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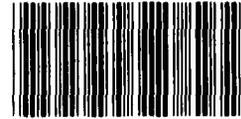
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-207712

JUNE 17, 1982

The Honorable Charles E. Bennett
Chairman, Subcommittee on Seapower
and Strategic and Critical Materials
Committee on Armed Services
House of Representatives



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Dear Mr. Chairman:

Subject: Review of Selected Aspects of Strategic and
Critical Materials Stockpile Management
(GAO/PLRD-82-85)

This report is in response to your June 10, 1981, letter which expressed your concerns regarding various management aspects of the strategic and critical materials stockpile. These concerns were

- accuracy of inventory records and inventory data reported to the Congress,
- adequacy of physical security, and
- adequacy of storage facilities.

Following discussions with your Office, we agreed to evaluate General Services Administration's (GSA's) Federal Property Resources Service's (FPRS's) procedures designed to ensure that stockpile commodities are properly stored and accounted for and that the status of the stockpile is reported accurately to the Congress.

On the basis of our review of stockpile records at FPRS headquarters; work at the Curtis Bay, Maryland, storage depot; and an examination of the results of a recently completed GSA Inspector General audit of operations and physical security at stockpile storage sites, we believe FPRS is generally fulfilling its responsibilities for care and maintenance of stockpile materials and for assuring that its reports on the status of the stockpile are as accurate as can be expected under current conditions.

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However, during our survey, we noted several matters which might pose problems in the future. All of these relate, to some degree, to a shortage of funding and some are beyond the control of FPRS. For example:

- The vast amounts of material and the manner in which much of it is stored make detailed verification of inventory record accuracy costly.
- Many stockpile storage facilities are in need of repair. While this situation has not caused widespread damage to stockpile inventories, some damage has occurred and FPRS officials believe the situation is serious and will worsen if GSA's Public Buildings Service (PBS) does not repair the facilities. PBS officials believe they are providing adequate facility maintenance within their available resources.
- PBS has reduced the level of security at some storage sites and FPRS officials are concerned that further reductions may cause problems. PBS officials consider the security to be adequate.

We did not undertake the extensive work that would be needed to resolve the differences of opinion between FPRS and PBS officials and to estimate the cost of eliminating these potential problems; however, we are bringing them to the attention of the Administrator of General Services by separate letter.

A more detailed discussion of our findings follows.

INTRODUCTION

The United States cannot produce certain strategic and critical materials in sufficient amounts to support military and basic civilian requirements during periods of national emergency. In some cases, the Nation is partially or totally dependent upon foreign sources for many of these materials.

To prevent what could be a dangerous and costly dependence on foreign supply sources during periods of crisis, the United States stockpiles 94 strategic and critical materials at 115 locations throughout the country. As of December 29, 1981, the stockpile inventory was valued at about \$12.1 billion.

Stockpile legislation

Over the years, several pieces of legislation addressing strategic and critical material have been enacted. The Strategic and Critical Materials Stock Piling Act of 1946 initiated

the first major Government program for the procurement of materials that were necessary to support U.S. industrial and military needs during an emergency. Section 303 of the Defense Production Act of 1950, as amended, authorized the Government to purchase metals and minerals to stimulate defense-related expansion of production capacity. Section 104(b) of the Agricultural Trade Development and Assistance Act of 1954 authorized the acquisition of strategic and critical materials with foreign currencies obtained from the sale of surplus agricultural commodities, however, this authority was eliminated under section 2 of the Food for Peace Act of 1966. Generally, the Strategic and Critical Materials Stock Piling Revision Act of 1979 consolidated the three previously existing national stockpiles into a single national stockpile and provided specific guidance for the President to follow in determining which materials should be included in the stockpile and the quantity of each. The act also created a National Defense Stockpile Transaction Fund to receive funds resulting from sales of stockpile materials and to support acquisition of materials for the stockpile.

Organization and management of
the stockpile program

The Strategic and Critical Materials Stock Piling Act is the basic authority for administering the stockpile program. The Director of the Federal Emergency Management Agency (FEMA) has primary responsibility for planning the stockpile program. Restructuring of the stockpile results from the Annual Materials Plan that lists stockpile materials proposed for acquisition and disposal. This plan is developed each year through an interagency committee chaired by FEMA. Other agencies represented on the Annual Materials Plan Steering Committee are the

- Department of Defense,
- Department of Commerce,
- Department of the Interior,
- Department of Energy,
- Department of State,
- Department of Agriculture,

- Department of the Treasury,
- Central Intelligence Agency,
- General Services Administration, and
- Office of Management and Budget.

Various stockpile management functions are the responsibility of the Administrator of General Services and are performed by FPRS. These functions include storage, inspection, maintenance, security, acquisition, disposal, and market analyses of the physical inventories. PBS is responsible for maintenance and repair of storage facilities and installation security at GSA stockpile storage sites.

Reporting requirements

The Strategic and Critical Materials Stock Piling Act requires that the President submit to the Congress, every 6 months, a written report detailing the results of stockpile operations. This requirement is met by FEMA through the "Stockpile Report to the Congress." The report includes

- a discussion of major activities affecting the stockpile (i.e., major purchases or disposals);
- a comparison of inventories on hand with current stockpile goals;
- information on the Annual Materials Plan;
- a discussion of recent legislation affecting the stockpile;
- information on research and development activities;
- an explanation of the financial status of the National Defense Stockpile Transaction Fund; and
- a comprehensive listing, by commodity, of the national stockpile inventory.

In addition, FPRS prepares an annual report known as the "DM-83," which shows stockpile material inventories by quantity, grade, and storage location.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary objectives for this assignment were to evaluate GSA's procedures for

- maintaining accurate stockpile inventory records and accurately reporting inventory data to the Congress and
- providing adequate security and storage for stockpile materials.

We met with officials from FPRS, PBS, FEMA, and the GSA storage depot at Curtis Bay, Maryland. FPRS, PBS, and FEMA were selected because they have policy making and/or management responsibility for the stockpile program. Curtis Bay was selected because of the wide variety of materials stored there and the combination of storage methods and conditions that could be observed.

Because of the large number of commodities stored and the tremendous quantities of each commodity, we did not attempt to gather our data based on a scientific random sampling of materials or storage locations, but used judgment samples designed to illustrate any problems involved in physically managing the stockpile. In addition to visiting one storage depot, we reviewed stockpile inspection reports on file at FPRS headquarters from numerous other storage sites and a GSA draft Inspector General report on stockpile operations covering 40 storage locations. We believe the information we developed reflects conditions that would be found if the scope of our survey had been expanded.

Generally, we reviewed the procedures FPRS uses in managing the care and maintenance programs for stockpiled materials. We evaluated accountability procedures designed to ensure that reliable data is provided on the location, quantity, and condition of stored materials. We also reviewed the adequacy of the storage facilities and FPRS's quality assurance programs which monitor the condition of materials in storage. At Curtis Bay, this included a physical examination of storage facilities and selected stockpile items stored in these facilities. In addition, we discussed the adequacy of physical security at storage locations with FPRS and PBS officials.

Our review was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

ACCURACY OF INVENTORY RECORDS AND INVENTORY DATA REPORTED TO THE CONGRESS

FPRS procedures require that all stockpile commodities be inspected at 6-month intervals. These inspections are performed primarily to detect deterioration, infestation, inventory inaccuracies, or theft. Records of these inspections are forwarded to FPRS headquarters for review by the appropriate

commodity and storage specialists. Our examination of these records and our fieldwork at Curtis Bay indicated that, for the most part, inspections were performed on time and management was aware of inventory inaccuracies and any other problems noted.

However, because of the vast amounts of material being stockpiled and the ways in which many are stored, inspectors do not attempt to make a detailed verification of inventory record accuracy. GSA officials, including those in the Office of the Inspector General, believe that the taking of precise inventories for all commodities would be cost-prohibitive and that the procedures currently used are generally adequate. We agree that such inventories would be very costly. We asked FPRS officials to provide an estimate of the cost to perform a complete, detailed inventory of the entire stockpile, but they could not provide one.

Some of the particular difficulties in taking detailed inventories are discussed below.

Bulk ore piles

Bulk ore piles, which are listed on the inventory records by weight, sometimes consisting of millions of pounds of material, are only visually inspected for signs of theft. Materials are weighed at the time of receipt and are weighed again only when sold or transferred for use or relocation. Weighing these materials to verify the accuracy of the inventory records would be extremely costly and any discrepancies found would most likely be unreconcilable. In most instances, ore piles have been in place for many years and weight variances over time could be attributed to wind and rain erosion and sinking of ore into the ground.

Commodities stored in block formation

Commodities that are stored in block formation, such as metal ingots, and materials in drums and wooden crates are inventoried by computation--multiplying the tiers, by the rows, by the columns. This technique does not provide positive assurance that unobservable items in the formation are genuine. Since these items are generally heavy and difficult to move, or are packed in sealed containers, we believe periodic positive verification would be difficult and costly to the extent of being impractical.

Narcotic items

Narcotic items, which are stored in Bureau of Narcotics approved dry vaults, present their own special inventory control problems since they are generally packed in sealed tins that

are further packed in metal strapped wooden boxes. Opium salts, for example, are placed in 100-ounce tins that are packed 10 to a case. Inventories are conducted by counting the cases. Positive verification of onhand inventory quantities for these commodities would require counting each case, opening each case to assure all tins are present, weighing the tins to verify the weight, and sampling the material to assure it is genuine. The stockpile inventory currently contains about 1,301 cases of opium salts. FPRS officials believe that employing the detailed inventory procedures described above would be unnecessary, impractical, and extremely costly and would probably not result in significant differences in inventories from what is being detected using current procedures.

Inventory verification

We inventoried five commodities (rutile sand, tin, lead, cobalt, and talc) at Curtis Bay, using FPRS procedures. Our computations agreed with the depot's records. However, we were unable to verify that there were not "holes" in the center of stacks or rows and therefore had to assume, as GSA inspectors do, that no materials were missing.

The GSA auditors, who had visited 40 storage locations just prior to our audit, also physically inventoried commodities to verify the depots' records and found no significant discrepancies. Likewise, during our 1978 fieldwork, GAO auditors counted selected commodities stored at the Point Pleasant, West Virginia, storage depot and did not find significant differences between stored material and the depot's records.

Inventory data reported to the Congress

Stockpile inventory data contained in the semiannual "Stockpile Report to the Congress" is derived from official inventory records maintained by FPRS. We traced data from the report to the inventory records and found that the information being reported to the Congress accurately reflects the official inventory records.

ADEQUACY OF STORAGE FACILITIES

Because the physical properties of strategic and critical materials are quite diverse, storage requirements vary significantly. Susceptibility to deterioration and the likelihood of theft are foremost factors considered in determining how a commodity will be stored.

Like the materials themselves, storage facilities are inspected every 6 months to evaluate the adequacy of the physical protection provided to material. Reports of these inspections are forwarded to FPRS headquarters for review by storage

specialists. We reviewed these reports and found numerous facility deficiencies that needed correcting. FPRS personnel told us that PBS is responsible for correcting these deficiencies.

At Curtis Bay, we found some warehouses in extreme disrepair. We observed a number of large holes in roofs; apparently, the result of prolonged neglect. These deficiencies had been reported to PBS but remained uncorrected. We also saw several commodities that had to be relocated to avoid water damage. However, we did not find any instances at Curtis Bay where actual damage to materials had occurred as a result of the poor storage facilities because space was available to move material that might be damaged.

GSA Inspector General personnel also noted problems with warehouses at Point Pleasant, West Virginia; Pueblo, Colorado; Blue Grass Army Depot, Kentucky; and Baton Rouge, Louisiana. They too did not find widespread damage to stockpile materials because of poor storage facilities. Of the 40 locations they visited, only some asbestos stored at Baton Rouge had been damaged because of the condition of the warehouse.

FPRS officials believe that the condition of storage facilities is a serious problem and that it will worsen if PBS does not provide increased support. We asked these officials to provide us examples of materials damaged due to poor storage facilities. However, we do not believe the examples provided indicate the problem is as serious as they believe.

We discussed facility maintenance problems with PBS's Acting Assistant Commissioner for Buildings Management and the Director of the Repair and Alteration Division. These officials said that every 5 years PBS personnel perform an engineering survey of all buildings for which they are responsible. The primary purpose of these surveys is to determine and program the needed maintenance during the following 5-year period. When asked specifically about the conditions we had observed at Curtis Bay, PBS officials could not explain why repairs had not been made. However, they did say that, because of limited resources, PBS must set priorities and allocate its funds for repairs accordingly.

FPRS headquarters officials are concerned over the apparent lack of responsiveness from PBS concerning facilities maintenance. FPRS officials believe PBS should either repair these facilities or return them to FPRS to manage and maintain.

We did not perform an indepth review of this issue; however, we are bringing the matter of facility maintenance and management responsibility to the attention of the Administrator of General Services since, apparently, agreement cannot be reached between FPRS and PBS.

ADEQUACY OF PHYSICAL SECURITY

Reduced physical security at some storage facilities is a potential problem that has been communicated recently in correspondence between FPRS and PBS. PBS, which is responsible for this function, recently reduced the level of security at the Point Pleasant, West Virginia; Warren and Sharronville, Ohio; Hammond, Indiana; and Curtis Bay, Maryland, storage sites and has indicated that funding constraints may make security reductions necessary at other locations. FPRS has requested that previous levels of security be restored.

PBS contends that the level of security FPRS desires exceeds normal security provided under the standard level user charge and that additional security can be provided only on a reimbursable basis. FPRS does not believe its security requirements exceed the norm and contends that PBS has reduced security to compensate for lack of funding.

Again, we asked FPRS to provide us examples of material losses or other adverse impacts that had occurred as a result of reduced levels of security. However, the examples provided did not demonstrate that reduced security levels had caused extensive losses of material.

We discussed the matter of physical security with PBS's Assistant Commissioner, Office of Federal Protective Service Management. He told us that before any decision was made to reduce levels of security at stockpile storage locations, a security survey and threat assessment were performed. Based on these assessments, it was determined that security staff levels could be reduced without bringing the level of security below that which would adequately protect stockpiled materials. The Assistant Commissioner stated that the threat of an incident at most locations was just not strong enough to justify increased security. He also stated that the Federal Protective Service is using its limited resources to protect higher priority areas, such as Federal office buildings.

FPRS and PBS disagree on the level of security necessary to adequately protect stockpile materials and who should provide this protection. We did not perform indepth work in this area. However, we are also bringing this matter to the attention of the Administrator of General Services.

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As requested by your Office, we did not obtain official agency comments on this report. However, our findings were discussed with FPRS and PBS officials and their comments were incorporated where appropriate.

As arranged with your Office, we are sending copies of this report to the Director, Office of Management and Budget; the Administrator, General Services Administration; and the Commissioners, Federal Property Resources Service and Public Buildings Service. Copies will also be available to other interested parties upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald J. Horan".

Donald J. Horan
Director