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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

74-0412

B-180220

JAN 23 1974

The Honorable James R. Schlesinger
The Secretary of Defense



Dear Mr. Secretary:

Our survey of DOD's cargo security program showed that the services have established what appear to be reasonable procedures to control pilferage. These procedures provide for extra safeguards over sensitive and highly pilferable items and for systematic inspection of vehicles leaving storage areas.

However, because of weaknesses in accounting controls at all levels of the supply pipeline, we could not determine the extent of cargo loss. Therefore we cannot now evaluate the overall effectiveness of DOD's cargo security program.

WEAKNESSES IN ACCOUNTING CONTROLS AT DEPOTS

The large number of inventory adjustments at depots prevented us from determining the extent of cargo losses. During fiscal year 1972, the depots at New Cumberland and Mechanicsburg, Pennsylvania, each made over \$5 million in inventory adjustments. These adjustments were the result of differences between stock-record balances and items actually on hand.

The depots did not investigate most of the adjustments. For those that were investigated--valued at about \$335,800--the cause of loss in most instances could not be determined because receipt and issued documents were no longer available.

In addition, we found that shortages reported to the depots by consignees were frequently not investigated. For example, one depot had investigated only 556, or about 25 percent, of the estimated 2,244 shortages the consignees

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reported during fiscal year 1972. Generally, the causes for the shortages investigated could not be identified.

BREAKDOWN IN SYSTEM OF ACCOUNTING
FOR CARGO AT U.S. OCEAN TERMINALS

There appeared to be a breakdown in the system of accounting for cargo moving through the ocean terminals. The Military Ocean Terminal, Bayonne, New Jersey, and that at Oakland, California, had significant amounts of "ghost" cargo on their records. This cargo had been received at and entered on the records of the terminals but could not be found.

Research done by personnel at another U.S. military terminal showed that some ghost cargo, although still carried on its records, had actually been received by the overseas consignees. However, some shortages could not be resolved.

As of December 18, 1972, the total ghost cargo on the records at Bayonne was 1,907 line items involving about 40,000 pieces of cargo missing or unaccounted for. This represented unresolved inventory shortages detected during three physical inventories taken in calendar year 1972. The value of the 40,000 pieces had not been calculated.

According to terminal officials, the ghost cargo that cannot be traced is eventually written off.

WEAKNESSES IN ACCOUNTING CONTROLS
AT OVERSEAS MILITARY PORTS

Our survey at overseas military ports showed weaknesses in accounting controls over cargo shipped overseas. In our opinion, one of the more serious problems is the inadequacy of the procedures to reconcile discrepancies between cargo loaded onto ships and that offloaded at overseas ports and to assign responsibility for such discrepancies.

At the Military Port, Naha, Okinawa, there were significant differences between quantities of cargo manifested onto ships and the tally records of cargo actually

offloaded. Our investigation of these differences showed that consignees received some of the unaccounted-for cargo. We could not determine whether the cargo arrived on the ship on which it was manifested and was overlooked in the tally process or whether it arrived by some other means. The balance of the missing cargo had not been received. We estimate that these shortages totaled almost \$900,000 in fiscal year 1972. No indications were found regarding the disposition of these discrepancies--whether claims were filed and collected, whether the shortages explained, or whether anyone was held accountable.

Also consignees were not always returning receipts for cargo received from the port. In those instances when receipts were returned, some had not been signed and the port had no procedure for verifying the authenticity of signatures on the others.

Although Transportation Control and Movement Documents were used to clear cargo from the port, these documents were not adequately controlled and could have been misused.

CONSIGNEES DID NOT INVESTIGATE SHORTAGES

Consignees were not tracing overdue orders for material allegedly shipped but not received. From January through April 1972, one service on Okinawa removed about \$700,000 worth of due-ins from the books without tracing why shipments were not received. Another service had over \$200,000 worth of overdue orders with old shipping dates but had not researched reasons for nonreceipt. This practice substantially lessens the chance of detecting the loss of shipments and makes it difficult to assign responsibility for such loss.

Discrepancy in Shipment Reports were not prepared for all shortages. In some instances the reports that were prepared were misrouted and were not received by the command responsible for pursuing claims action. For example, of the 48 loss-related discrepancy reports prepared by a consignee in Europe between March and November 1972, only about one-half were received by the command responsible for filing claims.

AGENCY ACTIONS

We discussed our observations with officials of the Office of the Director for Transportation and Warehousing Policy, DOD. They generally agreed with us.

We also discussed our observations at each location with officials of local commands. In addition, we reported the results of our work at the Military Port, Naha, and the Pusan Ocean Terminal to the Commanding General, U.S. Army, Japan, and the Commanding General, 8th Army, respectively. The commands generally agreed with our findings and outlined corrective action.

A complete list of installations visited is enclosed.

CONCLUSIONS

There were certain weaknesses in accounting controls over cargo in storage or moving through the distribution system. Since our review focused primarily on cargo security matters, our study was not in sufficient depth to enable us to make specific recommendations for improvements in the accounting controls. Until these controls are improved at all levels of the supply system, it will not be feasible to measure cargo losses or to evaluate the effectiveness of the DOD's cargo security program.

RECOMMENDATIONS

We therefore recommend that you make an in-depth study of DOD's cargo security program with emphasis on insuring that existing accounting controls are being used effectively and on determining whether additional controls are needed.

Please advise us of any corrective action you take regarding the matters discussed in this report, and we will be glad to discuss our observations with you or your representatives.

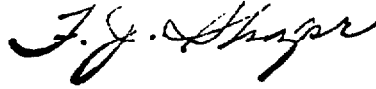
We are sending copies of this report to the Director, Office of Management and Budget; the Senate and House

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Committees on Government Operations, Appropriations, and
Armed Services; and the Secretaries of the Army, Navy, and
Air Force.

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Sincerely yours,



F. J. Shafer
Director

ENCLOSURE

INSTALLATIONS VISITED

Defense Depot, Mechanicsburg, Pennsylvania

Defense Depot, Tracy, California

Sharpe Army Depot, Lathrop, California

New Cumberland Army Depot, New Cumberland, Pennsylvania

Military Ocean Terminal, Bayonne, New Jersey

Military Ocean Terminal, Bay Area, Oakland, California

Military Port, Naha, Okinawa

Pusan Ocean Terminal, Pusan, Korea

Benelux Ocean Terminal, Rotterdam, The Netherlands

Bremerhaven Ocean Terminal, Bremerhaven, Germany

Eastern Area, Military Traffic Management and Terminal Service, New York, New York

Western Area, Military Traffic Management and Terminal Service, Oakland, California