

December 2005

# DEFENSE INVENTORY

## Army Needs to Strengthen Internal Controls for Items Shipped to Repair Contractors



G A O

Accountability ★ Integrity ★ Reliability



Highlights of [GAO-06-209](#), a report to congressional requesters

## Why GAO Did This Study

GAO has previously reported that the lack of control over inventory shipments increases the Department of Defense's (DOD) vulnerability to undetected loss or theft. GAO evaluated the Army's effectiveness in maintaining accountability of inventory shipped to repair contractors. To conduct its review, GAO analyzed shipment data for fiscal year 2004, surveyed repair contractors that were recipients of inventory shipments, and assessed the Army's adherence to internal control procedures. Inventory shipments included both secondary repair items—components, assemblies, and subassemblies, other than major end items, which may be sent to commercial facilities for repair, alteration, or modification—and government-furnished materiel—assemblies, parts, and other items provided in support of this work.

## What GAO Recommends

GAO recommends that the Army take actions to strengthen its accountability over secondary repair items and government-furnished materiel shipped to its repair contractors. DOD concurred with six of GAO's recommendations and nonconcurred with one. GAO has deleted this recommendation based on follow-up work by the Army showing that the Army had erroneously provided a duplicate shipment record.

[www.gao.gov/cgi-bin/getrpt?GAO-06-209](http://www.gao.gov/cgi-bin/getrpt?GAO-06-209).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William M. Solis at (202) 512-8412 or [solisw@gao.gov](mailto:solisw@gao.gov).

# DEFENSE INVENTORY

## Army Needs to Strengthen Internal Controls for Items Shipped to Repair Contractors

### What GAO Found

The Army has not maintained accurate accountability for inventory shipped to repair contractors, thereby placing these assets at risk of loss or theft. Although DOD policy requires the military services to confirm receipt of all assets shipped to contractors, the Army is not consistently recording shipment receipts in its inventory management systems. In an analysis of fiscal year 2004 shipment data obtained from two Army inventory control points, GAO could not reconcile shipment records with receipt records for 42 percent of the unclassified secondary repair item shipments, with a value of \$481.7 million, or for 37 percent of the classified secondary repair item shipments, with a value of \$8.1 million. These data show that the Army cannot confirm that all inventory items shipped to repair contractors were received. The Army's data contained no receipts for government-furnished materiel.

GAO survey results showed that repair contractors could confirm receipt of most, but not all, of the shipments. Specifically, on the basis of its survey results and follow-up work, GAO estimated that about 15 percent of the unclassified secondary repair item shipments in the survey population could not be confirmed as being received. GAO estimated that these lost or unaccounted for shipments have a value of approximately \$68 million. All shipments of classified government-furnished materiel and secondary repair items were reported as received by the contractors in our survey. For shipments of unclassified government-furnished materiel, almost all shipments were reported by the contractors in our survey as being received.

The Army's accountability for shipments of items sent to repair contractors is impeded by three internal control weaknesses. First, Army inventory control points lack systematic procedures for (1) obtaining and documenting contractor receipt of shipments of secondary repair items, (2) following up in cases where receipt was not confirmed by the contractors, and (3) providing advance notification of shipments to contractors. Second, the Army does not confirm receipt of government-furnished materiel shipments, reflecting a discrepancy between the Army's practices and DOD regulations regarding the need to confirm receipt of these shipments. DOD regulations require receipts for all shipments, including government-furnished materiel. Third, inventory control points do not provide the Defense Contract Management Agency with required quarterly reports that show the status of government-furnished materiel shipments. As a result, Defense Contract Management Agency officials may lack data to corroborate contractor-generated data during their inventory audits. These weaknesses in the Army's ability to account for inventory shipped to repair contractors increase the risk of undetected loss or theft. Moreover, inaccurate receipt records can diminish asset visibility and distort on-hand inventory balances, leading to unnecessary procurement of items.

---

# Contents

---

Letter	1
Results in Brief	3
Background	5
Internal Control Weaknesses Impede Army’s Accountability for Inventory Shipments	8
Conclusions	14
Recommendations for Executive Action	15
Agency Comments and Our Evaluation	16

---

Appendixes	
Appendix I: Scope and Methodology	18
Appendix II: GAO Contractor Survey	21
Appendix III: Comments from the Department of Defense	26
Appendix IV: GAO Contact and Staff Acknowledgments	30

---

Tables	
Table 1: Fiscal Year 2004 Shipments of Government-Furnished Materiel and Secondary Repair Items Used to Draw Our Samples	6
Table 2: Fiscal Year 2004 Unclassified Secondary Repair Item Shipments That Lacked Matching Receipts or Showed Discrepancies with Receipt Records	9

---

## Abbreviations

DCMA	Defense Contract Management Agency
DOD	Department of Defense

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office  
Washington, D.C. 20548

---

December 13, 2005

The Honorable Richard J. Durbin  
The Honorable Tom Harkin  
United States Senate

The Honorable Peter A. DeFazio  
The Honorable Carolyn B. Maloney  
House of Representatives

Every year the Army ships thousands of items from its inventory to commercial contractors for repair, alterations, or modification. These items range from small components, such as circuit card assemblies, to larger, expensive items like turbine engines. In addition, contractors may receive parts from the Army supply system for use in this work. In fiscal year 2004, for example, Army records show that the U.S. Army Aviation and Missile Command and the U.S. Army Tank-automotive and Armaments Command authorized shipment of about 70,000 items worth approximately \$970 million to repair contractors. To safeguard government-owned assets while they are in transit, Department of Defense (DOD) and Army policies require Army supply activities to follow specific procedures for managing and maintaining accountability of inventory provided to commercial contractors.

Since at least 1990, we have considered DOD supply chain and inventory management to be a high-risk area due to ineffective management systems and procedures. Among the issues facing the department has been a lack of control over inventory shipments, which increases DOD's vulnerability to undetected loss or theft and also increases the risk that millions of dollars will be spent on procuring unnecessary items.

In response to your request, we evaluated the Army's effectiveness in maintaining accurate accountability of inventory shipped to repair

---

contractors. Our review included shipments of both secondary repair items and government-furnished materiel.<sup>1</sup>

This report is the third and last in a series of reports focusing on the services' inventory management procedures for controlling materiel shipped to repair contractors. In July 2002, we reported that the Air Force either did not adhere to, or did not establish, effective controls for assets shipped to its repair contractors for repair or for use in the repair of other assets.<sup>2</sup> More recently, we reported in July 2004 that the Naval Inventory Control Point and its repair contractors did not follow a number of DOD and Navy procedures for maintaining accountability and visibility of government-furnished materiel provided to contractors.<sup>3</sup>

To perform our review, we analyzed Army inventory shipment data, surveyed repair contractors that were recipients of inventory shipments, and assessed the Army's adherence to policies for managing and maintaining accountability for inventory shipments. We obtained fiscal year 2004 shipment data from two of the Army's three major inventory control points—the U.S. Army Aviation and Missile Command and the U.S. Army Tank-automotive and Armaments Command.<sup>4</sup> For secondary repair items, we analyzed the data to reconcile inventory shipment records with receipt records. To assess the reliability of the Army data, we randomly selected 200 secondary repair item shipments for which the inventory shipment records and receipt records had not been reconciled in the Army's inventory management systems. We also randomly selected 200 government-furnished materiel shipments. Because these were random

---

<sup>1</sup>Secondary repair items comprise repairable components, assemblies, and subassemblies, other than major end items (e.g., tanks and helicopters), which may be sent to either government or commercial facilities for repair, alteration, or modification. Government-furnished materiel is materiel in the possession of, or acquired by, the government and later made available to contractors for use in repairs, alterations, and modifications. Generally, this materiel includes assemblies, components, parts, raw and processed materiel, and small tools and supplies that contractors use in support of this work.

<sup>2</sup>GAO, *Defense Inventory: Air Force Needs to Improve Control of Shipments to Repair Contractors*, [GAO-02-617](#) (Washington, D.C.: July 1, 2002).

<sup>3</sup>GAO, *Defense Inventory: Navy Needs to Improve the Management Over Government-Furnished Materiel Shipped to Its Repair Contractors*, [GAO-04-779](#) (Washington, D.C.: July 23, 2004).

<sup>4</sup>We excluded the U.S. Army Communications-Electronics Command from our data analysis because at the time of our review its inventory management system was undergoing stabilization and could not provide all data elements needed to conduct our audit.

---

samples, the results of our analysis can be projected to the entire universe of shipments that met our selection criteria. Additionally, we selected all shipments of classified items<sup>5</sup>—90 total shipments—that were present in our data population.<sup>6</sup> We then sent surveys to 72 Army contractors requesting property record information on these shipments to assess whether these items had been received and accounted for by the contractors.<sup>7</sup> We received and reviewed survey responses from 66 of the 72 contractors, representing 184 unclassified secondary repair item shipments, or 92 percent of our randomly selected sample; 169 unclassified government-furnished materiel shipments, or 85 percent of our randomly selected sample; and 100 percent of the classified shipments. We followed up with repair contractor officials and Army item managers to obtain additional information on specific shipments where our survey data indicated a potential loss of accountability. On the basis of the survey results and our follow-up analysis, we believe that the data are sufficiently reliable for our purposes. We conducted our review from October 2004 through November 2005 in accordance with generally accepted government auditing standards. Appendix I provides more details about our scope and methodology. A copy of the survey we sent to repair contractors is reprinted in appendix II.

---

## Results in Brief

The Army has not maintained accurate accountability for inventory shipped to repair contractors, thereby placing these assets at risk of loss or theft. Although DOD policy requires the military services to confirm receipt of all assets shipped to contractors, the Army is not consistently recording shipment receipts in its inventory management systems. In our analysis of fiscal year 2004 shipment data obtained from two Army inventory control

---

<sup>5</sup>Classified items, such as frequency converters and other types of electronic equipment, are those that require the highest degree of protection in the interest of national security.

<sup>6</sup>Army records showed a total of 94 classified shipments—11 government-furnished materiel shipments and 83 secondary repair item shipments. Because we could not determine the contractor that received 3 of the secondary repair item shipments, we excluded them from our survey. After we obtained comments on a draft of this report, the Army conducted an analysis and discovered that one of the classified secondary repair item shipments in our survey population was a duplicate shipment record that the Army erroneously provided to us. Thus, we have deleted this shipment from our analysis.

<sup>7</sup>We did not send a survey to one contractor, accounting for 3 of the 200 shipments of unclassified secondary repair items, because the contractor declined to participate in the survey.

---

points, we could not reconcile materiel shipment records with receipt records for 42 percent of the unclassified secondary repair item shipments, with a value of \$481.7 million, or for 37 percent of the classified secondary repair item shipments, with a value of \$8.1 million. These data show that the Army, on the basis of receipt records maintained in its inventory management systems, cannot confirm that a substantial portion of inventory items shipped to repair contractors were in fact received. The Army's data contained no receipts for government-furnished materiel.

Our survey results showed that repair contractors could confirm receipt of most, but not all, of the shipments. Specifically, on the basis of our survey results and follow-up work, we estimated that about 15 percent of the unclassified secondary repair item shipments in our population could not be confirmed as being received. We estimated that these lost or unaccounted for shipments have a value of approximately \$68 million. All shipments of classified government-furnished materiel and secondary repair items were reported as received by the contractors in our survey. For shipments of unclassified government-furnished materiel, almost all shipments were reported by the contractors in our survey as being received.

The Army's accountability for shipments of items sent to repair contractors is impeded by three internal control weaknesses. First, Army inventory control points lack systematic procedures for (1) obtaining and documenting contractor receipt of shipments of secondary repair items, (2) following up in cases where receipt was not confirmed by the contractors, and (3) providing advance notification of shipments to contractors. Second, the Army does not confirm receipt of government-furnished materiel shipments, reflecting a discrepancy between the Army's practices and DOD regulations regarding the need to confirm receipt of these shipments. DOD regulations require receipts for all shipments, including government-furnished materiel. Third, inventory control points do not provide the Defense Contract Management Agency (DCMA) with required quarterly reports that show the status of government-furnished materiel shipments. As a result, DCMA officials may lack data to corroborate contractor-generated data during their inventory audits. These weaknesses in the Army's ability to account for inventory shipped to repair contractors increase the risk of undetected loss or theft because the Army cannot ensure control over assets after they have been shipped from its supply system. Moreover, inaccurate and incomplete receipt records diminish asset visibility and can distort on-hand inventory balances, leading to unnecessary procurement of items.

---

We are making recommendations to strengthen the Army's accountability over secondary repair items and government-furnished materiel shipped to its repair contractors. In written comments on a draft of this report, DOD concurred with six of our recommendations and nonconcurred with one. We have deleted this recommendation based on follow-up work by the Army showing that the Army had erroneously provided a duplicate shipment record. DOD's comments are discussed in the "Agency Comments and Our Evaluation" section.

---

## Background

Responsibility for controlling and accounting for materiel shipped to repair contractors is shared between the Army and its contractors. Army inventory control points within the Army Materiel Command manage the movement of assets from the Army supply system to commercially operated repair facilities. The Army's three major inventory control points for secondary repair items are the U.S. Army Aviation and Missile Command, the U.S. Army Tank-automotive and Armaments Command, and the U.S. Army Communications-Electronics Command. Repair contractors are generally required to establish and maintain a property control system for the control, use, maintenance, repair, protection, and preservation of government property in their possession.<sup>8</sup>

Inventory control points, as part of their materiel management functions, maintain the Army's data systems that support inventory and financial management, requirements determination, maintenance planning, and procurement. These inventory management systems retain the accountable records for inventory transactions, including shipment and receipt records. The U.S. Army Aviation and Missile Command and the U.S. Army Tank-automotive and Armaments Command use the Commodity Command Standard System as their inventory management system. This system will eventually be replaced with the Logistics Modernization Program, which will integrate inventory functions performed by legacy inventory management systems. The U.S. Army Communications-Electronics Command uses the Logistics Modernization Program.

The inventory shipment data we obtained from the U.S. Army Aviation and Missile Command and U.S. Army Tank-automotive and Armaments Command included shipments of secondary repair items and government-

---

<sup>8</sup>DOD 4161.2-M, *DOD Manual for the Performance of Contract Property Administration*, December 1991, para. C3.4, Federal Acquisition Regulation, Subpart 45.502.



furnished materiel sent to contractor facilities located in the continental United States during fiscal year 2004. Many shipments contained multiple items. According to these records, the inventory control points together authorized shipments of more than 25,000 secondary repair items worth approximately \$852 million to repair contractors. The records show they also authorized shipments of more than 44,000 government-furnished materiel items valued at approximately \$118 million. The survey population we used to draw our sample included all shipments of secondary repair items for which we could not identify matching receipt records for corresponding inventory shipment records,<sup>9</sup> all shipments of government-furnished materiel, and all shipments of classified government-furnished materiel and secondary repair items. Table 1 shows the population of shipments from which we drew our samples.

**Table 1: Fiscal Year 2004 Shipments of Government-Furnished Materiel and Secondary Repair Items Used to Draw Our Samples**

Shipment type	Number of		Value
	Shipments	Items	
Government-furnished materiel			
Classified	11	500	\$2,596, 972
Unclassified	3,476	43,954	\$115,777,299
Secondary repair items			
Classified	82 <sup>a</sup>	323	\$21,695,757
Unclassified	1,076	13,175	\$481,697,529
<b>Total</b>	<b>4,645</b>	<b>57,952</b>	<b>\$621,767,557</b>

Source: GAO analysis of Army inventory control point data.

<sup>a</sup>Because we could not determine the contractor that received three of the secondary repair item shipments, we excluded them from our survey. After we obtained comments on a draft of this report, the Army conducted an analysis and discovered that one of the classified secondary repair item shipments in our survey population, valued at \$16,938, was a duplicate shipment record that the Army had erroneously provided to us. Thus, we have deleted this shipment from our analysis.

<sup>9</sup>We identified matching receipts for 1,457 secondary repair item shipments valued at \$348.3 million. These shipments were excluded from our survey population.

---

DOD has established policies for maintaining accountability for assets shipped to repair contractors.<sup>10</sup> Under these policies, for example, contractors are responsible for posting receipts in their property control records and notifying the appropriate inventory control point once they have received shipped assets. The inventory control point establishes a “due-in” record when a shipment is issued to track inventory that will eventually return to the Army supply system. Once notified of receipt by the contractors, the inventory control point processes receipt of a transaction in its inventory management system to reflect the contractors’ receipt of the shipment. If the inventory control point is not notified of receipt within 45 days of shipment, it is required to follow up with the intended recipient to determine shipment status. Without a confirmation of receipt, the status of a shipment is uncertain. In addition, DOD policy states that the military services may establish requirements for their inventory control points to provide advance notification of scheduled shipments to repair contractors.

DOD also requires inventory control points to submit quarterly reports to DCMA identifying quantities and types of government-furnished materiel provided to repair contractors.<sup>11</sup> DCMA assesses the accuracy of repair contractor records and accounts for government property furnished to contractors. The quarterly reports are intended to help contract officers verify that repair contractors have maintained accountability for all government-furnished materiel shipped to their facilities without relying strictly on contractor inventory records.

The Army has established a system for formally reporting errors in shipments. Under DOD and Army regulations, recipients of repair materiel are required to investigate and report shipment discrepancies, such as incorrect quantities and types of items and items sent to the wrong

---

<sup>10</sup>DOD 4000.25-2-M, *Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)*, September 2001 (as amended by changes 1, 2, and 3), paras. C4.3, C4.5, and C4.6; C4.10 through C4.12; C6.6; and C6.7.

<sup>11</sup>DOD 4140.1-R, *DOD Supply Chain Materiel Management Regulation*, May 23, 2003, para. C5.11.2.4, and DOD 4161.2-M, *DOD Manual for the Performance of Contract Property Administration*, December 1991, para. C5.2.6.

---

location.<sup>12</sup> If the discrepancy results from shipper error, the recipient submits a supply discrepancy report to the appropriate inventory control point.<sup>13</sup> Inventory control point officials review and validate these reports and provide recipients with instructions for resolving the discrepancy. For example, the customer may be instructed to return misdirected items to the Army supply system or to retain items for future repair work.

In addition to these policies, the Army is obligated to establish and maintain effective internal control systems. The Federal Managers' Financial Integrity Act of 1982 requires GAO to issue standards for internal control in the federal government.<sup>14</sup> According to these standards, internal controls are an integral component of an organization's management that provide reasonable assurance that assets are being safeguarded and other objectives are being met. Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets. Effective and efficient internal control activities help ensure that an agency's control objectives are accomplished. Control activities are the policies, procedures, techniques, and mechanisms that enforce management directives, such as the process of adhering to DOD requirements for receipting of shipped assets and generation of quarterly government-furnished status reports.

---

## Internal Control Weaknesses Impede Army's Accountability for Inventory Shipments

Internal control weaknesses have impeded the Army's accountability for assets shipped to repair contractors. Army inventory control points do not consistently record receipts for secondary repair items shipped to repair contractors. Furthermore, the Army does not verify receipt of government-furnished materiel. In addition, the Army does not provide shipment status reports to DCMA as required under DOD regulations. A lack of accurate accountability for shipments of secondary repair items and government-furnished materiel places these assets at risk of loss or theft, diminishes

---

<sup>12</sup>DLAI 4140.55/Army Regulation 735-11-2, *Reporting of Supply Discrepancies*, August 6, 2001.

<sup>13</sup>Customers may submit the reports using a paper form (Standard Form 364) or electronically through the Army Electronic Product Support Web site.

<sup>14</sup>Pub. L. No. 97-255 (Sept. 8, 1982). See also GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

asset visibility and can distort on-hand inventory balances, leading to unnecessary procurement of items.

Army Does Not Consistently Record Receipts for Secondary Repair Item Shipments

Army inventory control points are not consistently recording receipts of shipments of secondary repair items in their inventory management systems. In our analysis of fiscal year 2004 shipment data obtained from two Army inventory control points, we could not reconcile shipment records with receipt records for 1,076 (42 percent) of the unclassified secondary repair item shipments, with a value of \$481.7 million, or for 30 (37 percent) of the classified secondary repair item shipments, with a value of \$8.1 million. In this analysis, we identified shipments that lacked a matching receipt record as well as those shipments for which there was a discrepancy between the number of items shipped and the number receipted. Table 2 displays the results of our analysis for shipments of unclassified secondary repair items.

Table 2: Fiscal Year 2004 Unclassified Secondary Repair Item Shipments That Lacked Matching Receipts or Showed Discrepancies with Receipt Records		
	Number	Percentage
Receipt Record		
No receipt	583	54.2
Receipt(s) for fewer items than shipped	302	28.1
Receipt(s) for more items than shipped	191	17.8
Total	1,076	100.0

Source: GAO analysis of Army inventory control point data.  
Note: Percentages do not total because of rounding.

These data show that Army inventory control points, on the basis of receipt records maintained in its inventory management systems, cannot confirm that a substantial portion of inventory items shipped to repair contractors were in fact received. In the absence of accurate and complete receipt records, the Army lacks inventory transaction data needed for maintaining accurate accountability for an asset as it moves through the repair cycle. Furthermore, inaccurate or incomplete receipt records can lead to a distortion of on-hand inventory balances, thus placing the Army at risk of procuring more items than are needed to support the warfighter. The Army

---

Audit Agency, in September 2004, noted that the Army lacked accurate receipt records for shipments both to contractors and to government-owned depot facilities, and that, as a result, on-hand inventory balances for some items were understated by about \$40.8 million.<sup>15</sup>

Our survey results showed that repair contractors could confirm receipt of most, but not all, of the fiscal year 2004 shipments. On the basis of our analysis of the survey results and follow-up work with contractors and Army item managers, we estimated that about 15 percent of the unclassified secondary repair item shipments in our survey population could not be confirmed as being received. We estimated that these lost or unaccounted for shipments have a value of approximately \$68 million.<sup>16</sup> For example, our sample of secondary repair items included a shipment of 30 aircraft rotary wing components with a total value of \$8.3 million. The Army's inventory management system did not show a receipt for this shipment, and the contractor had no record of receiving the shipment. On the basis of our work, the status of this shipment remains uncertain.

For classified items, the contractor confirmed receipt for 79 of the 80 secondary repair item shipments but could not confirm receipt for 1 shipment in our survey population with a value of about \$17,000. In a subsequent analysis conducted by the Army to determine the status of this classified shipment, the Army discovered that it had erroneously provided us with a duplicate shipment record, causing this shipment to appear unaccounted for based on the original data that the Army had provided for this review. According to the Army, this was not a classified shipment sent to the contractor for repair, but rather a shipment record that pertained to a repaired asset coming from the contractor back into its inventory. The Army provided documentation to confirm the receipt of this asset back into

---

<sup>15</sup>The Army Audit Agency identified problems with on-hand balances contained in the Commodity Command Standard System used by the U.S. Army Communications-Electronics Command—the same system used by the two Army inventory control points in our review. During this audit, this inventory control point began transitioning to its new inventory management system—the Logistics Modernization Program—and the existing balances for on-hand assets were transferred to the new system as baseline data. See Army Audit Agency, *Asset Visibility of Military Equipment During Conversions—U.S. Army Communications-Electronics Command*, A-2004-0529-FFG (Alexandria, Va.: Sept. 30, 2004).

<sup>16</sup>These estimates represent mean values. We are 95 percent confident that contractors could not confirm receipt for from 9.9 percent to 20.5 percent of shipments with a value of from \$26.7 million to \$109.5 million. Because we sampled by shipment, not by dollar value, the range of variance for these two estimates is different.

---

its inventory. On the basis of this data, we deleted this record from our analysis. Thus, all shipments of classified secondary repair items were received by the contractors.

Although required to obtain confirmation of receipt from repair contractors, Army inventory control points lack systematic procedures for obtaining and documenting receipt of shipments of secondary repair items and for following up within 45 days in cases where receipt was not confirmed by the contractors. Army regulations concerning receipt notification do not specify the method or form by which contractors are to notify the inventory control point when they receive shipments. Moreover, multiple individuals at the inventory control points may become involved in the receipting process. Item managers, who manage specific inventory items and authorize shipments of secondary repair items to contractor facilities, are generally responsible for ensuring repair contractors receive shipments. We found that various methods are used to confirm receipt. Some item managers rely on routine reports provided by the contractors or on data obtained from contractors' inventory data systems. Other item managers confirm receipt by telephone calls to contractor officials. Once the receipt confirmation is obtained, the item manager may pass the receipt information to other inventory control point personnel, who then update the record in the inventory management system. In most cases, these personnel enter the receipt information into the inventory management system manually.<sup>17</sup> Manual updating increases the probability of inaccuracies in receipt data.

Although we could not reconcile 42 percent of the shipments in the Army's data with matching receipt records, our follow-up survey with repair contractors indicated they were able to confirm receipt for a majority of the shipments. In addition, on the basis of our survey of repair contractors, we estimate that for 82 percent of the shipments, contractors stated they had notified the Army of shipment receipt.<sup>18</sup> However, these receipt notifications were not always recorded in the Army's inventory management systems. Systematic follow-up within 45 days of shipment by the Army inventory control points could have identified these confirmed

---

<sup>17</sup>Some contractors have an automated link to the Army's Commodity Command Standard System through the Commercial Asset Visibility system, but at the time of our review only about one-third of contractors had use of this system.

<sup>18</sup>We estimate, at the 95 percent confidence level, that for from 78.9 percent to 84.1 percent of the shipments, contractors stated they had notified the Army of shipment receipt.

---

receipts, enabling an update of the inventory record to accurately reflect the shipment status.

While contractors are required to report shipment discrepancies through the Army's supply discrepancy reporting program, we found that this practice does not always occur. In our survey, repair contractors noted discrepancies in shipments that were not formally reported through the Army's reporting program. It is unclear why all discrepancies were not reported. One explanation provided by several contractors was that Army officials do not routinely provide advance notification to contractors prior to shipment. Because the Army had not notified them in advance of the shipments, they did not expect the shipments to arrive and, therefore, did not file supply discrepancy reports. Some contractors said they only became aware of certain shipments sent to them when they received our survey. Neither DOD nor Army regulations require inventory control points to provide advance notification to repair contractors at the time of shipment. However, DOD regulations state that the military services may require their inventory control points to provide advance notification.<sup>19</sup>

---

## Army Does Not Confirm Receipt of Government-Furnished Materiel

Army inventory control points are not confirming receipt of government-furnished materiel shipments as required under DOD regulation. For shipments of government-furnished materiel, almost all shipments were reported by the contractors in our survey as being received. On the basis of our survey, we estimate that repair contractors could not confirm about 2 percent of all unclassified government-furnished materiel shipments with an approximate value of \$3.2 million.<sup>20</sup> These shipments, therefore, are unaccounted for, and thus are vulnerable to loss or theft. Repair contractors confirmed receipt of all 11 shipments of classified government-furnished materiel.

---

<sup>19</sup>DOD 4000.25-2-M, *Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)*, September 2001 (as amended by changes 1 and 2), para. C4.3.

<sup>20</sup>These estimates represent mean values. We are 95 percent confident that contractors could not confirm receipt for from 0.2 percent to 4.6 percent of shipments with a value of from \$0 to \$9.2 million. Because we sampled by shipment, not by dollar value, the range of variance for these two estimates is different.

---

DOD regulations require Army inventory control points to obtain receipt confirmation for all shipments, including government-furnished materiel,<sup>21</sup> and require Army inventory control points to conduct follow-ups if receipt is not confirmed within 45 days of shipment. Army regulations require receipt and follow-up for secondary repair item shipments but do not explicitly address receipting for government-furnished materiel.<sup>22</sup> According to inventory control point officials, the data systems used to manage government-furnished materiel shipments do not store receipting information. Furthermore, these officials told us they do not obtain receipt notification from contractors for government-furnished materiel shipments but, instead, assume contractors receive shipments of government-furnished materiel unless the contractors notify them otherwise. During our review, we noted that the Army's data systems for managing government-furnished materiel shipments provide automated checks of requisitions to ensure their validity.<sup>23</sup> However, without receipt data, the Army inventory control points lack assurance that contractors have received government-furnished materiel, and as a result, they cannot conduct follow-up within the required time frame to determine whether corrective action is necessary. Moreover, while our analysis shows that contractors could confirm receipt for the majority of the government-furnished materiel shipments, the Army needs to maintain effective internal controls to safeguard its assets and to ensure optimal management of its resources, in accordance with the Federal Managers' Financial Integrity Act of 1982.

---

### Army Does Not Provide Shipment Status Reports to DCMA

According to DCMA officials, inventory control points do not provide DCMA with quarterly reports showing the status of government-furnished materiel shipments as required under DOD regulation. As a result, DCMA officials may lack data to corroborate contractor-generated data during

---

<sup>21</sup>DOD 4000.25-2-M, *Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)*, September 2001 (as amended by changes 1 and 2), paras. C6.6 and C6.7.

<sup>22</sup>Army Regulation 725-50, *Requisitioning, Receipt, and Issue System*, November 15, 1995, paras. 5-22 and 5-23.

<sup>23</sup>The Army inventory control points manage government-furnished materiel shipments using automated systems that validate requisitions and process shipments. According to Army officials and documentation provided by them, these systems automatically reject requisitions that are inconsistent with contract terms, such as requisitions for items with national stock numbers not covered under the contract or for item quantities that exceed contract terms. We did not test these systems to determine their effectiveness or reliability.



---

their inventory audits. Both DOD and Army regulations require inventory control points to generate and submit reports on requisitioned government-furnished materiel to DCMA.<sup>24</sup> The purpose of the reports is to assist DCMA in independently verifying contractor records of government-furnished materiel. These reports are required to identify items under contract, requisitions that have been rejected, quantities and dollar values of shipments, and the number of shipments for which receipts are unknown. However, we found in our work that the inventory control points do not have procedures in place to ensure that this reporting requirement is implemented as required. As result, DCMA officials commonly rely on contractor-generated data to conduct inventory audits and lack an independent data source to corroborate those data.

---

## Conclusions

The Army has not implemented all the internal controls required to ensure that assets shipped to repair contractors are being received. Although DOD has established policies for controlling these assets, we found the Army lacked systematic procedures for implementing the policies, resulting in inaccurate and incomplete receipt records. Moreover, on the basis of our analysis of Army data and survey of repair contractors, some assets remain lost or unaccounted for.

The Army could improve accountability for inventory shipments by strengthening its internal control procedures for receipting secondary repair items and following up in cases where the contractor has not provided notification that items were received, obtaining and documenting receipts for government-furnished materiel, and providing required status reports on government-furnished materiel to DCMA. In addition, DOD guidance for providing advance notification to recipients at the time of shipment, while not a requirement, offers another potential internal control for maintaining accountability of shipments. As the Army continues to move from its legacy inventory management systems to the Logistics Modernization Program, strong internal control procedures will be critical

---

<sup>24</sup>Although DOD requires inventory control points to generate and distribute these reports on a quarterly basis, the Army requires them semiannually. See DOD 4140.1-R, *DOD Supply Chain Materiel Management Regulation*, May 23, 2003, para. C5.11.2.4; DOD 4161.2-M, *DOD Manual for the Performance of Contract Property Administration*, December 1991, para. C5.2.6; and Army Regulation 725-50, *Requisitioning, Receipt, and Issue System*, November 15, 1995, para. 16-10.

---

to ensuring that data transferred into the new system are accurate and complete.

---

## Recommendations for Executive Action

To improve accountability of inventory shipped to Army repair contractors, we recommend that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command, to take the following six actions:

- Establish systematic procedures to obtain and document contractors' receipt of secondary repair item shipments in the Army's inventory management systems, and to follow up on unconfirmed receipts within 45 days of shipment.
- Institute policies, consistent with DOD regulations, for obtaining and documenting contractors' receipt of government-furnished materiel shipments in the Army's inventory management systems.
- Provide quarterly status reports of all shipments of Army government-furnished materiel to DCMA, in compliance with DOD regulations.
- Examine the feasibility of implementing DOD guidance for providing advance notification to contractors at the time of shipment and, if warranted, establish appropriate policies and procedures for implementation.
- Analyze receipt records for secondary repair items shipped to contractors and take actions necessary to update and adjust inventory management data prior to transfer to the Logistics Modernization Program. These actions should include investigating and resolving shipments that lack matching receipts to determine their status.
- To ensure consistent implementation of any new procedures arising from the recommendations in this report, provide periodic training to appropriate inventory control point personnel and provide clarifying guidance concerning these new procedures to the command's repair contractors.

---

---

## Agency Comments and Our Evaluation

In written comments on a draft of this report, the Department of Defense concurred with six of the recommendations and cited specific actions it plans to take to implement these recommendations. DOD also specified implementation timelines for five of its proposed actions. Specifically, DOD reported that the Army intends to create the functionality within the Army's new Logistics Modernization Program by fiscal year 2007 to (1) create automated suspense files for following-up on nonreceipted shipments, (2) establish receipting capability for government-furnished materiel shipments, and (3) produce quarterly government-furnished materiel status reports and submit them to DCMA. The Army also plans to establish Integrated Product Teams to examine the feasibility and availability of a Web-based query capability to make advanced shipment information available to contractors, and to develop training to ensure that Army inventory management personnel understand the procedures that are in place to strengthen the internal controls for items shipped to repair contractors. These teams are expected to have their results by July 2006. DOD also stated that the Army is currently taking actions to improve the accuracy of the data contained in its inventory management system; however, a timeframe for when this process would be completed was not provided. We believe that these actions cited by DOD are generally responsive to our recommendations.

DOD did not concur with our recommendation in a draft version of this report to investigate and resolve the status of a shipment of an unserviceable classified secondary repair asset that appeared lost or unaccounted for on the basis of our review. However, DOD's response indicates that the Army complied with our draft recommendation by analyzing its inventory management system records. This analysis showed that the contractor had received the shipment in question, repaired the unserviceable classified item, and later returned this item to the Army's inventory. In subsequent follow-up work, we obtained the Army inventory data supporting the information cited in DOD's response. During further analysis of this classified shipment, the Army discovered that the data used in our analysis was a duplicate shipment record that it had erroneously provided to us. On the basis of the new information provided, we were able to verify the status of the classified shipment in question. Consequently, we have deleted this recommendation from our report. DOD's written comments are reprinted in appendix III.

---

We are sending copies of this report to the appropriate congressional committees, and it will be available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your staff have any questions on the matters discussed in this report, please contact me at (202) 512-8412 or [solisw@gao.gov](mailto:solisw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

A handwritten signature in black ink, appearing to read 'W. Solis', with a long horizontal flourish extending to the right.

William M. Solis  
Director  
Defense Capabilities and Management

---

# Scope and Methodology

---

To evaluate the Army's effectiveness in maintaining accountability of inventory shipped to repair contractors, we analyzed Army inventory shipment data, surveyed repair contractors that were recipients of inventory shipments, and assessed the Army's adherence to policies for managing and maintaining accountability for inventory shipments. Our review included shipments of both secondary repair items and government-furnished materiel.

We reviewed Department of Defense (DOD) and Army regulations pertaining to shipped inventory, and discussed inventory management procedures with officials from the following locations: Headquarters, Army Materiel Command, Fort Belvoir, Virginia; the U.S. Army Aviation and Missile Command, Redstone Arsenal, Alabama; the U.S. Army Tank-automotive and Armaments Command, Warren, Michigan, and Rock Island, Illinois; the U.S. Army Communications-Electronics Command, Fort Monmouth, New Jersey; the Surface Deployment and Distribution Command, Fort Eustis and Alexandria, Virginia; and the Defense Contract Management Agency (DCMA), Alexandria, Virginia.

To identify the quantity, value, and security classification of assets shipped to repair contractors, we obtained electronic records from inventory management databases at the U.S. Army Aviation and Missile Command and the U.S. Army Tank-automotive and Armaments Command. We obtained records for Army-owned assets shipped during fiscal year 2004 (Oct. 1, 2003 through Sept. 30, 2004). The records contained descriptive information about each shipment, including item nomenclature, national stock number, unit price, date of shipment, and quantity shipped. Records for secondary repair item shipments also listed the quantity of items received in each shipment. We did not obtain inventory data from U.S. Army Communications-Electronics Command because at the time of our review its inventory management system was undergoing stabilization and could not provide all data elements needed for our audit.

To assess the reliability of the inventory data, we performed manual and electronic testing for errors in accuracy and completeness in the records. When we found discrepancies in the data, such as missing data elements, illogical shipment date sequences, or abnormal data entries, we contacted inventory control point officials to obtain explanations for the discrepancies. As needed, the officials provided corrections to discrepant data. We also reviewed the data to ensure that shipments occurred in fiscal year 2004, were directed to contractor facilities located in the continental United States, and comprised assets that met our criteria for item class and

condition code. For secondary repair items, we analyzed the Army data to reconcile shipments for which the receipt record and shipment record had the same document number and suffix,<sup>1</sup> where applicable; national stock number; and quantity. In cases of multiple receipt records for a given shipment, we eliminated all receipt records associated with supply depot transactions and totaled all contractor receipt records, including inventory reversals. When the adjusted quantity received, which included the quantity for multiple inventory reversals, did not total the quantity shipped, we classified the shipment as unmatched.

After the validation process, we drew samples of the data population for review. Our sampling methodology enabled us to independently verify the accuracy of the Army's data on secondary repair items and government-furnished materiel provided to repair contractors. To select repair contractors and items shipped to them, we randomly selected 200 shipments of unclassified secondary repair items from a total population of 1,076 shipments that did not have receipt records that corresponded to shipment records in the Army's inventory management system. We also randomly selected 200 shipments of unclassified government-furnished materiel from a total population of 3,476 shipments. In addition, we selected all shipments of classified items that appeared in the inventory records, including 11 government-furnished materiel shipments and 79 secondary repair items shipments.<sup>2</sup> For this data sample, we sent a survey to 72 repair contractors, of which 66 responded to the survey. See appendix II for a copy of the survey. The results of our analysis can be projected to the entire universe of shipments that met these selection criteria.

To determine whether repair contractors had received and accounted for the selected shipments, we surveyed each randomly selected contractor to assess whether item types and quantities had been received as documented in Army inventory records. Furthermore, our survey also asked contractors to note any discrepancies between the Army's data and data in their property control records, and to explain what actions they took to resolve

---

<sup>1</sup>Document numbers are unique identifiers for shipments. In cases where document numbers are used multiple times, a suffix is added to distinguish each shipment.

<sup>2</sup>Three additional secondary repair item shipments were excluded from our survey because we could not determine the contractor that received the shipments. After we obtained comments on a draft of this report, the Army conducted an analysis and discovered that one of the classified secondary repair item shipments in our survey population was a duplicate shipment record that the Army had erroneously provided to us. Thus, we have deleted this shipment from our analysis.

discrepancies such as shipments of incorrect items or quantities. In following up on the survey results, we reviewed survey responses for logical inconsistencies and incomplete data, such as document number, national stock number, quantity shipped, and date receipted, to determine whether the contractor responses were accurate. In cases where one or more of these data fields were inconsistent with data provided from the Army inventory system, we identified the shipment as not received by the contractor and adjusted our estimate of unaccounted for assets. We also obtained data from DOD's supply tracking system to determine whether the transportation carriers showed proof of delivery for these assets. We also followed up with contractors and Army item managers regarding specific, high-value shipments. On the basis of this follow-up work, we adjusted our initial survey results.

To evaluate the Army's compliance with DOD regulations requiring submission to DCMA of quarterly government-furnished materiel status reports, we interviewed DCMA officials who oversee contracts for the items included in our statistical sample of government-furnished materiel shipments. These officials were located at DCMA field offices and contractor facilities throughout the United States.

We conducted our review from October 2004 through November 2005 in accordance with generally accepted government auditing standards.

# GAO Contractor Survey

CaseID: «MasterID»

United States Government Accountability Office



## Survey on Army Shipments to Repair Contractors

### Introduction

The U.S. Government Accountability Office (GAO)—the audit, evaluation, and investigative arm of Congress—is conducting a review of Army inventory management practices for government furnished materiel (GFM) and secondary repair items shipped to commercial repair contractors. For the purposes of this review, we are defining GFM as “A” condition serviceable assets that are used in the repair, alteration, modification, or production of a higher assembly. We are defining secondary repair items as unserviceable assets requiring repair, alteration, or modification, to exclude major end items. GAO’s review will focus on the Army’s controls over in-transit assets. As a part of our study, we randomly selected commercial contractors to which the Army shipped GFM and/or secondary repair items during fiscal year 2004 (October 1, 2003 to September 30, 2004). This electronic survey asks for information on your processes for receiving and accounting for GFM and/or secondary repair items, as applicable, and requests data for specific items that were identified as shipped to you from the Army supply system. In our final report, all responses will be aggregated and there will be no linkages between data and specific contractors.

### Directions for Completing This Survey

Several individuals may be involved with the processes of receiving and accounting for GFM and secondary repair items. This survey should be coordinated with these individuals as necessary, but please designate one individual to have overall responsibility for coordinating, completing, and returning this survey for your company. Please provide the following information on the person designated to coordinate the completion of the survey so we can call or e-mail that individual if additional information is necessary.

Company	«ContrName1»
Name	Last Name, First Name, MI
Title	Provide your Title
Phone	XXX-XXX-XXXX
E-mail	
Fax	XXX-XXX-XXXX

In some cases, we may need to follow-up this survey with telephone calls and/or contractor facility site visits to discuss your responses to the survey.

The survey is in two parts. Part 1 contains general questions on the processes you use to receive and account for GFM and/or secondary repair items from the Army supply system. Part 2 contains questions on specific Army-supplied GFM and/or secondary repair items that were identified as shipped to your company. This list of items was obtained as a part of a random sample from Army inventory management databases.

You will need to answer the questions in Part 2 of the survey for each of the GFM and/or secondary repair items listed. You will need to complete Part 2 for «GFM» GFM items and «Secondary» secondary items shipped to you under the following Contracts:

#### DOD Contracts

«Contr1»	«Contr10»
«Contr2»	«Contr11»
«Contr3»	«Contr12»
«Contr4»	«Contr13»
«Contr5»	«Contr14»
«Contr6»	«Contr15»
«Contr7»	«Contr16»
«Contr8»	«Contr17»
«Contr9»	

Most questions in this survey can be answered by left-clicking on the shaded response fields ☐ and selecting appropriate answers. Some questions require you to type data or comments into the shaded response fields .

Part 1 of the survey should take about 10 minutes to complete. The time for completing Part 2 will vary by the number of GFM and/or secondary repair items listed, and by the time required to review files associated with the information requested.

Please save your answers electronically, and return this file as an e-mail attachment to Mr. Paul Rades at [radesp@gao.gov](mailto:radesp@gao.gov) or Ms. Jackie McColl at [mccollj@gao.gov](mailto:mccollj@gao.gov) by July 25, 2005. If you have any difficulty using this electronic survey, please contact the GAO staff named below to request a paper version.

If you have any questions about the survey, you may contact either (1) Paul Rades at [radesp@gao.gov](mailto:radesp@gao.gov) or (202) 512-3641, or (2) Jackie McColl at [mccollj@gao.gov](mailto:mccollj@gao.gov) or (404) 679-1948. Thank you in advance for responding to this survey.



## Part 1: General Information

This section contains general questions on the processes you use to receive and account for government furnished material (GFM) and/or secondary repair items supplied to your company by either the Army supply system or a prime contractor. To answer the questions, left-click on the shaded response fields and select the appropriate response. For questions that require you to enter data or comments, left-click on the shaded response fields and type in your responses.

Company: «ContrName1»

1. Do you have a Defense Contract Management Agency (DCMA) approved property control system?

Yes.....☐ → If Yes, please list the date of the notification letter for your most recent approval.  
MM/DD/YYYY

No.....☐

2. Do you receive GFM items at this facility? GFM is defined as "A" condition serviceable assets that are used in the repair, alteration, modification, or production of a higher assembly.

Yes.....☐

No.....☐

3. Do you receive secondary repair items at this facility? Secondary repair items are defined as unserviceable assets requiring repair, alteration, or modification, excluding major end items.

Yes.....☐

No.....☐

4. Does your property control system maintain records for GFM and/or secondary repair items received from either the Army supply system or a prime contractor?

Yes.....☐

No.....☐ → If No, please explain below.

If No, please explain.

5. Do you enter receipt information (e.g., document number, stock number, quantity, date received, etc.) into your property control system for GFM and/or secondary items received from the Army supply system?

Yes.....☐

No.....☐

6. Do you use the Commercial Asset Visibility system (CAV or CAV II) to report on the status of GFM and/or secondary repair items received from the Army supply system?

No.....☐

Yes, for GFM only.....☐

Yes, for secondary repair items only.....☐

Yes, for both GFM and secondary repair items.....☐

7. If you have any additional comments, please type them in the space below. Please specify the question(s) to which your comments refer.

Type your comments here.

Please continue with the Part 2 e-mail attachment(s) for each Contract.

«SurveyID»

## Part 2: Government Furnished Material (GFM) and Secondary Repair Item Shipments

This section contains questions on specific GFM and/or secondary repair items that were identified as shipped to your company from the Army supply system by an Army Inventory Control Point, to include AMCOM, TACOM-Warren, TACOM-Rock Island, and SBCCOM. For the purposes of this review, we are defining GFM as "A" condition serviceable assets that are used in the repair, alteration, or modification, or production of a higher assembly. We are defining secondary repair items as unserviceable assets requiring repair, alteration, or modification, to exclude major end items.

Please answer the questions for the shipped item(s) identified below. You can answer most questions by left clicking on the shaded response fields and selecting the appropriate responses. For questions that require you to enter data such as dates and national stock numbers, left-click on the shaded response fields and type in the appropriate information.

Contract Number: «Contract»

Item type: «Strata» -- Item «Seq» of «MaxSeq»

Document Number: «DOC»

Document Suffix (If applicable): «Suffix»

National Stock Number: «STK\_NO»

Description: «NAME»

Quantity Shipped: «Shipped»

Date Shipped: «ShpDate»

1. Do your property records reflect that you received the item(s)?

Yes.....☐

No.....☐ → If No, skip to Question 11.

2. For the shipped item(s), does the contract number that authorized you to receive the item(s) at the time of shipment match with «Contract»?

Yes.....☐

No.....☐ → If No, enter the contract number contained in your records:

Enter the contract number here.

3. Was the item(s) shipped to your company under a Performance Based Logistics (PBL) or similar non-traditional contract?

Yes.....☐ → If Yes, list the type of contract below.

List the contract type here.

No.....☐

4. At the time of shipment, were you authorized to receive the item(s) as the prime contractor or the sub-contractor?

Prime contractor.....☐

Sub-contractor.....☐

5. For the shipped item(s), please enter in line 5a the date that the shipment receipt was posted in your records.

*Note: If you received multiple shipments under this document number, please enter under line 5b the receipt dates posted for the first and last shipments received.*

a. Single Shipment Receipt Date MM/DD/YYYY

b. Multiple Shipment Receipt Dates

First Receipt Date MM/DD/YYYY

Last Receipt Date MM/DD/YYYY

6. For the shipped item(s), does the document number posted in your records match with «DOC»?

Yes.....☐

No.....☐ → If No, enter the document number posted in your records: Your Number

7. For the shipped item(s), does the national stock number (NSN) posted in your records match with «STK\_NO»?

Yes.....☐

No.....☐ → If No, enter the national stock number posted in your records: Your NSN

**Appendix II  
GAO Contractor Survey**

«SurveyID»

- 8. For the shipped item(s), does the quantity posted in your records match with «Shipped»?**

Yes.....☐

No.....☐ → **If No, enter the quantity posted in your records:  
Your Quantity**

- 9. Did you notify the responsible Army organization (e.g., Inventory Control Point, Program Manager, Program Office, field activity, etc.) or prime contractor that you had received the item(s)?**

Yes.....☐

No.....☐ → **If No, skip to Question 11.**

- 10. How did you notify the responsible Army organization (e.g., Inventory Control Point, Program Manager, Program Office, field activity, etc.) or prime contractor that you had received the item(s)? Please select all that apply.**

	Select all that apply
Entered receipt through electronic interface with Command Commodity Supply System (CCSS) or Logistics Modernization Program (LMP).	<input type="checkbox"/>
Entered receipt for the item(s) through the Commercial Asset Visibility (CAV or CAVII) system.	<input type="checkbox"/>
Sent memo or email to the responsible Army organization or prime contractor to acknowledge receipt of the item(s).	<input type="checkbox"/>
Called the responsible Army organization or prime contractor to acknowledge receipt of the item(s).	<input type="checkbox"/>
Provided routine reports to the Army or prime contractor that identified items on hand, (e.g., asset picture).	<input type="checkbox"/>
<b>Other: Describe other means used to notify the responsible Army organization or prime contractor.</b>	

- 11. Was there a discrepancy in the shipment of the item(s)?**

Yes.....☐

No.....☐ → **If No, skip to Question 18.**

- 12. What was the reason for the discrepancy? Please select all that apply.**

	Select all that apply
Item was never received.	<input type="checkbox"/>
Quantity of items received was not correct.	<input type="checkbox"/>
Item received was not the correct item.	<input type="checkbox"/>
Item received was an unacceptable substitute item.	<input type="checkbox"/>
Item received was damaged or in poor condition.	<input type="checkbox"/>
Item received had not been requisitioned.	<input type="checkbox"/>
Item was misdirected and addressed to the wrong activity.	<input type="checkbox"/>
<b>Other: Describe other reasons for the discrepancy</b>	

- 13. Did you report the discrepancy for the shipped item(s) to the responsible Army organization (e.g., Inventory Control Point, Program Manager, Program Office, field activity, etc.) or prime contractor?**

Yes.....☐

No.....☐ → **If No, skip to Question 16.**

**Appendix II  
GAO Contractor Survey**

«SurveyID»

**14. How did you report the discrepancy? Please select all that apply.**

	Select all that apply
Submitted a Report of Discrepancy (ROD)/Supply Discrepancy Report (SDR) using Standard Form (SF) 364.	<input type="checkbox"/>
Submitted a Transportation Discrepancy Report (TDR) using Standard Form (SF) 361.	<input type="checkbox"/>
Submitted a discrepancy report online through the Army Electronic Product Support (AEPS) website.	<input type="checkbox"/>
Contacted the responsible Army organization (e.g., Inventory Control Point, Program Manager, Program Office, field activity, etc.) or prime contractor by telephone, e-mail, or faxed memo.	<input type="checkbox"/>
<b>Other: Describe other method for reporting discrepancy.</b>	

**15. Did you receive a response from the responsible Army organization (e.g., Inventory Control Point, Program Manager, Program Office, field activity, etc.) with which you filed the discrepancy report?**

Yes.....☐

No.....☐

**16. Was the discrepancy resolved?**

Yes.....☐

No.....☐ → If No, please explain below, and then skip to Question 18.

Type your explanation here.

**17. Was the discrepancy resolved to your satisfaction?**

Yes.....☐

No.....☐ → If No, please explain below.

Type your explanation here.

**18. What is the current status of the GFM or secondary repair item(s)? Please select all that apply.**

**If GFM item(s), select from the responses listed below.**

	Select all that apply
Item was consumed in the repair, alteration, modification, or production of a higher assembly.	<input type="checkbox"/>
Item was not consumed, and remains in your inventory.	<input type="checkbox"/>
Item was not consumed, and was passed to another commercial or government repair facility.	<input type="checkbox"/>
Item was returned to the Army supply system or to the original source of supply.	<input type="checkbox"/>
<b>Other: Describe other status of the GFM item.</b>	

**If secondary repair item(s), select from the responses listed below.**

	Select all that apply
Item(s) is currently being repaired or awaiting repair.	<input type="checkbox"/>
Item(s) was repaired and returned to the Army supply system, Army field activity, or a prime contractor	<input type="checkbox"/>
Item(s) was repaired and remains in your inventory.	<input type="checkbox"/>
Item(s) is awaiting disposition.	<input type="checkbox"/>
Item(s) was disposed as directed by the responsible Army organization.	<input type="checkbox"/>
<b>Other: Describe other status of the secondary item.</b>	

**19. If you have any additional comments, please type them in the space below. Please specify the question(s) to which your comments refer.**

Comments?

# Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR  
LOGISTICS AND MATERIEL READINESS  
3500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3500

NOV 29 2005

Mr. William Solis  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

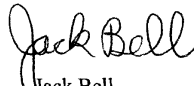
Dear Mr. Solis:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report GAO-06-209, "DEFENSE INVENTORY: Army Needs to Strengthen Internal Controls for Items Shipped to Repair Contractors, dated November 4, 2005 (GAO Code 350541).

The draft report recommends that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command, to strengthen internal control procedures for receipting repair item shipments and government-furnished materiel shipments.

The Department concurs with six of the recommendations and non-concurs with one recommendation in the draft report. The Department disagrees with the most serious allegation in the report, the alleged loss of a classified shipment. Army records show that it was not lost. In fact, it was an unserviceable item that was sent to the contractor for repair and then returned to Fort Bliss, TX after repair and was accounted for in both records. Enclosed are detailed comments to the recommendations. The Department appreciates the opportunity to comment on this draft report.

Sincerely,

  
Jack Bell

Enclosure:  
As stated



GAO DRAFT REPORT – DATED NOVEMBER 4, 2005  
GAO CODE 350541/GAO-06-209

**“DEFENSE INVENTORY: Army Needs to Strengthen Internal Controls for Items Shipped to Repair Contractors”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE RECOMMENDATIONS**

**RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command to establish systematic procedures to obtain and document contractors’ receipt of secondary repair item shipments in the Army’s inventory management systems, and to follow up on unconfirmed receipts within 45 days of shipment. (p. 16/GAO Draft Report)

**DOD RESPONSE:** **Concur.** The Army Materiel Command will ensure there are consistent, systematic procedures in place to obtain and document contractors’ receipt of repair items and follow up promptly on unconfirmed receipts. The Army currently generates a "monthly" output product listing all types of materiel shipments which have exceeded the expected delivery date. This product is routed to Item Managers for appropriate action to follow-up as necessary. Renewed emphasis will be placed on the Item Managers by the Army Materiel Command on the importance of this process and the fact that any sensitive item materiel shipments require diligence and any past due deliveries will require special action for follow-up in a manual mode.

The Army will also assess the use of the Commercial Asset Visibility (CAV II) tool for 100% of these shipments as the long term solution that will promote a greater degree of inventory accuracy in managing materiel shipped to commercial sources of repair. Additionally, systematic procedures will be developed by the Army, to include a suspense file to ensure necessary follow-up. The suspense is currently done manually, but will be automated with implementation of the Logistics Modernization Program (LMP), which will be fully implemented in FY 2007.

**RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command to institute policies, consistent with DoD regulations, for obtaining and documenting contractors’ receipt of government-furnished materiel shipments in the Army’s inventory management systems. (p. 16/GAO Draft Report)

**DOD RESPONSE:** **Concur.** The Army Materiel Command will institute policies to ensure that contractor’s receipt of government-furnished materiel (GFM) shipments will be obtained and documented in the Army’s LMP. Although this function does not currently exist within the LMP platform, there are proposed changes to the LMP system platform (FY 2007) that will encompass the capability to receipt GFM at contractor facilities, which will enable the Army to be in compliance with the DoD regulations.

Now on page 15.

Now on page 15.

Now on page 15.

**RECOMMENDATION 3:** The GAO recommended that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command to provide quarterly status reports of all shipments of Army government-furnished material to DCMA, in compliance with DoD regulations. (p. 16/GAO Draft Report)

**DOD RESPONSE:** Concur. Currently, the Army legacy system generates a report for this purpose and action will be taken by the Army to ensure DCMA receives a copy of this quarterly report. The Army also has two proposed changes to LMP to include this capability in that system.

Now on page 15.

**RECOMMENDATION 4:** The GAO recommended that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command to examine the feasibility of implementing DoD guidance for providing advance notification to contractors at the time of shipment and, if warranted, establish appropriate policies and procedures for implementation. (p. 16/GAO Draft Report)

**DOD RESPONSE:** Concur. An Army Integrated Product Team will examine the feasibility of providing advance notification to contractors at the time of shipment, to include availability of web-based query capability to make advanced time of shipment information available to contractors. The team should have results by July 2006.

Now deleted.

**RECOMMENDATION 5:** The GAO recommended that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command to investigate and resolve the status of the shipment of classified material that remains lost or unaccounted for on the basis of our review. (p. 16/GAO Draft Report)

**DOD RESPONSE:** Nonconcur. Army analysis shows that the shipment of classified material in question was neither lost nor unaccounted for. The Army used the same document number to send an unserviceable classified item to repair and to return the same item, now in serviceable condition, back from repair. There were two shipments using the same document number, W31G3H-3351-H604. The first shipment took place March 22, 2004, moving an unserviceable asset from Letterkenny Army Depot, PA to Raytheon. It was receipted for at Raytheon. The second shipment took place June 24, 2004, moving a serviceable asset from Raytheon to Ft Bliss, TX. The contractor would not show a receipt for the second shipment, because they were the shipper, not the intended receiver. Both shipments under document number W31G3H-3351-H604 were accounted for in 2004. The contract quantity for the document number (W31G3H-3351-H604) is 30 ea.

- 30 each shipped to the contractor.
- 30 each receipted by the contractor.
- 30 each shipped from the contractor
- 30 each receipted by Ft Bliss, TX

**RECOMMENDATION 6:** The GAO recommended that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command to analyze

Now on page 15.

receipt records for secondary repair items shipped to contractors and take actions necessary to update and adjust inventory management data prior to transfer to the Logistics Modernization Program. These actions should include investigating and resolving shipments that lack matching receipts to determine their status. (p. 16/GAO Draft Report)

**DOD RESPONSE:** Concur. Data cleansing efforts are ongoing at the major commands.

Now on page 15.

**RECOMMENDATION 7:** The GAO recommended that the Secretary of Defense direct the Secretary of the Army to instruct the Commanding General, Army Materiel Command, to provide periodic training to appropriate inventory control point personnel and to provide clarifying guidance concerning these new procedures to the command's repair contractors. (p. 17/GAO Draft Report)

**DOD RESPONSE:** Concur. The Army Materiel Command will require that training and guidance be provided to Army major command personnel to ensure understanding of procedures to strengthen internal controls for items shipped to repair contractors. An Army Integrated Product Team will work this issue and should have results by July 2006.



# GAO Contact and Staff Acknowledgments

---

---

## GAO Contact

William Solis, (202) 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov)

---

## Acknowledgments

In addition to the contact named above, Thomas Gosling, Assistant Director; Arthur James; Stanley Kostyla; Jacqueline McColl; Marjorie Pratt; and Paul Rades made key contributions to this report.

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ([www.gao.gov](http://www.gao.gov)). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to Updates."

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000  
TDD: (202) 512-2537  
Fax: (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Congressional Relations

Gloria Jarmon, Managing Director, [JarmonG@gao.gov](mailto:JarmonG@gao.gov) (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, D.C. 20548

---

## Public Affairs

Paul Anderson, Managing Director, [AndersonP1@gao.gov](mailto:AndersonP1@gao.gov) (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548