 million. The number of inventories observed at each storage activity depended on the number of physical inventories planned by the activity or generated by SARSS. During each inventory we observed, we verified that storage activity personnel accurately counted the items of inventory. We ensured that items in boxes that were not sealed were individually counted. We then verified that the quantities counted during these physical inventories matched the quantities recorded in SARSS. With one exception, the quantities from the inventories that we observed matched the quantities in SARSS. The exception had a discrepancy with an absolute value of \$6.

AR 710-2 requires that each line of inventory be physically inventoried at least once annually. Controlled items with certain CIICs<sup>4</sup> are to be inventoried quarterly. We reviewed the 540 sample lines of inventory from our record-to-floor test at Fort Campbell and Fort Rucker to determine whether each line was physically inventoried in accordance with AR 710-2 (see Table C-1). Of the 540 lines of inventory, only 7 lines with an on-hand quantity of 827 items and an approximate value of \$7 million were not physically inventoried within the time periods required by the regulation.

## Separation of Duties

The Army did not properly separate the duties of storage activity personnel at four of six storage activities. According to DoD 4140.1-R, "DoD Supply Chain Materiel Management Regulation," May 2003, storage activities are required to assign the duties of receiving, issuing, and posting to separate people. The responsible personnel at RICs AW3, AW8, and W66 assigned the duties of receiving and issuing to the same personnel. The Contracting Officer Representative at RIC ADL, who is also the accountable officer, assigned the duties of issuing and posting to the same personnel. The accountable officers of these four storage activities cited staffing issues and contract requirements as the reasons they had not separated the duties.

The Army also did not properly restrict SARSS-1 access at any of the six storage activities. According to DoD 4140.1-R, storage activities are required to separate the file maintenance actions of receiving and issuing to the maximum extent possible. The six storage activities allowed the same personnel to perform the file maintenance actions of recording the receipt and issue of inventory in SARSS-1.

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<sup>4</sup> AR 710-2 states that lines of inventory identified in the Army Master Data File contained on FEDLOG with a CIIC of 1-6, 8, 9, N, P, Q, R, C, \$, or Y (Appendix B) will be inventoried quarterly, by serial number when applicable. All communication security equipment and components assigned accounting legend code 1 or 2 must be physically inventoried at least semiannually and inventory results reconciled with the Army Communication Security Central Office of Record.

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The accountable officers cited staffing issues and contract requirements as the reasons the system capabilities of storage activity personnel were not properly restricted.

## **Location Audits**

Personnel at each of the six storage activities stated that they had implemented a location audit program. However, we were not able to verify that two of the storage activities had actually performed location surveys. Inconsistencies existed in the data surveyed, and the location accuracy rate was not always calculated. Furthermore, the rate was not reported consistently on the Performance Standards (AJU-180) Reports. The term “location” means the physical area where inventory items are stored, such as a bin or shelf.

**Location Surveys and Reconciliations.** The accountable officers of all six storage activities stated that they had implemented location audit programs; however, we were able to verify only four activities that had performed location surveys. AR 710-2 requires that each storage activity have a location audit program that consists of a location survey followed by a location reconciliation. A location survey verifies that the physical location of assets agrees with the recorded location data. Storage activities are required to perform a location survey of each line of inventory annually. A location reconciliation reconciles the results of the location survey with the accountable records. It identifies and corrects situations where items are in location but not on record, on record but not in location, or other elements of data (other than quantity) that do not match.

We verified that personnel at RIC AW8 used electronic data collection devices to capture the location survey data and transmit it to SARSS. We also verified that RICs ADL, AW3, and W66 manually performed location surveys by reviewing annotated location survey lists. However, RICs W0H and WD7 did not provide sufficient documentation to verify that location surveys had been performed. Personnel at these two storage activities stated that they did not retain location survey documentation because AR 710-2 did not require retention of this documentation. The accountable officer at RIC W0H has since requested that the location survey documentation be retained.

Inconsistencies existed between the data surveyed by AW8 personnel, using the electronic data collection devices, and the data surveyed by personnel at RICs ADL, AW3, and W66 performing manual location surveys. Specifically, the personal data collection devices survey the location, condition code, unit of issue, and national stock number. The location survey list used for manual surveys includes the following eight data elements: the location, Federal Supply Class, National Item Identification Number (NIIN), condition code, Controlled Inventory Item Code (CIIC), special requirements code, unit of issue, and nomenclature. However, personnel at the three storage activities who performed manual surveys were inconsistent regarding the data surveyed. Each supply activity reported that it tested from four to eight of the data elements included on the manual survey lists. The inconsistent survey methodologies existed because AR 710-2 does not specify what data elements the location surveys should test.

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**Location Accuracy Rates.** Personnel at five of the six storage activities provided location accuracy rates in response to our request. AR 710-2 states that the Army performance goal for location accuracy is 98 percent. The location accuracy rate is a function of dividing the number of correct locations by the total locations surveyed. If storage activity personnel use electronic personal data collection devices during the location survey, SARSS will compute the location accuracy rate by subtracting the total number of locations changed from the total number of locations surveyed, then dividing the number of accurate locations by the number of locations surveyed. If personal data collection devices are not used, storage activity personnel can print a location survey list from SARSS and manually perform a location survey, but the AJU-180 report will not include the resulting location accuracy rate.

Of the five storage activities that provided their most recent location accuracy rates in response to our request, RICs ADL, WD7, AW8, and W66 provided rates that met the Army performance goal of 98 percent. Personnel from RIC AW3 reported a rate below 98 percent, but they stated that was probably because locations that no longer had stock had not been deleted from SARSS and were counted as errors.

Of the five storage activities that provided location accuracy rates, only RIC AW8 reported a location accuracy rate on the AJU-180 report. Personnel at RICs ADL, AW3, WD7, and W66 stated that they manually performed the location surveys; however, the location accuracy rate was not reported on the AJU-180 report. Personnel at RIC W0H stated that they also manually performed the location surveys, but they did not calculate the rate and, therefore, could not provide us with their location accuracy rates.

## **Inventory Adjustment Research**

Personnel at the six storage activities correctly identified the cause for 36 of 47 inventory adjustments made to the accountable records in SARSS. We analyzed a judgmental sample of 37 Inventory Adjustment Reports (IARs) with a total of 47 adjustments prepared by the personnel at the six storage activities. Specifically, we judgmentally selected 25 IARs from January 2006 through March 2007. We also analyzed 12 IARs that included adjustments from our record-to-floor tests.<sup>5</sup> In general, storage activity personnel promptly completed research to determine why adjustments were made, and the approval authorities approved the IARs. The only investigation into the potential loss of Government property was caused by a data input error that did not result in the physical loss of inventory. Table 2 provides the detailed results of our review of the research.

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<sup>5</sup> We performed a record-to-floor test by comparing the quantity, location, condition code, unit of issue, shelf-life code, and CIIC of a statistical sample of lines of inventory recorded in SARSS to the inventory items at the storage locations. We performed this test to determine whether the AWCF inventory recorded in SARSS existed and was recorded accurately. The floor-to-record test was the reverse of this test and compared the data from the storage location to the inventory records in SARSS.

<b>Table 2. Inventory Adjustment Research</b>									
	<u>Fort Campbell</u>				<u>Fort Rucker</u>				<u>Total</u>
	<u>ADL</u>	<u>AW3</u>	<u>WD7</u>	<u>Subtotal</u>	<u>AW8</u>	<u>W0H</u>	<u>W66</u>	<u>Subtotal</u>	
Total IARs Reviewed	9	8	4	<b>21</b>	4	10	2	<b>16</b>	<b>37</b>
Untimely Completion	1	4	0	<b>5</b>	0	0	0	<b>0</b>	<b>5</b>
Lacked Signatures	1	0	0	<b>1</b>	0	1	0	<b>1</b>	<b>2</b>
Total IAR Adjustments	10	8	6	<b>24</b>	9	12	2	<b>23</b>	<b>47</b>
Incorrect Cause	0	0	0	<b>0</b>	3	1	1	<b>5</b>	<b>5</b>
Unverified Cause	0	0	4	<b>4</b>	1	0	0	<b>1</b>	<b>5</b>
Inconclusive Research	0	0	0	<b>0</b>	0	1	0	<b>1</b>	<b>1</b>

**Researching Adjustments.** Personnel at three of the six storage activities did not correctly identify the cause of five inventory adjustments, and personnel at two storage activities did not consistently provide sufficient supporting documentation with the IARs for us to verify or determine the causes of five other adjustments. Personnel at one storage activity reported that the cause of one IAR could not be determined.

**Incorrect Cause.** Personnel at RIC W0H correctly determined the reason for the gain of seven items on one IAR. However, they incorrectly attributed the gain of the eighth item (with a value of \$9,153) to placing it in storage without updating the count on the box. The accountable officer later stated that the cause was most likely due to a miscount of the inventory. Personnel at RIC AW8 did not correctly identify the cause of three adjustments with a combined value of \$13,356. For example, RIC AW8 personnel reported that one adjustment with a gain of 10 items was caused by a system problem. However, personnel from the Corps Theater Automated Data Processing Service Center determined that the items were not removed from the storage location for shipment before personnel conducted the inventory, although the quantity had been subtracted from the inventory in SARSS. Finally, RIC W66 did not identify an appropriate cause on one IAR for the loss of an item with a value of \$3,363. The accountable officer later stated that the damaged item was a legacy item that had not been requested in 12 months. The technical inspectors said that the item was being phased out and had most likely dry-rotted and broken from the opening and closing of the drawer over the years.

**Unverified Cause.** Personnel at RIC AW8 attributed the gain of 13 items with a value of \$237,627 to the same system problem that was supposed to have caused the gain of the 10 items discussed earlier. However, storage activity personnel could not document any response from system personnel to confirm that the problem was system-related. Personnel at RIC WD7 did not provide sufficient documentation to verify the cause of four adjustments. For example, we analyzed one IAR with a potential loss of 41 items. RIC WD7 personnel provided a supply discrepancy report to show that the potential loss of 18 items with a value of \$2,110 occurred because the items were not received by the storage activity. However, they did not provide documentation to verify or determine the cause for the potential loss of the other 23 items with a value of

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\$2,670. The accountable officer later stated that the cause was a miscount of inventory. Personnel at RIC WD7 also did not provide sufficient support for us to verify the cause for three additional adjustments with a value of \$2,938.

**Inconclusive Research.** Personnel at RIC W0H reported on one IAR that exhaustive reviews of document histories, material release orders, and bin ticket reviews did not explain the gain of one item with a value of \$7,376. However, the accountable officer told us that the gain of one item was due to a system problem.

**Timeliness of Reporting.** The research to determine the causes for inventory adjustments was generally completed within 30 days following completion of the physical inventory or the adjustment to the accountable record; however, we identified some anomalies. AR 735-5, "Policies and Procedures for Property Accountability," February 2005, requires that IARs be forwarded to the approving authority within 30 days. Accountable officers completed the research for 32 of the 37 IARs within 30 days. Five of the IARs were not signed by the accountable officers until 31 to 35 days following the inventories. We also identified one IAR that was not signed by the accountable officer. Once told, the accountable officer signed the IAR and stated that this was an oversight. An additional IAR was not signed by the approval authority. It was part of a group of four related IARs, and we concluded that this was an oversight by the approval authority.

**Investigations.** Of the six storage activities, only RIC AW3 reported an investigation into the potential loss of AWCF inventory from January 2006 through June 2007. AR 735-5 states that the loss or destruction of controlled inventory items must be investigated in accordance with AR 15-6, "Procedures for Investigating Officers and Boards of Officers," October 2006. The Commander, United States Army Garrison, Fort Campbell, appointed an investigating officer to conduct an informal investigation under the provisions of AR 15-6 into the potential loss of pistol barrels and mount assemblies. The investigating officer determined that a data input error occurred instead of a physical loss of inventory. The Commander approved the finding by the investigating officer.

## **Summary of Inventory Controls**

Physical inventories and security at the six storage activities resulted in accurate counts and safeguarded AWCF inventory. However, our evaluation of the inventory controls revealed weaknesses in the timeliness of physical inventories, separation of duties, implementation of location audit programs, and inventory adjustment research. These control weaknesses occurred because personnel responsible for operating the storage activities did not consistently follow AR 710-2 in performing inventories of controlled and uncontrolled items. Staffing issues and contract requirements limited the feasibility of the separation of duties required by DoD 4140.1-R and the proper restriction of access to the SARSS inventory records by personnel. AR 710-2 does not clearly state that location survey documentation must be retained or identify which elements the storage activities should test during location surveys. In addition, personnel did not always correctly identify or provide sufficient documentation to verify the cause of adjustments to the inventory records.

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The Army Deputy Chief of Staff, G-4 needs to review and make appropriate changes to inventory guidance and performance measures as the Army proceeds toward implementation of the Global Combat Support System-Army. The commanders of the storage activities at Fort Campbell and Fort Rucker need to improve controls over AWCF inventory. They should first perform a cost-benefit analysis to compare the option of adjusting existing controls to implementing new controls.

## Tests of Inventory Records

To evaluate the impact of the control weaknesses, we tested the accuracy of the data in the inventory records. Specifically, we compared the data in SARSS to the inventory items at the storage locations for a statistical sample of inventory lines. We also observed the physical condition and security of the items to determine whether the items were damaged and whether the items were stored securely. Further, we judgmentally selected 88 lines of inventory and compared the data from the items at the storage locations to the data recorded in SARSS.<sup>6</sup> Although we found discrepancies in the SARSS inventory records, the discrepancies were insignificant in terms of the quantity and value compared to the total inventory at each of the six storage activities, and the inventory accuracy rates met or exceeded the Army performance goal of 95 percent. Furthermore, the results of the statistical sample used during record-to-floor tests projected an inventory accuracy rate of 99.9 percent for the three storage activities visited at each installation. Appendix C explains the results of our tests of inventory records, and Appendix D explains the methodology used to project the quantity discrepancies for the six storage activities.

## Performance Measures

The six storage activities reported high inventory accuracy rates that were consistent with the results of our record-to-floor tests. Most of the storage activities also reported an inventory adjustment rate that met the Army performance goal. Storage activities were required to establish quality control programs that included these performance measures. The SARSS-1 system tracked these performance measures and reported them on the AJU-180 report.

**Inventory Accuracy Rates.** All six storage activities reported inventory accuracy rates on the AJU-180 report that met the Army performance goal of 95 percent. Table 3 presents the 12 month accuracy rate of the six storage activities.

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<sup>6</sup> For judgmentally selected inventory items stored at each of the six storage activities, we compared the NIIN, location, quantity, condition code, unit of issue, and CIIC to the corresponding information in SARSS to determine whether SARSS inventory records were complete and accurate. This is considered a floor-to-record test.

<b>Table 3. Inventory Accuracy Rates</b>	
<u>Storage Activity</u>	<u>AJU-180 12-month Accuracy Rate (Percentage)*</u>
<u>Fort Campbell</u>	
ADL	99.48
AW3	96.52
WD7	99.39
<u>Fort Rucker</u>	
AW8	98.76
W0H	99.94
W66	99.86

\* Auditor-calculated rate based on data reported February 2006 through January 2007 (Fort Campbell storage activities) and March 2006 through February 2007 (Fort Rucker storage activities).

During our record-to-floor test, we compared the data in SARSS to the inventory items for a statistical sample of inventory lines. The IAR discrepancy rate of the Fort Campbell sample was 2 percent, which equated to an inventory accuracy rate of 98 percent. We project the error rate for the entire on-hand inventory at the three selected storage activities at Fort Campbell to be .1 percent (Table D-5), which equated to an inventory accuracy rate of 99.9 percent. The IAR discrepancy rate of the Fort Rucker sample was 2.4 percent, which equals an inventory accuracy rate of 97.6 percent. We project the error rate for the entire on-hand inventory at the three selected storage activities at Fort Rucker to be .1 percent (Table D-7), which equals an inventory accuracy rate of 99.9 percent. Based on the 12-month accuracy rate and the projected rate from the record-to-floor test, each of the six storage activities had inventory accuracy rates that met or exceeded the Army goal of 95 percent.

**Inventory Adjustment Rates.** Most of the storage activities also reported an inventory adjustment rate that met the Army performance goal. Each of the storage activities reported inventory adjustment rates on the AJU-180 report. AR 710-2 states that the Army performance goal for the inventory adjustment rate is 5 percent. Four of the six storage activities that we reviewed met the performance goal for both FY 2006 and the five months ending February 28, 2007. Table 4 presents the reported inventory adjustment rates.

<u>Storage Activity</u>	<u>FY 2006 Adjustment Rate (Percentage)</u>	<u>October 2006 - February 2007 Adjustment Rate (Percentage)</u>
<u>Fort Campbell</u>		
ADL	0	0
AW3	62	37
WD7	0	0
<u>Fort Rucker</u>		
AW8	419	0
W0H	2	0
W66	0	0

RIC AW3 did not meet the Army performance goal for either time period. RIC AW8 did not meet the Army performance goal for FY 2006. Officials at the storage activities stated that the adjustment rates may have exceeded the goal because both storage activities managed a significant amount of inventory that was not included in the authorized stockage list (ASL) value but was required to be counted at least annually. According to the SARSS program office, SARSS calculates the inventory adjustment rate by adding gains and losses resulting from all inventory counts and dividing this total by the value of the ASL. Therefore, SARSS may have inflated the rates by including gains and losses on inventory not included in the ASL. Table 5 provides the ASL values and total on-hand inventory values.

<u>Storage Activity</u>	<u>FY 2006 ASL Value<sup>1</sup></u>	<u>FY 2007 ASL Value<sup>2</sup></u>	<u>Total On-hand Inventory Value<sup>3</sup></u>
<u>Fort Campbell</u>			
ADL	\$48,369,991	\$45,188,232	\$46,912,232
AW3	1,001,545	1,738,216	31,808,325
WD7	9,639,627	10,532,870	6,879,968
<u>Fort Rucker</u>			
AW8	128,443	102,008	5,315,160
W0H	70,368,683	59,999,840	76,848,968
W66	5,084,208	5,084,208	6,782,507

<sup>1</sup> As reported on September 30, 2006.  
<sup>2</sup> As reported on February 28, 2007.  
<sup>3</sup> As of December 22, 2006.

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According to the SARSS program office, SARSS includes administrative IARs in the calculation of the inventory adjustment rate. AR 735-5 states that administrative IARs will not be included in the totals used to determine the 5 percent cutoff. As a result, SARSS inflated the inventory adjustment rates for all storage activities with administrative adjustments by including them in the calculation. To improve performance measurements for inventory managers at all levels, the Army Deputy Chief of Staff, G-4 needs to review and make appropriate changes to the inventory adjustment rate and other performance measures reported on the AJU-180 report as the Army proceeds toward implementation of the Global Combat Support System-Army.

## **Establishing Internal Controls**

Although these control weaknesses did not result in significant inventory discrepancies or in unacceptable inventory accuracy rates for the records that we reviewed, they could affect the accuracy of the inventory records through the unauthorized use, disposition, or loss of inventory. The control weaknesses could also affect the commanders' ability to effectively monitor storage activity performance and to ensure that the reasons for inventory discrepancies are corrected.

As part of their responsibility for developing and maintaining effective internal controls, commanders of the storage activities at Fort Campbell and Fort Rucker should continually assess the controls over AWCF inventory. When weaknesses are found, the commanders are responsible for redesigning or improving the controls. Specific attention should be given to:

- ensuring that all controlled and uncontrolled items are inventoried in accordance with AR 710-2;
- separating the duties of receiving, issuing, and posting inventory, or ensuring that compensating controls have been implemented;
- separating the file maintenance actions of issuing and receiving inventory items, or ensuring that compensating controls have been implemented;
- ensuring that location accuracy rates are calculated and consistently reported to improve the monitoring of the storage activity performance; and
- improving inventory adjustment research and documentation.

In determining the appropriate course of action, the commanders should first perform a cost-benefit analysis to compare the option of adjusting existing controls to implementing new controls.

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## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Army Deputy Chief of Staff, G-4 review and make appropriate changes to inventory guidance and performance measures as the Army proceeds toward implementation of the Global Combat Support System-Army. Specifically,**

**a. Review Army Regulation 710-2 related to location audit programs and update the guidance to reflect the scope of location surveys, location survey documentation requirements, and other changes in the inventory processes as a result of the implementation of the Global Combat Support System-Army.**

**Management Comments.** The Army Deputy Chief of Staff, G-4 concurred and stated that the Office of the Army Deputy Chief of Staff, G-4 will review and make appropriate changes to inventory guidance, location surveys, and performance measures. The Army will use the operational assessment of the Global Combat Support System-Army, Field/Tactical to solidify the process changes to inventory and location surveys realized during the blueprint phase of the Enterprise Resource Planning development. As changes are identified, the Army Deputy Chief of Staff, G-4 will update or change policy to support best business practices.

**Audit Response.** Management comments are responsive to the intent of the recommendation.

**b. Examine the inventory adjustment rate and other performance measures reported on the AJU-180 report to determine whether those measures provide the most beneficial performance data for inventory managers at all levels.**

**Management Comments.** The Army Deputy Chief of Staff, G-4 concurred and stated that the Office of the Army Deputy Chief of Staff, G-4 will coordinate with the Logistics Support Activity, the Logistics Innovation Agency, and contractor support to take performance measures from the AJU-180 report and build them into the Logistics Information Warehouse to be used with the My Supply Support Activity tool. The Army will evaluate the analyses from this business intelligence tool and refine the performance measures as needed.

**Audit Response.** Management comments are responsive to the intent of the recommendation.

**2. We recommend that the commanders of the storage activities at Fort Campbell and Fort Rucker improve controls over Army Working Capital Fund inventory. In determining the appropriate course of action, the commanders should first perform a cost-benefit analysis to compare the option of adjusting existing controls to implementing new controls.**

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**Management Comments.** The commanders of six storage activities at Fort Campbell and Fort Rucker concurred with the recommendation and agreed to improve controls as necessary over AWCF inventory. The Commanders of the 160th Special Operations Aviation Regiment (Airborne); the Army Aviation Center Logistics Command; the Army Garrison, Fort Campbell; and the Army Garrison, Fort Rucker agreed to perform a cost-benefit analysis to compare the option of adjusting existing controls to implementing new controls.

The Commander of the 597th Ordnance (Maintenance) Company agreed to improve controls by revising internal procedures and location survey schedules and by holding an Authorized Stockage List review board to determine which items should be stocked. The 597th Ordnance (Maintenance) Company will also increase training on location maintenance and surveys, inventory procedures, and related systems, and it will coordinate periodic annual checks with its higher headquarters. Because of the age of the stock, the 597th Ordnance (Maintenance) Company will implement a quarterly location survey with the assistance of a technical inspector to verify the serviceability of the items.

Although not required to comment, the Director for Operations, Support, and Business Resources, Office of the Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the draft report and had no further comments or recommendations.

**Audit Response.** Management comments are responsive to the intent of the recommendation.

## Appendix A. Scope and Methodology

**Scope of Review.** We conducted this performance audit from November 2006 through August 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed and evaluated the inventory controls over a sample of the AWCF inventory stored at six non-DLA storage activities located at Fort Campbell, Kentucky and Fort Rucker, Alabama. Most of the \$17.9 billion in the AWCF inventory as of September 30, 2006, was stored at DLA depots. The U.S. Army Materiel Command reported approximately \$2.3 billion of inventory stored at non-DLA organizations as of September 27, 2006. In total, we reviewed 844 lines of inventory with an on-hand quantity of 30,777 and an approximate value of \$105.3 million. We performed observations of inventories, record-to-floor tests, and floor-to-record tests. Eight lines, valued at \$139,062 with on-hand quantities of 72, were reviewed during multiple tests. We performed the tests at Fort Campbell in January and April 2007. We performed the tests at Fort Rucker in February 2007. See Table A-1 for the lines reviewed and Table A-2 for the entire on-hand inventory as of December 22, 2006.

<u>RIC</u>	<u>Inventory Value</u>	<u>Lines</u>	<u>On-Hand Quantity</u>
<u>Fort Campbell</u>			
ADL	\$ 29,220,521	160	2,189
AW3	23,157,462	108	13,354
WD7	3,720,997	<u>59</u>	<u>4,615</u>
<b>Subtotal</b>	<b>\$ 56,098,980</b>	<b>327</b>	<b>20,158</b>
<u>Fort Rucker</u>			
AW8	\$ 3,520,545	19	266
W0H	39,321,384	300	8,525
W66	6,379,981	<u>198</u>	<u>1,828</u>
<b>Subtotal</b>	<b>\$ 49,221,910</b>	<b>517</b>	<b>10,619</b>
<b>Total</b>	<b>\$105,320,890</b>	<b>844</b>	<b>30,777</b>

The Department of Defense Office of Inspector General issued Report No. D-2007-009 "Internal Controls Over Inventory Stored at Defense Logistics Agency Distribution Depots," November 1, 2006. Therefore, we did not include DLA distribution depots within the scope of this audit. Furthermore, we did not review AWCF inventory stored at locations outside of the contiguous United States during this audit.

**Site Selection.** We selected the audit sites using analytical procedures. The U.S. Army Materiel Command provided a report listing the values of AWCF inventory stored at DLA depots and non-DLA installations. We judgmentally selected the three non-DLA installations (Fort Hood, Texas; Fort Rucker, Alabama; and Fort Campbell, Kentucky) with the largest value of on-hand inventory within the contiguous U.S. as of September 27, 2006. However, based on the results of the audit tests at Fort Campbell and Fort Rucker, we decided not to visit Fort Hood.

Based on data as of December 22, 2006, we selected 3 of 11 storage activities at Fort Campbell and 3 of 4 storage activities at Fort Rucker to visit. Specifically, we chose the top storage activity based on the quantity of on-hand inventory and the top storage activity based on the value of on-hand inventory. We selected the third storage activity at each installation based on its position within the top three of either quantity or value of on-hand inventory. See Table A-2 for the extended value, lines, and on-hand quantities reported as of December 22, 2006, at the six selected storage activities.

<b>Table A-2. Selected Storage Activities</b>			
<b><u>RIC</u></b>	<b><u>Inventory Value</u></b> *	<b><u>Lines</u></b> *	<b><u>On-Hand Quantity</u></b> *
<u>Fort Campbell</u>			
ADL	\$46,912,232	1,438	39,113
AW3	31,808,325	2,072	56,793
WD7	<u>6,879,968</u>	<u>1,534</u>	<u>179,142</u>
<b>Subtotal</b>	<b>\$85,600,525</b>	<b>5,044</b>	<b>275,048</b>
<u>Fort Rucker</u>			
AW8	\$ 5,315,160	361	6,660
WOH	76,848,968	16,589	497,778
W66	<u>6,782,507</u>	<u>935</u>	<u>13,343</u>
<b>Subtotal</b>	<b>\$88,946,635</b>	<b>17,885</b>	<b>517,781</b>
<b>Total</b>	<b>\$174,547,160</b>	<b>22,929</b>	<b>792,829</b>

\*As reported on December 22, 2006.

**Sample Selection.** The Quantitative Methods Directorate, Office of the Deputy Inspector General for Policy and Oversight, provided a statistical sample of lines of inventory based on the three selected storage activities at each installation to be used during record-to-floor testing, during which we compared the data in SARSS to the inventory items in storage locations. Appendix D explains the methodology used to select the sample lines of inventory.

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## Tests of Inventory Controls

- **Physical Security.** We interviewed responsible officials and observed the physical security measures to determine whether a security program was implemented.
- **Physical Inventories.** We observed the inventory counts of 224 lines of inventory, valued at about \$3.7 million, performed by storage activity personnel, to determine whether the inventory process ensured accurate and reliable counts. We verified whether the quantities from the observed physical inventories matched the quantities recorded in SARSS. We also interviewed the accountable officers and reviewed SARSS system documentation to determine whether the controls over the inventory process ensured that each item was counted in accordance with AR 710-2. In addition, we verified whether the storage activity personnel had performed physical inventories of the record-to-floor sample lines of inventory in a timely manner as required by AR 710-2.
- **Separation of Duties.** We interviewed the accountable officers and reviewed SARSS system documentation to determine whether the controls over the inventory process ensured proper separation of duties and restricted access to SARSS.
- **Location Audits.** We interviewed storage activity officials and reviewed the location survey lists from January 2007 through March 2007 and the AJU-180 reports from October 2006 through February 2007 to determine whether each storage activity had a location audit program and whether the location accuracy rates met the Army performance goal.
- **Inventory Adjustment Research.** We analyzed a judgmental sample of 37 IARs with a total of 47 adjustments prepared by the storage activity personnel to determine whether the causes of the adjustments were correctly identified. Specifically, we judgmentally selected 25 IARs from January 2006 through March 2007.<sup>7</sup> We also analyzed the 12 IARs that included the adjustments from our record-to-floor tests. We reviewed the date that the accountable officers signed the IARs to determine whether the causative research was completed within 30 days. We also reviewed the IARs to determine whether they were approved by the approval authorities. We interviewed the accountable officers to determine whether there had been any investigations into the potential loss, damage, and destruction of Government property from January 2006 through June 2007.

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<sup>7</sup> Personnel at RIC W0H stated that they could not locate the signed IARs from January through September 2006. Although they stated they had unsigned copies of the IARs, we chose to select IARs from FY 2007 that were signed. In addition, RIC WD7 only provided four IARs in response to our request. We later determined that there were numerous additional IARs besides the four IARs provided by RIC WD7; however, we chose to evaluate the four IARs because our sample was judgmental.

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**Performance Measures.** We interviewed storage activity officials and reviewed the Performance Standards (AJU-180) Report from February 2006 through February 2007 to determine whether their performance met Army performance goals.

### **Tests of Inventory Records**

- **Record-To-Floor Tests.** We tested the quantity, location, condition code, unit of issue, shelf-life code, and CIIC to determine whether the AWCF inventory recorded in SARSS existed and was recorded accurately. For a statistical sample of 540 lines of inventory with an approximate value of \$98.6 million, we compared the data from SARSS to the inventory items in the storage locations. We also observed the physical condition and security of the items to determine whether any items were damaged and whether the items were secured.
- **Floor-to-Record Tests.** We judgmentally selected 88 lines of inventory with an approximate value of \$3.1 million and compared the data from the inventory items in storage locations to the data recorded in SARSS. We tested the NIIN, location, condition code, quantity, unit of issue, and CIIC of the sample lines of inventory to determine whether the AWCF inventory was recorded accurately in SARSS.

**Use of Computer-Processed Data.** We relied on computer-processed data from SARSS. We did not test the general and application controls of the system. However, we performed other tests to determine the reliability of the data. Specifically, we performed observation of inventories, record-to-floor tests, and floor-to-record tests to determine the accuracy of the inventory records in SARSS. The review of inventory records in SARSS identified discrepancies. However, the discrepancies were insignificant in terms of quantity and value compared to the total inventory at each of the six storage activities. Furthermore, the results of the statistical sample used during record-to-floor testing projected an inventory accuracy rate of 99.9 percent for the three storage activities visited at each installation.

**Use of Technical Assistance.** The Quantitative Methods Directorate provided technical assistance throughout the sample selection and the projection process. Quantitative Methods Directorate personnel provided a sample of lines of inventory to test for both Fort Campbell and Fort Rucker in support of the record-to-floor tests we performed. They also provided a projection of quantity discrepancies and associated values based on the results of the completed sample. See Appendix D for a detailed description of the assistance provided by the Quantitative Methods Directorate.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage on the DoD Financial Management and Supply Chain Management high-risk areas.

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## **Prior Coverage**

During the last 5 years, the DoD IG issued one report discussing the storage of AWCF inventory. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

## **DoD IG**

DoD IG Report No. D-2007-009, "Internal Controls Over Inventory Stored at Defense Logistics Agency Distribution Depots," November 1, 2006

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## Appendix B. Controlled Inventory Item Codes

AR 710-2 requires that research be performed when adjusting lines of inventory with a CIIC of 1-6, 8, 9, N, P, Q, R, \$, or Y (night vision devices and navigation systems). Furthermore, lines of inventory with a CIIC of 1-6, 8, 9, N, P, Q, R, C, \$, or Y will be inventoried quarterly, by serial number when applicable.

### CIIC

- 1 Highest Sensitivity (Category I) - Non-nuclear missiles and rockets in a ready-to-fire configuration and explosive rounds for non-nuclear missiles and rockets.
- 2 High Sensitivity (Category II) - Arms, ammunition, and explosives.
- 3 Moderate Sensitivity (Category III) - Arms, ammunition, and explosives.
- 4 Low Sensitivity (Category IV) - Arms, ammunition, and explosives.
- 5 Highest Sensitivity (Category I) - Arms, ammunition, and explosives with a physical security classification of Secret.
- 6 Highest Sensitivity (Category I) - Arms, ammunition, and explosives with a physical security classification of Confidential.
- 8 High Sensitivity (Category II) - Arms, ammunition, and explosives with a physical security classification of Confidential.
- 9 A controlled cryptographic item.
- C Confidential.
- N Firearms piece parts and non-lethal firearms.
- P Ammunition and explosives.
- Q A drug or other controlled substance designated as a Schedule III, IV, or V item, in accordance with the Controlled Substance Act of 1970. Other sensitive items requiring limited access storage.
- R Precious metals, a drug or other controlled substance designated as a Schedule I or II item, in accordance with the Controlled Substance Act of 1970. Other selected sensitive items requiring storage in a vault or safe.
- \$ Nuclear Weapon Use Control ground equipment which is CIIC unclassified but may require special controls.
- Y Communication/electronic equipment and parts.

## Appendix C. Tests of Inventory Records

### Record-to-Floor Tests

The AWCF inventory recorded in SARSS physically existed and was generally recorded accurately in SARSS at the six storage activities. We examined a statistical sample of 540 lines of inventory at Fort Campbell and Fort Rucker. Appendix A explains how we chose the audit sites and sample lines of inventory. The sample lines of inventory had an on-hand quantity of 23,027 and an approximate value of \$98.6 million as of when we performed the tests at each storage activity. Table C-1 provides a breakdown of the sample lines of inventory reviewed at the six storage activities.

<u>RIC</u>	<u>Lines</u>	<u>On-hand Quantity</u>	<u>Inventory Value (\$ millions)</u>
<u>Fort Campbell</u>			
ADL	128	1,392	\$26.9
AW3	83	12,008	22.9
WD7	<u>39</u>	<u>2,538</u>	<u>3.6</u>
<b>Subtotal</b>	<b>250</b>	<b>15,938</b>	<b>\$53.4</b>
<u>Fort Rucker</u>			
AW8	9	187	\$ 3.5
W0H	256	6,660	38.2
W66	<u>25</u>	<u>242</u>	<u>3.5</u>
<b>Subtotal</b>	<b>290</b>	<b>7,089</b>	<b>\$45.2</b>
<b>Total</b>	<b>540</b>	<b>23,027</b>	<b>\$98.6</b>

We identified 57 discrepancies, which we categorized in one or more of the following areas: quantity, location, and other (unit of issue, shelf-life code, CIIC, physical condition, or security). Table C-2 identifies the discrepancies with the sample lines of inventory by storage activity.

	<u>Fort Campbell</u>				<u>Fort Rucker</u>				<u>Total</u>
	<u>ADL</u>	<u>AW3</u>	<u>WD7</u>	<u>Subtotal</u>	<u>AW8</u>	<u>W0H</u>	<u>W66</u>	<u>Subtotal</u>	
Lines Reviewed	128	83	39	<b>250</b>	9	256	25	<b>290</b>	<b>540</b>
Quantity Discrepancy	2	6	1	<b>9</b>	0	13	2	<b>15</b>	<b>24</b>
IAR Adjustment	1	4	0	<b>5</b>	0	5	2	<b>7</b>	<b>12</b>
Non-IAR Adjustment	1	2	1	<b>4</b>	0	8	0	<b>8</b>	<b>12</b>
Location Discrepancy	6	11	1	<b>18</b>	1	4	0	<b>5</b>	<b>23</b>
Unit of Issue Discrepancy	0	0	0	<b>0</b>	0	0	0	<b>0</b>	<b>0</b>
Shelf-Life Code Discrepancy	1	0	0	<b>1</b>	0	0	0	<b>0</b>	<b>1</b>
CIIC Discrepancy	0	2	0	<b>2</b>	0	0	3	<b>3</b>	<b>5</b>
Condition Discrepancy	0	0	0	<b>0</b>	0	1	2	<b>3</b>	<b>3</b>
Lines not Properly Secured	0	1	0	<b>1</b>	0	0	0	<b>0</b>	<b>1</b>

**Quantity Discrepancy.** Of the 540 sample lines of inventory, 24 had the incorrect quantity recorded in SARSS. The 24 quantity discrepancies had an absolute value of \$304,306.

**Fort Campbell.** Only 9 of the 250 sample lines at the 3 storage activities at Fort Campbell had an incorrect quantity recorded in SARSS. Of the nine sample lines with quantity discrepancies, five resulted in IARs, which had an absolute value of \$158,015. The remaining four discrepancies had an absolute value of \$247.

**Fort Rucker.** Only 15 of the 290 sample lines at the 3 storage activities at Fort Rucker had the incorrect quantity recorded in SARSS. Of the 15 sample lines with quantity discrepancies, 7 resulted in IARs, which had an absolute value of \$145,101. The remaining eight discrepancies had an absolute value of \$943.

The research performed by personnel at the six storage activities to determine the causes for inventory adjustments indicated that the quantity discrepancies were caused by data input errors in SARSS, shipment of incorrect quantities, or processing errors. Personnel also reported on one IAR that exhaustive reviews did not identify the cause for one discrepancy. In addition, the research for one discrepancy did not identify an appropriate cause for the damage to an item that is being phased out of the Army inventory. However, the IAR showed that the damaged item was removed from storage.

**Projection.** Based on the results of the record-to-floor test, we were able to make projections on the quantity discrepancies for the storage activities we visited. Table C-3 provides the projection for the six storage activities visited. See Appendix D for a discussion of the methodology used to project the quantity discrepancies for the six storage activities visited.

**Table C-3. Projections**

	<u>Fort Campbell<sup>1</sup></u>	<u>Fort Rucker<sup>1</sup></u>
IAR Discrepancy Rate (percent) <sup>2</sup>	0.1	0.1
Non-IAR Discrepancy Rate (percent)	<u>3.8</u>	<u>8.0</u>
<b>Total Discrepancy Rate (percent)</b>	<b>3.9</b>	<b>8.1</b>
IAR Discrepancy Quantity	6	16
Non-IAR Discrepancy Quantity	<u>192</u>	<u>1,435</u>
<b>Total Discrepancies</b>	<b>198</b>	<b>1,451</b>
IAR Discrepancy Absolute Value	\$169,034	\$193,641
Non-IAR Discrepancy Absolute Value	<u>2,118</u>	<u>53,683</u>
<b>Total Discrepancy Absolute Value</b>	<b>\$171,153</b>	<b>\$247,325</b>

<sup>1</sup>Data taken from Tables D-4 through D-7 in Appendix D.  
<sup>2</sup>IAR discrepancy rate was used to compute the inventory accuracy rate. A 0.1 percent IAR discrepancy rate equates to a 99.9 percent inventory accuracy rate.

**Fort Campbell.** We project that we would have identified 198 lines (3.9 percent) with a quantity discrepancy. Of the projected 198 quantity discrepancies, only 6 lines (0.1 percent of the total number of lines) would have resulted in IARs with an absolute value of \$169,034. The IAR absolute value would have represented 0.2 percent of the total inventory value of all lines at the three storage activities we reviewed at Fort Campbell. The remaining 192 discrepancies (3.8 percent) would have had an absolute value of \$2,118 and would have represented less than 0.1 percent of the combined inventory value of all lines at the three storage activities we reviewed at Fort Campbell. See Tables D-4 and D-5 for the Fort Campbell projections.

**Fort Rucker.** We project that we would have identified 1,451 lines (8.1 percent) with a quantity discrepancy. Of the projected 1,451 quantity discrepancies, only 16 lines (less than 0.1 percent of the total number of lines) would have resulted in IARs with an absolute value of \$193,641. The IAR absolute value would have represented 0.2 percent of the total inventory value of all lines at the three storage activities we reviewed at Fort Rucker. The remaining 1,435 discrepancies (8.0 percent) would have had an absolute value of \$53,683 and would have represented less than 0.1 percent of the total inventory value of all lines at the three storage activities we reviewed at Fort Rucker. See Tables D-6 and D-7 for the Fort Rucker projections.

**Projected Accuracy Rate.** Based on the results of the projections, the projected value of the quantity discrepancies at the six storage activities we visited would have been insignificant in comparison to the total inventory value reviewed. The results of the statistical sample used during record-to-floor tests projected an inventory accuracy rate of 99.9 percent for the three storage activities visited at each installation.

**Location Discrepancy.** We found 18 of the 250 sample lines of inventory at Fort Campbell and 5 of the 290 sample lines at Fort Rucker had a location discrepancy. Specifically, SARSS did not record all storage locations for 10 of the 18 sample lines at Fort Campbell and 4 of the 5 sample lines at Fort Rucker. The locations for 8 sample lines were not correctly recorded in SARSS because storage activity personnel had improperly recorded the location in SARSS. The remaining item was not stored at the correct location. As a result of our review, personnel at each storage activity corrected the location discrepancies.

**Other Tests.** Four of the 250 sample lines of inventory at Fort Campbell and 6 of the 290 at Fort Rucker had discrepancies in the shelf-life code, CIIC, or issues with the physical condition or security of the items. Most of the discrepancies were caused by improperly coded data fields in SARSS or the data were changed in SARSS but not on the item or location labels. Personnel at the storage activities concurred with the discrepancies and adjusted the records in SARSS or corrected the discrepancies on the item or location labels. The number of discrepancies identified in these other areas was insignificant compared to the total sample lines reviewed.

### Floor-to-Record Tests

With the primary exception of two unrecorded locations, the lines of inventory that we tested were recorded in SARSS and were accurate at the six storage activities. We examined a judgmental sample of 88 lines of inventory at Fort Campbell and Fort Rucker that had an on-hand quantity of 4,409 and approximate value of \$3.1 million. Table C-4 provides a breakdown of the lines of inventory we reviewed at the six storage activities.

<b>Table C-4. Lines Reviewed</b>			
<u>Storage Activity</u>	<u>Lines</u>	<u>On-hand Quantity</u>	<u>Inventory Value</u>
<u>Fort Campbell</u>			
ADL	20	539	\$1,471,651
AW3	17	1,221	219,878
WD7	<u>16</u>	<u>2,019</u>	<u>96,869</u>
<b>Subtotal</b>	<b>53</b>	<b>3,779</b>	<b>\$1,788,398</b>
<u>Fort Rucker</u>			
AW8	8	76	\$ 55,578
W0H	16	493	1,058,896
W66	<u>11</u>	<u>61</u>	<u>201,267</u>
<b>Subtotal</b>	<b>35</b>	<b>630</b>	<b>\$1,315,741</b>
<b>Total</b>	<b>88</b>	<b>4,409</b>	<b>\$3,104,139</b>

We identified 12 discrepancies in 6 of the 88 lines of inventory. We categorized the discrepancies in one or more of the following areas: unrecorded location; quantity discrepancy; or discrepancies with the condition code, unit of issue, or CIIC. Table C-5 identifies the discrepancies with the lines of inventory by storage activity.

	<u>Fort Campbell</u>				<u>Fort Rucker</u>				<u>Total</u>
	<u>ADL</u>	<u>AW3</u>	<u>WD7</u>	<u>Subtotal</u>	<u>AW8</u>	<u>W0H</u>	<u>W66</u>	<u>Subtotal</u>	
Lines Reviewed	20	17	16	<b>53</b>	8	16	11	<b>35</b>	<b>88</b>
Unrecorded Location	0	2	0	<b>2</b>	0	0	0	<b>0</b>	<b>2</b>
Quantity Discrepancy	0	3	0	<b>3</b>	0	1	2	<b>3</b>	<b>6</b>
Condition Code Discrepancy	0	3	0	<b>3</b>	0	0	0	<b>0</b>	<b>3</b>
Unit of Issue Discrepancy	0	1	0	<b>1</b>	0	0	0	<b>0</b>	<b>1</b>
CIIC Discrepancy	0	0	0	<b>0</b>	0	0	0	<b>0</b>	<b>0</b>

**Unrecorded Location.** Two of the 88 lines of inventory did not have a location recorded in SARSS. Each of the 35 lines of inventory at Fort Rucker, and 51 of the 53 lines of inventory at Fort Campbell had a recorded location. The other two lines of inventory were recorded in SARSS; however, SARSS did not record the location or quantity. Personnel at RIC AW3 determined that the cause for one of the unrecorded locations was that the inventory for one order from April 2005 had not been picked for shipment. As a result, the quantity in SARSS was reduced to zero and the location was deleted, but the inventory remained at the location. The storage activity personnel were not able to determine the cause for the other unrecorded location. The storage activity personnel added the two locations and a quantity of one to each of the two lines of inventory in SARSS to correct the discrepancies.

**Quantity Discrepancy.** Six of the 88 lines of inventory, including the two lines with the unrecorded locations, had a quantity discrepancy in SARSS. Three of the 53 lines of inventory at Fort Campbell and 3 of the 35 lines of inventory at Fort Rucker had a quantity discrepancy. The absolute value of quantity discrepancies at Fort Campbell was \$20,484. The discrepancies were a result of the two unrecorded locations and the storage of different lines of inventory in the same location. The absolute value of quantity discrepancies at Fort Rucker was \$2,450. The discrepancies were caused by the storage of different lines of inventory in the same location and the miscounting of lines of inventory. The storage activity personnel at Fort Campbell and Fort Rucker added the missing locations, moved the different lines of inventory to separate locations, and agreed to adjust the discrepancies due to the miscounted lines of inventory.

**Other Tests.** Only 4 of the 88 total lines of inventory had a discrepancy in the condition code, unit of issue, or CIIC. Four of the 53 lines of inventory at Fort Campbell had discrepancies in these areas. The causes of the discrepancies were

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an unrecorded data field in SARSS, storage of different lines of inventory in the same location, and improper coding of the data field on the item or location label. The storage activities took the necessary actions to correct the discrepancies.

# Appendix D. Statistical Sampling Methodology and Analysis

## Quantitative Plan

The purpose of the quantitative plan was to estimate the error rate and dollar misstatements in AWCF inventory stored at other than DLA organizations.

**Population.** The population files we obtained from the Integrated Logistics Analysis Program contained inventory data for Fort Campbell and Fort Rucker. We further reduced the population by looking only at inventory items that had a Routing Identifier Code (RIC) of ADL, AW3, or WD7 at Fort Campbell and a RIC of W0H, W66, or AW8 at Fort Rucker.

**Measures and Parameters.** The measure of “correct” or “incorrect” was used to classify the attribute items audited. The “over” or “under” dollar amount was the variable measure. We used a 95 percent confidence level for the statistical estimate.

## Sample Plan

The Quantitative Methods Directorate developed a stratified sample design for Fort Campbell and Fort Rucker. The two locations and three RICs from each location were judgmentally selected by the audit team. The first stratification was based on the CIIC which designated the lines of inventory with controlled and uncontrolled inventory items. The Quantitative Methods Directorate further stratified within each of the controlled and uncontrolled stratum based on the reported dollar value in the On-Hand Extended Price variable. The Quantitative Methods Directorate also randomized within each stratum and selected the sample items using simple random without replacement.

Two items totaling \$40.67 from the \$0-\$25,000 Controlled stratum at Fort Rucker were inadvertently excluded from the population. The population does not include these two items. See Table D-1 for a list of the items excluded. Tables D-2 and D-3 detail the sample stratification at Fort Campbell and Fort Rucker.

<b>Table D-1. Line Items Excluded from Fort Rucker Sample<sup>1</sup></b>				
<u>RIC</u>	<u>NIIN</u>	<u>On-hand Extended Price</u>	<u>CIIC</u>	
AW8	01-446-6617	\$ 8.00	S	
W0H	01-462-8845	32.67	1	

<sup>1</sup>Data as of December 22, 2006.

**Table D-2. Fort Campbell Sample Stratification<sup>1</sup>**

<b>Stratum (dollars)</b>	<b>Controlled Item</b>	<b>Sample</b>	<b>Population</b>	<b>Sample<sup>2</sup></b>	<b>Population<sup>2</sup></b>
	<b>Category</b>	<b>Lines</b>	<b>Lines</b>		
\$100,000-\$10,000,000	Uncontrolled	65	65	\$41,484,294	\$41,484,294
\$25,000-\$100,000	Uncontrolled	35	101	1,763,972	5,119,459
\$0-\$25,000	Uncontrolled	40	3770	73,656	6,101,467
\$25,000-\$10,000,000	Controlled	70	143	14,878,917	30,035,964
\$0-\$25,000	Controlled	40	965	134,979	2,859,340
		<b>250</b>	<b>5,044</b>	<b>\$58,335,818</b>	<b>\$85,600,524</b>

<sup>1</sup>Population and sample included storage activities AW3, ADL, and WD7.  
<sup>2</sup>Data as of December 22, 2006.

**Table D-3. Fort Rucker Sample Stratification<sup>1</sup>**

<b>Stratum (dollars)</b>	<b>Controlled Item</b>	<b>Sample</b>	<b>Population</b>	<b>Sample<sup>2</sup></b>	<b>Population<sup>2</sup></b>
	<b>Category</b>	<b>Lines</b>	<b>Lines</b>		
Top 40	Uncontrolled	40	40	\$15,526,159	\$15,526,159
\$25,000-\$3,000,000	Uncontrolled	50	276	2,852,433	14,874,705
\$0-\$25,000	Uncontrolled	80	16,336	79,533	15,428,963
Top 40	Controlled	40	40	25,787,741	25,787,741
\$25,000-\$3,000,000	Controlled	50	180	3,182,100	12,325,727
\$0-\$25,000	Controlled	30	1011	114,469	5,003,300
		<b>290</b>	<b>17,883</b>	<b>\$47,542,435</b>	<b>\$88,946,595</b>

<sup>1</sup>Population and sample included storage activities W0H, W66, and AW8.  
<sup>2</sup>Data as of December 22, 2006.

## Statistical Analysis and Interpretation

**Fort Campbell.** Based on the audit results, which included the absolute value of IAR adjustments, non-IAR adjustments, and the combined absolute value of IAR and non-IAR adjustments, the Quantitative Methods Directorate calculated the statistical projections in Tables D-4 and D-5.

**Table D-4. Fort Campbell Discrepancy Value Projections<sup>1</sup>**  
 (95-Percent Confidence Interval)

	<b>Lower Bound<sup>2</sup></b>	<b>Point Estimate<sup>2</sup></b>	<b>Upper Bound<sup>2</sup></b>
IAR Discrepancies	\$138,806	\$169,034	\$199,261
Non-IAR Discrepancies	-	2,118	4,453
IAR & Non-IAR Discrepancies	140,753	171,153	201,553

<sup>1</sup>Projection includes storage activities AW3, ADL, and WD7.  
<sup>2</sup>Stated in absolute value.

We are 95 percent confident that the absolute value of IAR adjustments is between \$138,806 and \$199,261, the absolute value of non-IAR adjustments is not more than \$4,453, and the combined absolute value of IAR and non-IAR adjustments is between \$140,753 and \$201,553.

<b>Table D-5. Fort Campbell Discrepancy Rate Projections<sup>1</sup></b> (95-Percent Confidence Interval)		
	<b>Point Estimate</b>	<b>Upper Bound</b>
IAR Discrepancy Rate	0.1%	1.7%
IAR Discrepancy Quantity <sup>2</sup>	6	86
Non-IAR Discrepancy Rate	3.8%	9.6%
Non-IAR Discrepancy Quantity <sup>2</sup>	192	485
IAR & Non-IAR Discrepancy Rate	3.9%	9.7%
IAR & Non-IAR Discrepancy Quantity <sup>2</sup>	198	491
<sup>1</sup> Includes storage activities AW3, ADL, and WD7.		
<sup>2</sup> Lines of inventory.		

We are 95 percent confident that the IAR discrepancy rate and discrepancy quantity is not more than 1.7 percent and 86 lines of inventory, respectively; the non-IAR discrepancy rate and discrepancy quantity is not more than 9.6 percent and 485 lines of inventory, respectively; and the combined IAR and non-IAR discrepancy rate and discrepancy quantity is not more than 9.7 percent and 491 lines of inventory, respectively.

**Fort Rucker.** Based on the audit results which included the absolute value of IAR adjustments, non-IAR adjustments, and the combined absolute value of IAR and non-IAR adjustments, the Quantitative Methods Directorate calculated the statistical projections in Tables D-6 and D-7.

<b>Table D-6. Fort Rucker Discrepancy Value Projections<sup>1</sup></b> (95-Percent Confidence Interval)			
	<b>Lower Bound<sup>2</sup></b>	<b>Point Estimate<sup>2</sup></b>	<b>Upper Bound<sup>2</sup></b>
IAR Discrepancies	\$114,890	\$193,641	\$272,392
Non-IAR Discrepancies	-	53,683	125,693
IAR & Non-IAR Discrepancies	121,905	247,325	372,744
<sup>1</sup> Projection includes storage activities WOH, W66, and AW8.			
<sup>2</sup> Stated in absolute value.			

We are 95 percent confident that the absolute value of IAR adjustments is between \$114,890 and \$272,392, the absolute value of non-IAR adjustments is not more than \$125,693, and the combined absolute value of IAR and non-IAR adjustments is between \$121,905 and \$372,744.

<b>Table D-7. Fort Rucker Discrepancy Rate Projections<sup>1</sup></b>			
<b>(95-Percent Confidence Interval)</b>			
	<b><u>Lower</u></b> <b><u>Bound</u></b>	<b><u>Point</u></b> <b><u>Estimate</u></b>	<b><u>Upper</u></b> <b><u>Bound</u></b>
IAR Discrepancy Rate	-	0.1%	1.0%
IAR Discrepancy Quantity <sup>2</sup>	-	16	185
Non-IAR Discrepancy Rate	1.2%	8.0%	14.8%
Non-IAR Discrepancy Quantity <sup>2</sup>	219	1,435	2,651
IAR & Non-IAR Discrepancy Rate	1.3%	8.1%	14.9%
IAR & Non-IAR Discrepancy Quantity <sup>2</sup>	235	1,451	2,667

<sup>1</sup>Includes storage activities W0H, W66, and AW8.  
<sup>2</sup>Lines of inventory.

We are 95 percent confident that the IAR discrepancy rate and discrepancy quantity is not more than 1.0 percent and 185 lines of inventory, respectively; the non-IAR discrepancy rate and discrepancy quantity is between 1.2 and 14.8 percent and between 219 and 2,651, respectively; and the combined IAR and non-IAR discrepancy rate and discrepancy quantity is between 1.3 and 14.9 percent and between 235 and 2,667, respectively.

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Acquisition Resources and Analysis  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Assistant Secretary of the Army (Acquisition, Logistics, and Technology)  
Army Deputy Chief of Staff, G-4 (Logistics)  
Auditor General, Department of the Army

### **Other Defense Organization**

Director, Defense Finance and Accounting Service

### **Non-Defense Federal Organization**

Office of Management and Budget

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Oversight and Government Reform  
House Subcommittee on Government Management, Organization, and Procurement,  
Committee on Oversight and Government Reform  
House Subcommittee on National Security and Foreign Affairs,  
Committee on Oversight and Government Reform



# Army Deputy Chief of Staff, G-4 Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE DEPUTY CHIEF OF STAFF, G-4  
500 ARMY PENTAGON  
WASHINGTON, DC 20310-0500

DALO-SUS-SI

9 NOV 07

MEMORANDUM THRU DEPUTY CHIEF OF STAFF, G-4, 500 ARMY PENTAGON,  
WASHINGTON, D.C. 20310

FOR DIRECTOR, DEPARTMENT OF DEFENSE, OFFICE OF THE DEPUTY  
INSPECTOR GENERAL FOR AUDITING, DEFENSE FINANCIAL AUDITING  
SERVICE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202

SUBJECT: Report on Controls Over Army Working Capital Fund Inventory Stored by  
Organizations Other Than Defense Logistics Agency (Project No. D200-D000F1-  
0056.000)

1. This is in response to the Program Director, Defense Financial Auditing Service's memorandum (Enclosure) of 26 September 2007, which requested a review of and comments on the recommendations listed in the subject draft report. The following are the U.S. Army's comments to the Department of Defense Inspector General's recommendations.

a. Recommendation 1a. We recommend that the Deputy Chief of Staff, G-4 (DCS, G-4) review and make appropriate changes to inventory guidance and performance as the U.S. Army proceeds toward implementation of the Global Combat Support System-Army, Field/Tactical (GCSS-A F/T). Specifically, review Army Regulation 710-2, related to location audit programs, and update the guidance to reflect the scope of location surveys, location survey documentation requirements, and other changes in the inventory processes as a result of the implementation of GCSS-A F/T.

Response. Concur with comment. The DCS, G-4 will review and make appropriate changes as it pertains to inventory guidance, location surveys and performance. The operational assessment of GCSS-A F/T scheduled to begin in December 2007 will serve to solidify the process changes to inventory and location surveys that was realized during the blueprint phase of the Enterprise Resource Planning (ERP) development. As we identify changes to the business process the Army G-4 will update and or change policy to support best business practices. One example of an upcoming change is the deletion of the requirement to perform location surveys in an ERP solution. Location survey is not a process in Software Application Package SAP. The detailed inventory process in the SAP solution is superior to the current Army Standard Army Management Information System. The ability to link on hand inventory directly to storage bins does not require the use of a location survey prior to inventory.

DALO-SUS-SI

SUBJECT: Report on Controls Over Army Working Capital Fund Inventory Stored by Organizations Other Than Defense Logistics Agency (Project No. D200-D000F1-0056.000)

b. Recommendation 1b. Examine the inventory adjustment rate and other performance measures reported on the AJU-180 report to determine whether those measures provide the most beneficial performance data for inventory managers at all levels.

Response. Concur with comment. The DCS, G-4, in a coordinated effort with the Logistics Support Activity, Logistics Innovation Agency, and contractor support is currently taking many key metrics from the AJU-180 report and building them into the Logistics Information Warehouse to be used with the My Supply Support Activity (MySSA) Oracle Business Intelligence Tools. The MySSA tool is expected to be deployed November 2007. The analyses from this tool will be evaluated and if required performance measures will be refined as needed.

3. Point of contact is Ms. Sharon E. Lyons, at (703) 692-9563, or e-mail: sharon.e.lyons@us.army.mil.

Encl

  
SARAH H. FINNICUM  
Director of Supply

# 160th Special Operations Aviation Regiment (Airborne) Comments



REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
HEADQUARTERS, UNITED STATES AR  
2929 DESERT STORM DRIVE  
SPECIAL OPERATIONS COMMAND  
FORT BRAGG, NORTH CAROLINA 28310-9110

ACIR

3 0 NOV 2007

MEMORANDUM FOR Program Director, Defense Financial Auditing  
Service, Department of Defense Inspector General, 400 Army Navy  
Drive, Arlington VA 22202-4704

SUBJECT: Command Reply to the Department of Defense Inspector  
General Report on the Army Working Capital Fund (AWCF) Stock List  
Evaluation and Inspection Report No D2007-D000F1-0056.000

1. This Command and the 160th Special Operation Aviation Regiment  
(SOAR) have reviewed the subject report. Corrective actions taken  
by SOAR on the recommendations contained in the report are  
provided in the enclosure.

2. Mr. Janz Johnson, Director, Internal Review, at (910) 432-8733,  
e-mail: [johnsoja@soc.mil](mailto:johnsoja@soc.mil), can provide your staff additional  
information.

Encl

  
ANDREW N. MILANI II  
Colonel, GS  
Chief of Staff



DEPARTMENT OF THE ARMY  
HEADQUARTERS, 160TH SPECIAL OPERATIONS AVIATION REGIMENT (AIRBORNE)  
7277 NIGHT STALKER WAY  
FORT CAMPBELL, KENTUCKY 42223-6012

AOAV-CD

13 November 2007

MEMORANDUM FOR Chief of Staff United States Army Special Operations Command (Airborne),  
Fort Bragg, NC 28307

SUBJECT: 160<sup>th</sup> Response to the Department of Defense Inspector General Report on the Army  
Working Capital Fund Authorized Stock List Evaluation and Inspection Report

1. Purpose. To specifically address identified areas of DODIG areas of concern in regards to the Army Working Capital Fund (AWCF) Authorized Stock List (ASL)
2. Summary. The Regiment Supply Support Activity (SSA) was involved in an Army wide DODIG audit and evaluation of the AWCF ASL inventory (9-11 April 2007). Inspectors from the DODIG office noted that our SSA has a very good operation and highlighted that that 160th personnel had a comprehensive working knowledge of requirements and regulations. No systematic issues were highlighted during this evaluation. There were, however, three areas that the DODIG recommended that we address.
3. Background and Discussion.
  - a. Per the DODIG draft report of findings, it was recommended that certain internal controls be established to reduce the risk of potential unauthorized acquisitions, use, and/or disposition of assets. As part of our responsibility to develop and maintain effective internal controls, it is recommended that Commanders of the storage activities at Fort Campbell and Fort Rucker continually assess control measures over AWCF inventory. When areas of weaknesses are found, commanders are responsible for assessing and improving practices that consider the cost benefits through adjusting the existing controls and/or implementing any new controls.
  - b. This draft report highlighted *that although the control weaknesses identified do not impact the results of the tests of inventory records or the inventory accuracy rates of the six storage activities, they could potentially result in the unauthorized acquisition, use, or disposition of assets. It was recommended that the commanders of the six storage activities improve controls over AWCF inventory.* There were four areas recommended specific attention, three of those applied directly to the 160<sup>th</sup> Regiment Supply Support Activity.
  - c. Separation of Duties
    - (1) **DODIG Recommendation:** Separate the duties of receiving, issuing and posting inventory with that of those whose duties are to file maintenance actions of issuing and receiving inventory items, and ensuring that compensating controls have been implemented.

AOAV-CD

SUBJECT: 160<sup>th</sup> Response to the Department of Defense Inspector General Report on the Army Working Capital Fund Authorized Stock List Evaluation and Inspection Report

(2) **Our Response:** The duties are indeed separated and each Soldier in the warehouse is assigned to a specific section. However, we cross train all Soldiers in order to ensure that there is not a mission impact due to a Soldier's absence from a particular section. Imperative to the mission flow, we require a Soldier to have multiple file access. We exercise strict oversight by first line supervisors in order to ensure that there is no unauthorized acquisitioning.

**d. Calculation and Reporting of Location Accuracy Rates**

(1) **DODIG Recommendation:** Ensure that location accuracy rates are calculated and are consistently reported in order to improve the monitoring of the storage activity performance.

(2) **Our Response:** Our monthly 10% inventories cover the location survey requirement. Our location maintenance and location surveys are completed at the same time before an inventory is done. Regulations do not specify a requirement to file surveys; however, we've implemented a system that files our monthly surveys in hard copy format along with our 10% monthly inventory in order to improve our monitoring of location accuracy. We also implemented a monthly location survey with our Personal Data Collection Devices, so the accuracy reflects the monthly AJU-180 report, which for the last two months reflected 100% location accuracy. This is at no risk or cost to the government and does not affect our mission.

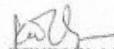
**e. Improve Inventory Adjustment Research (IAR)**

(1) **DODIG Recommendation:** Improve inventory adjustment research and documentation.

(2) **Our Response:** Although we currently meet all the requirements outlined in the regulation for causative research, there were areas that were open to question and interpretation. We have since implemented strict causative research methods and developed a packet for all future IAR's that incorporates all research material, Supply Discrepancy Reports, Transportation Discrepancy Reports, Soldier counseling and any other required documentation that will identify and better explain the reason for the Inventory Adjustment Report. This was at no risk or cost to the government and does not affect the mission.

4. **Closing Remarks.** The DODIG team was very professional, courteous, and presented an accurate assessment of our operation within the inspection criteria. After performing an internal risk assessment immediately after the teams visit for both cost benefit and mission enhancement, we have implemented the controls outlined above.

5. The Point of Contact for this memorandum is CW4 Tracy Eby at (270) 798-1880.

  
KEVIN W. MANGUM  
COL, AV  
Commanding

# Army Aviation Center Logistics Command Comments



DEPARTMENT OF THE ARMY  
HEADQUARTERS UNITED STATES ARMY AVIATION CENTER LOGISTICS COMMAND  
1116 DILLY BRANCH ROAD  
FORT RUCKER, AL 38362-6000

REPLY TO  
ATTENTION OF

AMSAM-MMC-AC-HQ

5 November 2007

MEMORANDUM THRU

US Army Aviation and Missile Life Cycle Management Command (AMCOM),  
ATTN: AMSAM-MMC, Redstone Arsenal, AL 35898-5000  
US Army Materiel Command, ATTN: AMCIR, 9301 Chapek Road, Ft. Belvoir,  
VA 22060

FOR Inspector General (ODIG-AUD), Department of Defense, 400 Army Navy Drive,  
Arlington, VA 22202-4704

SUBJECT: Command Reply, DODIG Draft Report on Controls Over Army Working Capital  
Fund Inventory Stored by Organizations Other Than Defense Logistics Agency (D2007-  
D000P1-0056.000) (AMC No. D0701)

1. The subject draft report has been reviewed and we concur with the facts, conclusions and recommendation addressed to this command. Enclosed are specific comments to the recommendation.
2. The point of contact is Elaine Tice, 334-255-9184.

Encl

  
ALAN M. STULE  
COL, AV  
Commanding

US Army Aviation Center Logistics Command (ALCL)  
Comments to DODIG Draft Report  
Audit of Controls Over Army Working Capital Fund Inventory Stored by  
Organizations Other Than Defense Logistics Agency  
(D2007-D000F1-0056.000)  
(AMC D0701)

**FINDING:** Adequacy of Controls Over Army Working Capital Fund Inventory

“Effective physical inventories and security measures at the six storage activities resulted in accurate counts and safeguarded AWCF inventory. The inventory accuracy rates met or exceeded the Army performance goal. However, we identified weaknesses in the timeliness of physical inventories, separation of duties, implementation of location audit programs, and inventory adjustment research. These control weaknesses occurred because:

- personnel did not always follow regulatory guidance or the guidance was not clear,
- staffing issues and contract requirements limited the separation of duties and access to SARSS, and
- personnel did not always correctly identify or provide sufficient documentation to verify the cause of adjustments to the inventory records.

Although these control weaknesses did not result in significant inventory discrepancies or in unacceptable inventory accuracy rates for the records that we reviewed, they could affect the accuracy of the inventory records through the unauthorized use, disposition, or loss of inventory. The control weaknesses could also affect the commanders’ ability to effectively monitor storage activity performance and to ensure that the reasons for inventory discrepancies are corrected.”

**RECOMMENDATION AND COMMAND COMMENTS:**

**Recommendation 2:**

“We recommend that the commanders of the storage activities at Fort Campbell and Fort Rucker improve controls over Army Working Capital Fund inventory. In determining the appropriate course of action, the commanders should first perform a cost-benefit analysis to compare the option of adjusting existing controls to implementing new controls.”

**Command Comments:** Concur. On 24 Oct 07, a request for cost benefit analysis to increase personnel by separating functions and increase inventory control was requested through the Administrative Contracting Officer, ALCL. The cost-benefit

analysis is expected to be completed by 15 Jan 08. The assessment of feasibility of implementation will be done by the Commander, ACLC upon review of this business case analysis and is expected to be completed by 15 Mar 08.

# Installation Management Command, Army Garrison, Fort Campbell Comments



REPLY TO  
ATTENTION OF:

IMSE-CAM-IR

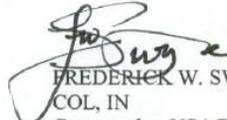
DEPARTMENT OF THE ARMY  
INSTALLATION MANAGEMENT COMMAND, SOUTHEAST REGION  
HEADQUARTERS, UNITED STATES ARMY GARRISON, FT CAMPBELL  
39 NORMANDY BOULEVARD  
FORT CAMPBELL, KENTUCKY 42223-5617

MEMORANDUM FOR Department of Defense, Office of the Inspector General,  
ATTN: Mr. Nathan Witter, 8899 East 56<sup>th</sup> Street, Room 115-Z, Indianapolis, IN 46249-7501

SUBJECT: Draft Report with Recommendations, Audit of the Controls over Army Working  
Capital Fund Inventory Stored at Non-Defense Logistics Agency Organizations  
(Project No. D2007-D000FI-0056.00)

1. The subject draft audit report has been reviewed as requested. We concur with the recommendation made in the draft audit report. The enclosed comments to the recommendation made in the draft audit report represent the command position.
2. The Internal Review and Audit Compliance point of contact is Wally Reimold, 270/798-2390 or Roger Shields, 270/798-3144.

Encl

  
FREDERICK W. SWOPE  
COL, IN  
Commander, USAG

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**Ft. Campbell, KY Command Reply To  
DoDIG Audit of the Controls over Army Working Capital Fund Inventory Stored at  
Non-Defense Logistics Agency Organizations  
(D2007-D000FI-0056.00)**

The United States Army Garrison, Ft. Campbell, concurs with Recommendation #2 in the Draft Audit Report. Actions taken on the recommendation are as follows:

**Action Taken:** The Chief of the Directorate of Logistics (DOL) at Ft. Campbell has stated that we will perform a risk assessment that considers the cost/benefit of adjusting the existing controls over AWCF inventory and implementing new controls. A suspense action is being carried to ensure completion.

**Projected Completion Date:** 31 March 2008

# Installation Management Command, Army Garrison, Fort Rucker Comments



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
US ARMY INSTALLATION MANAGEMENT COMMAND  
HEADQUARTERS UNITED STATES ARMY GARRISON  
453 NOVOSEL STREET  
FORT RUCKER ALABAMA 36362-5105

IMSE-RCK-IR

15 November 2007

MEMORANDUM FOR Program Director, Inspector General, Department of Defense

SUBJECT: Report on Controls Over Army Working Capital Fund Inventory Stored by Organizations Other Than Defense Logistics Agency (Project No. D2007-D000FI-0056.000)

1. We have reviewed the draft report and prepared a Command Reply addressing each recommendation. The Command Reply is enclosed.
2. Questions concerning this reply should be addressed to Ms. Cox at DSN 558-3874.

Encl  
as

  
WILLIAM S. LARESE  
Colonel, Aviation  
Garrison Commander

COMMAND REPLY  
DRAFT OF PROPOSED DoD-IG REPORT: D2007-D000DI-0056.000  
CONTROLS OVER ARMY WORKING CAPITAL FUND INVENTORY  
STORED BY ORGANIZATIONS OTHER THAN DEFENSE LOGISTICS AGENCY

Response is based on comments from Director of Logistics (DOL), Supply and Services Division (AW8), Fort Rucker. *DOL's reply is in italics below.*

Additional facts.

On page 6, the first paragraph discusses improper "Separation of Duties" and the fact that receiving and issuing duties are assigned to the same personnel. "According to DoD 4104.1-R, "DoD Supply Chain Material Management Regulation," May 2003, storage activities are required to assign the duties of receiving, issuing, and posting to separate people."

*Self-Explanatory. Contractor personnel are cross-trained for efficiency (and contract cost). Product of A-76 contract.*

Under "Researching Adjustments, Incorrect Cause", on page 9, the topic of personnel incorrectly identifying the cause of three adjustments is addressed.

*This was, in fact, a systemic error. Non-responsiveness by the system administrators to our documentation requests does not constitute a finding against RIC AW8. However, RIC AW8 personnel have been instructed in accessing and retaining more conclusive and in-depth records, and to escalate the issue if required records are not made available to them. Personnel have been instructed to follow the documentation until the correct root cause has been identified and is properly recorded in the respective IAR folder.*

Then under the next subheading "Unverified Cause" also on page 9, the cause of the gain of 13 items is attributed to the system problem discussed above.

*This was, in fact, a systemic error. Non-responsiveness by the system administrators to our documentation requests does not constitute a finding against RIC AW8. However, RIC AW8 personnel have been instructed in accessing and retaining more conclusive and in-depth records, and to escalate the issue if required records are not made available to them. Personnel have been instructed to follow the documentation until the correct root cause has been identified and is properly recorded in the respective IAR folder.*

On page 13, the fact that RIC AW8 did not meet the Army Performance goal for FY2006 is addressed. This was attributed to the fact that many inventory items were not included in the authorized stockage list (ASL) value but were required to be included in the annual inventory count. "According to the SARSS program office, SARSS calculates the inventory adjustment rate by adding gains and losses resulting from all inventory counts and dividing this total by the value of the ASL. Therefore, SARSS may have inflated the rates by including gains and losses on inventory not included in the ASL."

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*Self-Explanatory. See highlighted areas. **Additionally**, automatic posting of Pseudo-Receipts to clear depot books can cause IARs that are not under any control by the affected RIC. Although these "administrative" IARs are not supposed to be included in the RIC 5% tolerance for this measurement, they in fact are. These systemic idiosyncrasies have been a major hindrance to presenting accurate Inventory Adjustment Rates figures. Issues have been addressed to CTASC. The "true" picture has to be calculated manually.*

Recommendation 2. For Commanders of storage activities to improve controls over Army Working Capital Fund inventory. A risk assessment that considers the cost benefit of adjusting the existing controls and implementing any new controls should be performed.

Action taken. Concur. DOL will accomplish the requirements of this recommendation no later than 1 February 2008.

# 597th Ordnance (Maintenance) Company Comments



DEPARTMENT OF THE ARMY  
597<sup>TH</sup> ORDNANCE (MAINT) COMPANY  
BLDG 25105B, KNOX ARMY AIRFIELD  
FORT RUCKER, ALABAMA 36362-5000

AFATS-CS-F-CDR

27 November 2007

MEMORANDUM FOR FORSCOM G-4

SUBJECT: Department of Defence Office of Inspector General (DODIG) Audit of controls over Army Working Capital Fund Inventory stored At Non-Defenses Logistics Agency Organizations

1. The Commander and Accountable Officer of the 597th Ordnance (maintenance) Company Supply Support Activity (SSA) have reviewed the Draft Report for the Audit of Controls over Army Working Capital Fund Inventory stored at non-defence logistics agency organizations.
2. In accordance with AR 36-2 the commander and accountable officer of the 597th Ordnance (maintenance) Company Supply Support Activity are in full agreement with the DODIG draft report, Project No. D2007-D000FI-0056.000, dated September 26, 2007.
3. The 597<sup>th</sup> Ordnance Company provides the following comments to the recommendation.

Recommendation 2: The commanders of the storage activities at Fort Campbell and Fort Rucker improve controls over Army Working Capital Fund inventory. In determining the appropriate course of action, the commanders should first perform a cost-benefit analysis to compare the option of adjusting existing controls to implementing new controls.

Command Comments: Concur. In order to implement the DODIG recommendations to improve controls over Army Working Capital Fund inventory the following steps are taken:

- a) Perform a wall-to-wall location survey/reconciliation, fix existing faults, and implement revisions to the internal SOP for procedures and schedules for ongoing locations surveys.
  - b) Perform an ASL review board to determine which stocks to eliminate from storage, which to keep, and which to add.
  - c) Increased sergeants time training for all 92A's on location maintenance, location survey, and inventory procedures in accordance with AR 710-2, DoD 4000.25-2-M, and AR 725-50.
  - d) Increased formal residential training for all 92A's, i.e., SARSS2AC/B, SAMS-E, and BNCOC.
  - e) Coordinate periodical annual checks with higher headquarters S-4.
4. The 597<sup>th</sup> SSA is the Army's only tactical support and sustainment warehouse specifically for air traffic systems and subsystems worldwide. Air Traffic Services (ATS) is currently in a state of transition from legacy radar systems to new systems. Much of our stock is old, obsolete, and one of a kind. Much of our equipment dates back to the Vietnam War. In the past we have used a perpetual location survey where each location is surveyed at least once a year and the surveys

AFATS-CS-F-CDR

SUBJECT: Department of Defence Office of Inspector General (DODIG) Audit of controls over Army Working Capital Fund Inventory stored At Non-Defenses Logistics Agency Organizations

are spread throughout the 12 months of the year instead of being done in one month. Due to the age of the equipment and the findings of the DODIG inspection team, the use of the perpetual survey is unacceptable. We are therefore changing to a quarterly schedule in coordination with the shop office. The shop office assigns a technical inspector to verify the serviceability of the item.

5. All policy changes and courses of action are ongoing and forecast for completion by the end of the 2<sup>nd</sup> quarter of fiscal year 08.

6. POC for this memorandum is the undersigned CPT Steven R. Valentine at; email, [steven.valentine@conus.army.mil](mailto:steven.valentine@conus.army.mil), DSN, 558-2103, COMM, 334 255-2103, or CW4 Christopher R. Mullen at, email, [christopher.r.mullen@conus.army.mil](mailto:christopher.r.mullen@conus.army.mil), DSN, 558-2599, COMM, 334 255-2599



CHRISTOPHER R. MULLEN  
CW4, QM  
Accountable Officer



STEVEN R. VALENTINE  
CPT, AV  
Commander

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# Office of the Assistant Secretary (Financial Management and Comptroller) Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON, DC 20310-0109

OCT 31 2007

SAFM-BUR-I

MEMORANDUM FOR The Deputy Auditor General, U.S. Army Audit Agency, ATTN:  
Financial Audits, 3101 Park Center Dr., Alexandria, VA 22302-1596

SUBJECT: Controls Over Army Working Capital Fund Inventory Stored by Organization  
Other Than Defense Logistics Agency, D2007-D000FI-0056.000

This office concurs with the draft report from the Department of Defense Office of  
Inspector General and has no further comments or recommendations.

Should you require additional information, my point of contact is Debbie Pow at  
(703) 692-9550 or [debbie.pow@us.army.mil](mailto:debbie.pow@us.army.mil).

  
Kathleen S. Miller  
Director for Operations, Support,  
and Business Resources

## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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# Inspector General Department of Defense

