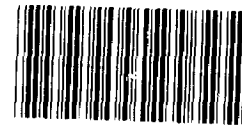

BY THE U.S. GENERAL ACCOUNTING OFFICE
Report To The Secretary Of Defense

Controls Over Property In Custody Of Military Units Can Be Improved

Weaknesses in controls over property in the custody of military units have allowed much material to be lost. If more emphasis were placed on property accountability, losses could be substantially reduced.

Responsible parties are rarely identified and held liable for property losses. Procedures for determining liability should be simplified and strengthened.



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B-198053

The Honorable Harold Brown
The Secretary of Defense*ACG 00005*

Dear Mr. Secretary:

This report identifies weaknesses in accounting for personal property in the custody of military units and problems with relief-from-accountability procedures.

The report contains recommendations to you on pages 7 and 12. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretaries of the Air Force, Navy, and Army; and the Chairmen of the appropriate congressional committees.

Sincerely yours,

R. W. Gutmann
Director



D I G E S T

The Department of Defense (DOD) needs to place more emphasis on property accountability. Weaknesses in property controls have allowed much property to be lost.

In October 1977 the U.S. Army Inspector General reported that large quantities of Army material were unaccounted for and that actions to remove lost or damaged material from accountability rarely resulted in fixing liability for losses. He attributed most of the Army's problems to a lack of command emphasis on property accountability and pointed out weaknesses in the property accountability system itself, including cumbersome and complex procedures for granting relief from accountability. (See ch. 2.)

GAO's review of property accountability activities at selected Air Force, Navy, and Marine Corps installations found similar weaknesses. GAO's physical inventories disclosed similar error rates, particularly for items valued at less than \$1,000. Also, "reports of survey" or other procedures performed to remove property from accountability rarely resulted in the fixing of pecuniary liability. (See chs. 3 and 4.)

Although established accountability procedures were generally adequate, many units reviewed were not following them. For example, periodic physical inventories were not always done, material transfers were not always documented, tool purchases were not always verified, and physical security sometimes left much to be desired. (See ch. 3.)

The difficulty of proving servicemembers grossly negligent appears to discourage the services from attempting to fix liability for lost or damaged property. The Navy and Marine

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Corps also are hindered because they lack legal authority to withhold the cost of lost or damaged equipment from a member's pay. (See ch. 4.)

To strengthen controls over property in the custody of military units, the Secretary of Defense should instruct all of the military services to emphasize property accountability procedures, including the need to

- perform timely and accurate physical inventories,
- document property transfers,
- verify tool and other equipment purchases, and
- protect material from deterioration and pilferage. (See ch. 3.)

In addition, the Secretary should evaluate the revised procedures for granting relief from accountability being tested by the Army, particularly the simplified definition of the term negligence, for possible application DOD-wide. He should also propose revisions to applicable law to provide authority to the Navy and Marine Corps to collect assessed liability for lost or damaged property from servicemembers' pay. (See ch. 4.)

This report was discussed with DOD officials. They agreed that increased emphasis should be placed on following established property accountability procedures. They stated that the revised Army procedures for granting relief were being evaluated and they would look into the feasibility of changing applicable law to authorize pay withholdings for lost or damaged property. (See chs. 3 and 4.)

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ABBREVIATIONS

AFB	Air Force Base
DOD	Department of Defense
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

The military spends billions of dollars to acquire and replace the property required to provide for national defense. Property in the custody of using military units is commonly referred to as being on property book accounts. Property book items include military real property, personal property, weapons, and plant equipment. Personal property includes both personal and unit equipment and range from clothing items to combat vehicles.

Department of Defense (DOD) policy on accounting for and reporting on Government property lost, damaged, or destroyed is contained in DOD Manual 7200.10-M dated May 1977. Heads of the DOD components are responsible for providing supplementary instructions to implement the DOD property accountability policy within their service or agency.

In October 1977 the Army Inspector General reported on weaknesses in accountability of Army material. We made this review to determine if the other services are having similar problems.

SCOPE OF REVIEW

We examined the property accountability activities of selected units at the following installations:

Army

Fort Carson, Colorado Springs, Colorado

Air Force

March Air Force Base (AFB), Riverside, California
Norton AFB, San Bernardino, California

Marine Corps

Camp Pendleton, Oceanside, California

Navy

Miramar Naval Air Station, San Diego, California
Port Hueneme, Oxnard, California

We conducted physical inventories at all installations except Fort Carson and Norton AFB and reviewed the degree of compliance with established accountability procedures. We examined procedures and related records used in establishing liability or relieving individuals of liability for lost or damaged Government property. We evaluated the adequacy of statutory authority, DOD instructions, and military service guidelines for obtaining restitution for lost or damaged Government property and discussed these matters with responsible installation officials.

Our physical inventory of material at March AFB was based on a random sample of total personal property at the base. Samples for the Navy and Marine Corps bases were drawn from selected unit inventories because no records of base-wide inventories were available.

CHAPTER 2

U.S. ARMY INSPECTOR GENERAL'S REPORT

ON PROPERTY ACCOUNTABILITY

In 1977 the U.S. Army Auditor General and Inspector General performed an audit survey and special inspection of the management and accountability control over Army material. In October 1977 the Inspector General reported that large quantities of material were unaccounted for and pinpointed a number of weaknesses in material accountability. On the basis of the results of a physical inventory of 118 company-sized units, he estimated the value of the Army's property book material to be about \$12.5 billion. The inventory indicated that about \$118.5 million of this material could not be accounted for and that about \$89 million of material was on hand but not on the accounting records.

The audit survey of property and financial records of 15 Army installations and 4 overseas divisions showed that, while reports of survey were performed covering \$9.6 million in property losses during the prior year, pecuniary liability was established for only about 8 percent of this amount and not all of that was collected.

The Inspector General attributed most of the Army's problems with control over property to a lack of command emphasis on property accountability, including a failure to conduct prompt and accurate physical inventories and to take appropriate action on reported shortages and excesses. He also pointed out a number of weaknesses in the property accountability system itself, including problems with relief-from-accountability procedures.

As a result of the above report, the Army established a task force under the direction of the Deputy Chief of Staff/Logistics to take action on the Inspector General's recommendations. These actions included (1) improved inventory procedures, (2) simplified report of survey procedures, (3) new procedures to ensure collection of assessed pecuniary liability, (4) mandatory training on property accountability of Army material for all officer courses, and (5) improved security procedures to control and protect Army property.

Simplification of the report of survey procedures included (1) elimination of the requirement to prove gross negligence in order to fix pecuniary liability for lost or damaged material and equipment items and (2) limitation of liability for such items to an amount equal to 1 month's pay.

CHAPTER 3

NEED TO STRENGTHEN ACCOUNTABILITY FOR MATERIAL

IN THE CUSTODY OF USING UNITS

Our review showed that the same basic weaknesses reported by the Army Inspector General existed in the other services. Physical inventories disclosed similiar error rates. We observed the same indications of need for increased emphasis on material accountability as reported by the Inspector General. Many of the units reviewed were not following established requirements for periodic physical inventories or other established control procedures. In some instances, physical security left much to be desired.

PHYSICAL INVENTORY RESULTS

Our physical inventories of personal property and unit equipment of selected units at four installations disclosed the following discrepancies:

<u>Location</u>	<u>No. of items sampled</u>	<u>Discrepancies found</u>			<u>Discrepancy percentage</u>
		<u>Shortages</u>	<u>Overages</u>	<u>Total</u>	
Pendleton	3,302	50	199	249	7.5
March	639	19	3	22	3.4
Miramar	707	26	8	34	4.8
Hueneme	2,494	82	184	266	10.7

We did not project our findings into dollar impact at some locations because of difficulties in determining the total number and value of property items at the location. We were able to do so at March AFB, and we estimate the value of material lost from accountability to be about \$160,000. While we were not able to project our inventory discrepancies servicewide, we believe that they would be sizable. The Army Inspector General estimated that inventory discrepancies of less than 2 percent represented a value of more than \$200 million.

Stratification of our samples demonstrated that accountability for property was generally good for items valued at \$1,000 or more and weak for lower valued items. For example, March AFB had a discrepancy rate of 3.9 percent for items with unit values under \$1,000 and no discrepancies for items with unit values exceeding \$1,000. Missing items included three typewriters valued at \$480 each and three adding machines

valued at \$376 each. Similarly, Port Hueneme had no discrepancies for major equipment items, but it did have an 11.8-percent discrepancy rate for items in the central toolroom. Missing items included two welding torches (\$27 each) and five sledge hammers (\$12 each).

ACCOUNTABILITY PROCEDURES NOT FOLLOWED

While established accountability procedures were generally adequate, we found many instances where they were not followed. Required physical inventories were not always done, equipment transfers were not always documented, and in some instances, physical security was inadequate.

The Army report attributed much of the accountability problem to a lack of command emphasis on such factors as regular physical inventories and adequate safeguard of materials. The Army team noted a direct relationship between the interest level of commanders and the magnitude of unit problems with accountability. We found some of the same indications of a need for increased emphasis on accountability in the other services.

Our review of accountability for tools at Camp Pendleton showed that implementation of control procedures varied from poor to very good. Although local procedures called for monthly inventories of toolboxes, records of one battalion showed that inventories were not being done that frequently. Furthermore, the effectiveness of the inventories that were conducted was questionable. For example, one toolbox was inventoried on May 8, 1979, and reported to be short 14 tools. At our request, the toolbox was reinventoried on May 16, 1979--only about a week later--and found to have 39 tools missing.

Because of the large variance in the number of tools missing, the validity of the earlier inventory is suspect. Significantly, this battalion had the highest turnover rate for tools. It purchased tools equal to 148 percent of its average inventory during the most recent 12-month period.

Our review of accountability practices at the Miramar Naval Air Station disclosed various discrepancies in accountability, including inadequate physical inventory practices, failure to document equipment transfers, and failure to adequately safeguard items from either the weather or theft. For example, an aircraft maintenance section was past due for its annual physical inventory and had not yet corrected errors resulting from the use of faulty inventory procedures the prior year.

Regarding equipment transfers, we found that a squadron had loaned a \$250 item of test equipment to another command without documentation. Subsequent inquiry disclosed that the item had since been shipped to another installation more than 100 miles away. Inquiry at another squadron showed that a \$34,000 test set had been shipped to a deployed ship without documentation.

At the time of our visit to Miramar, many items of equipment were stored in a little-used, dilapidated facility, the interior of which was wet from recent rains. There was no record of what was stored in the building and several items thought by base personnel to be stored there could not be located. Conversely, during our inventory, a \$1,700 swaging tool reported to have been lost and the subject of a pending survey was found in a storage locker. Again, the method of storage was haphazard with no record kept of what was stored in the locker.

At Norton AFB and March AFB control over tools in the hands of mechanics appeared to be quite good due to the use of the composite toolkit concept. Under this concept, kits are checked out as needed and turned back in at the end of a job or shift. Outlines of each tool in the kit are either painted in the tool boxes or cut in a foam material to facilitate sight inventory on issuance and turn-in. If a tool is missing, a search must be made and if it cannot be found, a missing tool report must be prepared. Although the primary purpose of the program is to avoid leaving foreign objects in aircraft engines, improved accountability is achieved as a byproduct.

In spite of the improved control at the user level through the use of composite toolkits, similar improvements were not achieved at the toolroom level. Procedures for purchases by the toolrooms were not always followed, and in some instances, turnover rates appeared to be high. The annual turnover rate for tools ranged from a low of 13 percent at one toolroom to a high of 106 percent at another toolroom. While it was not possible to pinpoint the reasons for the relatively higher tool purchases, some toolrooms were not consistently following established control procedures.

For example, each of the toolrooms receives a daily printout which lists the dollar value of tool purchases charged to its unit. Toolroom personnel are supposed to review the listings to verify that the purchases were made. At each of the bases, we tested this control by having supply officials charge dummy bulk tool purchases, ranging in value

from \$286 to \$651, to the toolrooms under review. Of 16 toolrooms involved in the test, 6 rooms detected the overcharges. The other units, including those with the higher turnover rates, did not detect the overcharges, indicating that they did not follow the verification procedures.

CONCLUSIONS AND RECOMMENDATIONS

Some loss of or damage to Government property in the custody of using military units is inevitable. However, on the basis of our observations of accountability procedures at the installations visited, we believe that loss rates, particularly for items with unit values under \$1,000, are too high. In our opinion, increased management emphasis on existing material control procedures could result in substantial dollar savings.

To strengthen controls over property in the custody of military units, we recommend that the Secretary of Defense instruct all of the military services to stress the need for increased emphasis on following established property accountability procedures, including

- performing timely and accurate physical inventories,
- documenting property transfers,
- verifying tool and other equipment purchases, and
- protecting material from deterioration and pilferage.

AGENCY COMMENTS

We furnished a draft of this report to DOD officials and obtained their informal comments. They agreed that there was a need for increased emphasis on compliance with property accountability procedures.

CHAPTER 4

PROCEDURES FOR GRANTING RELIEF FROM

ACCOUNTABILITY SHOULD BE SIMPLIFIED

AND STRENGTHENED

Reports of survey and other survey procedures performed to remove lost or damaged property from accountability rarely result in the fixing of pecuniary liability. The services appear to be discouraged from attempting to fix liability by the difficulty of proving servicemembers grossly negligent, and in the case of the Navy and Marine Corps, by a lack of legal authority to withhold the cost of equipment lost or damaged from members' pay.

PROCEDURES FOR RELIEF FROM ACCOUNTABILITY

DOD Manual 7200.10-M spells out the procedures to be followed by the military services for accountability of property. It specifies the same procedures for the Air Force, Army, and Navy, with somewhat different procedures for the Marine Corps.

For property book items other than personal arms or equipment, the Air Force and Navy are to use the following procedures upon discovery of loss, damage, or destruction of Government property:

- Determine if there is evidence of gross negligence, willful misconduct, or deliberate unauthorized use.
- If there is no evidence of gross negligence, willful misconduct, or unauthorized use, a survey certificate is initiated to relieve the individual concerned and adjust the inventory records.
- If the results of the research are positive, and the responsible individual admits pecuniary liability for a loss, damage, or destruction not exceeding \$500, he may agree to reimburse the Government.
- When the preliminary investigation indicates evidence of gross negligence, willful misconduct, or deliberate unauthorized use and the property value exceeds \$500, or if the responsible individual refuses to make payment, a report of survey should be initiated to document the cause of the loss and fix liability.

The procedures for personal arms and equipment are the same as above except that only simple negligence has to be indicated.

The DOD manual defines gross negligence as an extreme departure from the course of action to be expected of a reasonably prudent person all circumstances being considered, accompanied by a reckless, deliberate, or wanton disregard for the foreseeable consequences of the act. In contrast, simple negligence is defined as an act or omission that a reasonable person would not commit under similar circumstances. Under the revised procedures being tested by the Army, only simple negligence is required to fix liability.

The DOD policy for the Marine Corps is similar to the procedure prescribed for the other services up to the point of preparing a survey certificate when no fault or negligence is suspected. Where fault or negligence is suspected, a formal investigation will be performed, but there is no requirement to prepare a report of survey.

LIABILITY IS SELDOM ESTABLISHED

We found that reports of survey are seldom prepared for lost or damaged items, and the procedures used to remove material from accountability rarely result in the fixing of liability.

Air Force

At the time of our review, the Air Force required surveys only where there was evidence of gross negligence connected with loss of or damage to equipment. As a result, at the Air Force bases we visited, reports of survey were seldom used. In fiscal year 1978 only six reports of survey were processed at the two bases. They covered about \$9,000 of Government property that was lost or damaged. Liability was established in only one of the six cases and amounted to about \$700. This case involved the unauthorized sale of scrap metal for personal gain. Relief from accountability with no one being held liable was granted via survey certificates in another 203 cases covering an additional \$95,000 worth of lost or damaged property.

The requirement to establish gross negligence appears to have limited the number of surveys performed and has resulted in Air Force officials writing off some questionable property loss or damage cases without benefit of an independent investigation. Examples of such actions were:

- Loss of a \$1,250 portable radio from the back of a motorcycle.

--Loss of a \$1,000 portable radio that was left on the running board of a truck.

--Loss of three television sets costing \$1,000 from a regional hospital within 6 months.

A simplified negligence criterion such as that being tested by the Army would have resulted in the performance of independent investigations and may have resulted in fixing liability.

Navy

The Navy still is not following the 2-1/2-year-old DOD-prescribed procedures. The Navy uses a combination of survey reports and reports on missing, lost, stolen, or recovered property to account for Government property lost, damaged, or destroyed. The Navy survey reports do not conform to the procedures specified by DOD Manual 7200.10-M. Specifically, the primary purpose of the Navy survey report is to remove property from accountability. It is used for nonserviceable and uneconomical-to-repair items, as well as lost or damaged items. Completion of the report involves determining responsibility, including whether anyone appears to be liable to blame. If liability is indicated, a formal investigation is required which may result in reimbursement.

In addition to the survey reports, separate reports on missing, lost, stolen, or recovered property are required for (1) all serialized or unserialized firearms, weapons, ammunition, explosives, and other destructive devices; (2) all serialized Government property having a value of \$100 or more; (3) all unserialized Government property having a value of \$500 or more; and (4) all other unserialized Government property considered to be sensitive items.

Navy officials advised us that instructions for implementing the DOD-prescribed report of survey system were being prepared; however, as of March 1980, the instructions were not yet in effect.

Although records of past investigations of lost or damaged property were not readily available in some instances, our review of those records that were available indicated that liability for loss or damage was seldom established.

Marine Corps

We found that determination of liability for Government property lost or damaged was only 3 to 4 percent of the value

of property covered by investigations and reports on missing, lost, or stolen property. Our review of investigation reports disclosed that the lack of good records and timely investigations sometimes contributed to the inability to track accountability and establish responsibility for loss or damage. For example, in 10 of 25 investigations reviewed at Camp Pendleton, the investigating officers reported they were handicapped in their investigations because records were poor or too much time had elapsed before beginning the investigations.

INCONSISTENT STATUTORY AUTHORITY FOR WITHHOLDING FROM PAY

Federal law provides the basis from which the Department of Defense property accountability and relief-from-accountability system has evolved. While 37 U.S.C. 1007(c)(d)(e) and (f) authorizes the Air Force and the Army to assess pecuniary liability and withhold assessments from the pay of servicemembers who lose, damage, or destroy Government property, there is no such provision for the Navy and Marine Corps. Because of this, the Navy's policy is that an individual's pay may be withheld for loss or damage only if the individual consents to the withholding.

Navy and Marine Corps officials told us that the requirement to obtain a servicemember's consent to withhold pay for lost, damaged, or destroyed Government property has hindered their efforts to enforce property accountability. While the impact of this inconsistency in law could not be measured, it appears logical that legal authority to withhold liability assessments from servicemembers' pay would be an aid in collecting such assessments. We also believe that, from the standpoint of equity, all servicemembers should be treated the same on this matter, regardless of the branch of service in which they serve.

CONCLUSIONS AND RECOMMENDATIONS

We believe relief-from-accountability procedures need to be simplified to ensure that liability is assessed for lost or damaged Government property when appropriate. Although revised procedures being tested by the Army have not been in effect long enough to be evaluated, we believe that a simplified definition of negligence and a limitation on the amount of pecuniary liability should encourage reports of survey and strengthen material accountability. We also believe that the law authorizing the withholding of liability assessments from servicemembers' pay should be revised to assist the services in collecting assessed liability in a reasonable and equitable manner.

We recommend that the Secretary of Defense evaluate the revised procedures for granting relief from accountability being tested by the Army, particularly the simplified definition of negligence, for possible application DOD-wide. We also recommend that the Secretary propose revisions to applicable law to provide authority to the Navy and Marine Corps to collect assessed liabilities for lost or damaged property from servicemembers' pay.

AGENCY COMMENTS

DOD officials stated that they were evaluating the revised Army procedures for possible expanded application. A decision will be made as soon as the Army has compiled sufficient data to determine the effectiveness of the revised procedures. DOD officials also plan to look into the feasibility of changing the law to authorize withholding assessments for lost or damaged property from servicemembers' pay.

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