



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.

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.

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.