United States General Accounting Office

GAO

Report to the Chairman, Committee on Governmental Affairs, U.S. Senate

November 1993

SMALL ARMS PARTS

Poor Controls Invite Widespread Theft

GAO/NSIAD-94-21

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-243561

November 18, 1993

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report was prepared in response to your request that we review the adequacy of the Department of Defense's controls over small arms parts.

We are sending copies of this report to appropriate congressional committees; the Secretaries of Defense and the Army; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

If you have any questions, please call me on (202) 512-8412. Major contributors to this report are listed in appendix I.

Sincerely yours,

Donna M. Heivilin
Director, Defense Management and
NASA Issues

Executive Summary

Purpose

The Chairman, Senate Committee on Governmental Affairs, expressed concern over persistent problems in controlling small arms parts within the military supply system. Consequently, GAO examined the controls and physical security over small arms parts at three active Army bases and three Army National Guard sites.

Background

The Army annually repairs thousands of small arms, which include all weapons up to calibers of 20 millimeters. It stores parts used to repair small arms at numerous worldwide supply activities. In numerous previous reports, GAO indicated that the Department of Defense has systemic problems in accounting for and securing inventories in its military supply system.

Results in Brief

In the past few years, many thefts and attempted thefts of small arms parts from the military supply system, including those for the military M16 rifle, have been discovered. The common thread in these thefts has been the involvement of military personnel. In all but one case, the thefts were discovered by accident. An indicator of the pervasiveness of these thefts is that military small arms parts are readily available to the public at gun shows across the United States. According to various government and manufacturing sources, these parts cannot be sold to the public. Therefore, it is likely that small arms parts available at gun shows were stolen.

During this most recent review, GAO uncovered previously undetected thefts of small arms parts by national guardsmen at the Michigan Army National Guard, one of the six Army and Army National Guard sites it visited. The thefts had gone undetected for years because of inattentive management and inadequate basic internal controls. All six sites had breakdowns in internal controls. Notable deficiencies include the following: (1) key duties in the areas of supply and repair are frequently done by the same person, (2) inventory controls are inadequate, (3) physical security is weak, and (4) computer system control weaknesses help hide thefts.

Principal Findings

Small Arms Parts Are Being Stolen

Many thefts and attempted thefts, at both the retail and wholesale levels of the military supply system, have occurred over the last 5 years throughout the United States and were discovered by accident. For example, a Michigan guardsman who was previously assigned to the repair parts section of a warehouse admitted to stealing small arms parts for at least 5 years. He sold small arms parts to a national gun dealer who has been connected to the sale of small arms parts to the Branch Davidian religious sect in Waco, Texas. The thefts were discovered because GAO asked site officials to review requisitions for small arms parts. Site officials then became aware that some shops were ordering parts they were not authorized to use. Further investigation pointed to a guardsman, who later admitted to the theft. In addition, the theft of about $80,000 in government property, including small arms parts, from Fort Campbell, Kentucky, was discovered only because the vehicle carrying the stolen property was stopped for a minor traffic violation by off-base police.

In addition to thefts at military sites, GAO found that military small arms parts were being sold at gun shows. GAO visited gun shows in six states to determine the availability of military small arms parts. In all six states GAO purchased small arms parts, some in government packaging. In five of these states, GAO was able to buy some or all of the six small arms parts necessary to convert a semiautomatic civilian rifle to the equivalent of a fully automatic military M16. GAO purchased military small arms parts at 13 of 15 gun shows attended. Considering that there are thousands of nationwide gun shows annually, the ready availability of these parts is alarming.

Inattentive Management and Poor Internal Controls Invite Theft

At all six sites GAO visited, internal controls were deficient in some form. For example, the thefts by a Michigan national guardsman remained hidden in part because key supply and repair duties were not separated, physical security was weak, and there were weaknesses in computer system controls. In addition, management officials at this and other sites had inadequately monitored supply and repair operations. At this and other sites, requisitions were not reviewed on a regular basis, and inventory was not accounted for. None of these deficiencies were cited as material weaknesses in the Financial Integrity Act reports GAO reviewed. The fact that the thefts at the Michigan Guard occurred over 5 years

without detection raises questions about the validity of these reports. At the Georgia Army National Guard, GAO was told that the reports lacked supporting review or checklist analyses.

Key Duties Are Not Separated

The Michigan guardsman who had stolen small arms parts had access to the computer system controlling repair parts and physical access to the parts in the warehouse. As a result, repair parts transactions could be manipulated and created on the computer, and the parts could be removed from the warehouse with ease. In addition, at the Georgia and Michigan Guards, supply personnel assigned to the maintenance supply office had both record-keeping and parts-handling responsibilities. Finally, at repair shops at Forts Benning, Campbell, and Sill, the same person was inspecting weapons for needed repairs, determining the parts needed, and repairing the weapons.

Reviews of Requisitions for Repair Parts Are Inadequate

Requisitions for small arms parts are not routinely reviewed to determine if the orders are authorized. GAO found that lower-level repair shops requisitioned small arms parts for repairs they were not authorized to do. At five sites where data was available (data was not available from Fort Benning), GAO found some unauthorized requisitions for 8 of the 10 small arms parts tested. It appears likely that some of these unauthorized requisitions may involve theft, since the guardsman who stole parts at the Michigan Guard used this weakness to cover up the thefts. Some of the unauthorized requisitions GAO found were for three of the six parts needed to convert a weapon to a fully automatic mode, such as those GAO purchased at gun shows.

Inventory Controls Are Inadequate

Frequently, repair parts have been unaccounted for, and inventory documentation has been incomplete. GAO found small arms parts in repair shops that were not authorized on any parts list. For example, personnel at Fort Sill turned in as excess over $37,000 in sensitive and high-dollar small arms parts that GAO noted were not on any authorized parts list. Also at Fort Sill, more than 2,500 M16 magazines, valued at over $9,000, were unaccounted for on any records. In addition, at the Connecticut Army National Guard, 46 machine gun barrels, worth over $38,000, and related parts were not on any inventory records and had been stored for over 9 months.

Inventory documentation was incomplete at three sites. For example, the Michigan Guard did not use a required inventory adjustment form. As a result, inventory adjustments were not being reviewed and approved at a higher level, as required. The Georgia Guard could not find this form, and

the Connecticut Guard adjusted its inventory records before the higher-level review and approval and thus reported very low adjustments resulting from the annual inventory. In addition, although Army regulations allow adjustments to inventory records of shop stock, or parts that must be ordered, most of the sites GAO visited did not maintain documentation of the inventories, discrepancies, or adjustments.

Physical Security Is Weak

The physical security at the supply and repair operations GAO visited was, for the most part, inadequate to protect small arms parts and other government property. Deficiencies include poor controls over access to the facilities and improper security of small arms parts. For example, employees at several sites were allowed to park their automobiles near open bay doors, fences had holes large enough for a person to crawl through, guards were not assigned to gates, and warehouse doors were usually left open and unattended. In addition, sensitive and pilferable items were frequently stored with other items or not properly secured. At Fort Campbell, for example, nine squad assault weapon barrels were outside the locked, caged area where they should have been stored. At Fort Benning, rifle barrels were stacked under an open window, where they could be stolen by anyone walking outside the building.

Automated Systems Can Be Used to Hide Theft

Serious vulnerabilities in computer system controls enabled a Michigan guardsman to steal parts. For example, the guardsman had complete access to the system and could issue sensitive commands reserved for the warehouse systems manager. In addition, a flawed batch entry process at the site and inadequate system controls aided the guardsman in manipulating small arms parts orders. For example, the guardsman established a line item; placed an order and then cancelled it; and picked up the part, which had already been sent. Officials at the Michigan Guard believe that such system vulnerabilities could lead to theft in any Army organization using the system.

Recommendations

GAO recommends that the Secretary of Defense direct the Secretary of the Army to

- enforce the existing regulations governing small arms parts and other equipment at all levels of the supply and repair systems,
- direct local commanders to reemphasize the importance of maintaining physical security over small arms parts and all government property and ensure that minimum procedures are being followed,

- ensure that adequate controls are built into the computer systems used for ordering and controlling retail-level repair parts,
- ensure that the deficiencies at the six sites are corrected, and
- examine the thoroughness and validity of the reports submitted under the Financial Integrity Act.

Agency Comments

As requested, GAO did not request agency comments on a draft of this report. However, GAO did discuss its findings and conclusions with Department of Defense representatives, including those from the Army National Guard, the Army Materiel Command, the Office of the Army Deputy Chief of Staff for Logistics, and the Office of the Secretary of Defense.

Contents

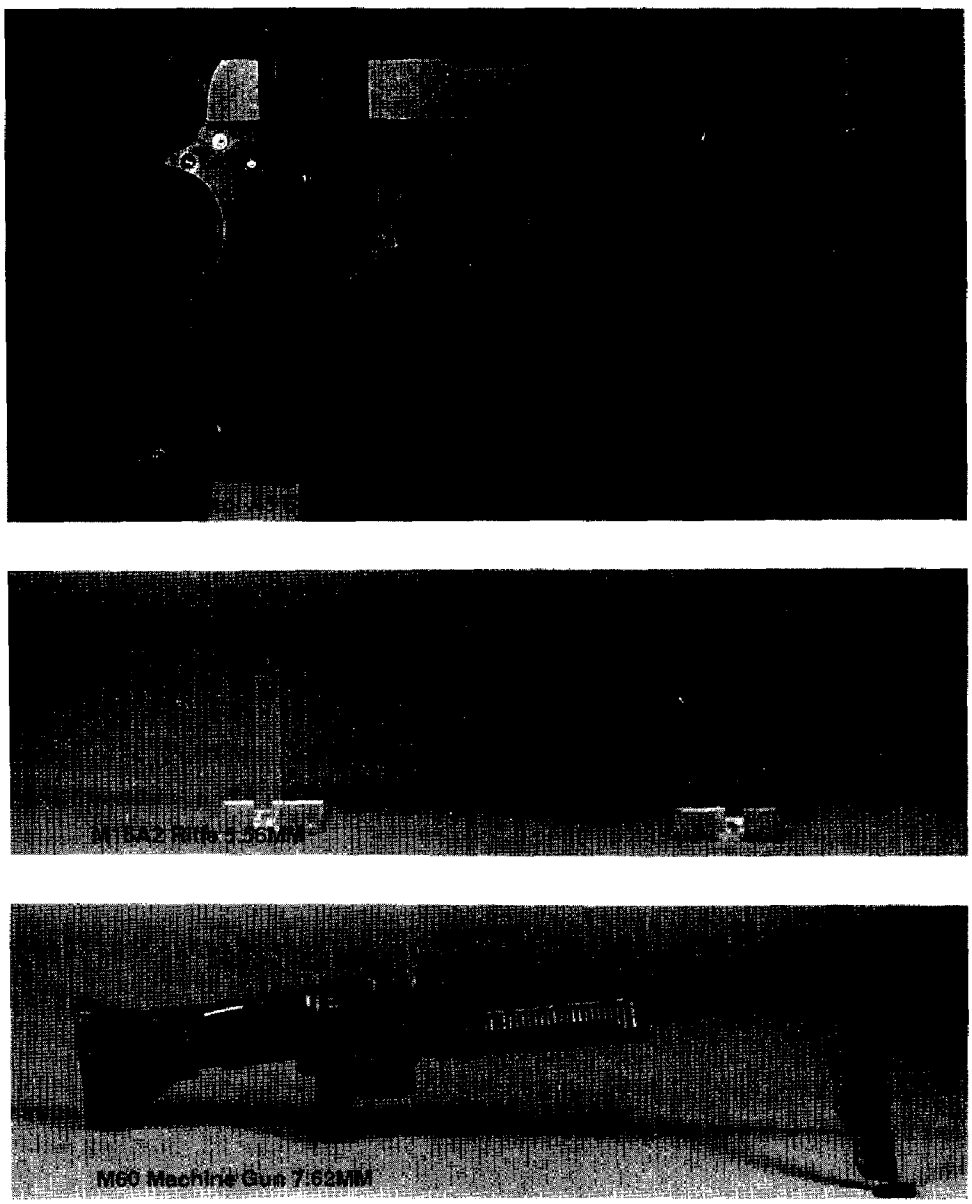
Abbreviations

DOD	Department of Defense
FIA	Financial Integrity Act
GAO	General Accounting Office
SARSS	Standard Army Retail Supply System

Introduction

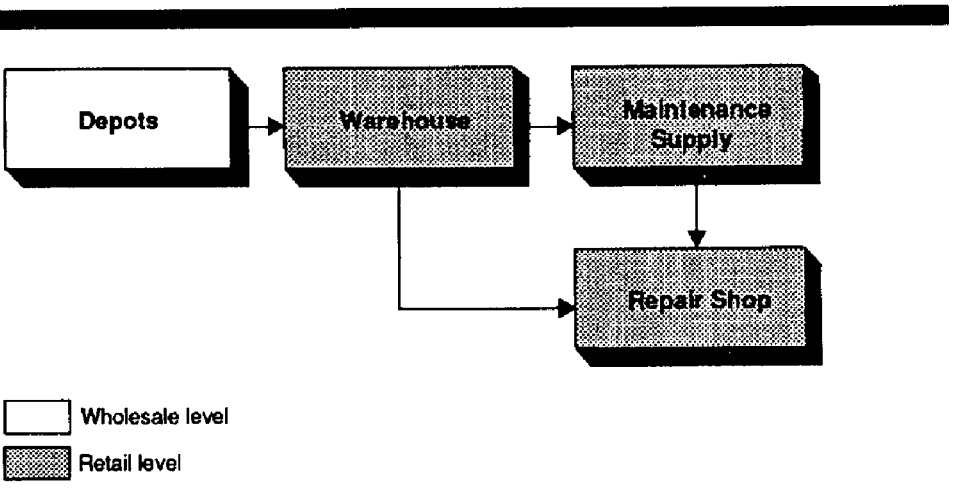
The Army and the Army National Guard store small arms parts at supply activities at worldwide military installations. These parts are used to repair small arms, which by the Army's definition include all weapons up to and including calibers of 20 millimeters. Examples of small arms issued to military personnel are the .45-caliber pistol, the M16 rifle, and the M60 machine gun (see fig. 1.1).

Figure 1.1: Small Arms Issued to Military Personnel



The Army annually repairs thousands of small arms, providing parts for these repairs through its wholesale-level supply system, which includes a small number of organizations that purchase and store large quantities of materials needed to support military operations.[1] Small arms parts are shipped, as needed, from the wholesale level (generally a depot) to retail-level supply activities (usually a warehouse). These parts are stored at the warehouse for future demands or are sent to repair shops that have already requisitioned them. They may also be processed and/or stored at an intermediate maintenance supply location before being sent to the repair shop. The general flow of parts is shown in figure 1.2.

Figure 1.2: General Flow of Repair Parts Between Wholesale and Retail Levels



Standard Army regulations govern the management, maintenance, and physical security of all commodities in the military supply system, including small arms parts. Repairers of small arms use low-cost,[2] high-use parts (called bench stock) in their work bench area and order other parts (called shop stock) as needed. Examples of bench stock are common hardware, transistors, triggers, oils, grease, and repair kits. The Army does not require accountability for small arms parts after they have been issued from the warehouses to the repair shops. For example, no inventories of

[1]The Army's supply system consists of two major levels—wholesale and retail. At the wholesale level, inventory control points buy material and distribute it to storage depots. At the retail level, numerous supply activities at posts and installations store smaller quantities of material near the military units they support on a daily basis.

[2]Low-cost is not defined in the Army regulations.

bench stock are required. However, lists of bench stock parts authorized for use in repair areas must be reviewed periodically. Shop stock, on the other hand, is generally kept at maintenance supply locations, and the Army requires that it be accounted for and that periodic inventories be done.

Some small arms parts may be classified as pilferable or sensitive. Pilferable items are those that have a ready resale value or civilian application and are, therefore, especially subject to theft. Sensitive items, such as small arms barrels, require a higher degree of security than pilferable items.

Prior Audits of DOD Inventories

We have indicated in numerous previous reports that the Department of Defense (DOD) has for years had systemic problems in accounting for and maintaining the security of its inventories. Two recent reports addressed specific internal control and physical security problems with small arms parts at the wholesale level of the military supply system and at the New York Army National Guard.[3] In the report on the New York Army National Guard, a retail-level supply and repair operation, we found that small arms parts were easy targets for theft because the Guard had weak internal controls over the process used to repair small arms, inspect repair work, store the parts, manage the work flow, and track inventory. The New York Guard adopted all our recommendations. The Army agreed to make changes to regulations concerning inventory discrepancies and the separation of duties but did not adopt all of our recommendations. For example, we recommended that the Army address the lack of a low-cost definition by excluding from bench stock those repair parts exceeding a unit value of $10. The Army disagreed, stating that the exclusion of an item from bench stock should be based on factors such as its sensitivity as well as its cost.

In November 1992, after a follow-up review at the New York Army National Guard, DOD's Inspector General reported that internal controls over small arms parts were generally adequate. DOD's report noted that while many deficiencies in physical security had been corrected, some corrective actions had been delayed and, in addition, some new deficiencies in physical security were found.

[3]Inventory Management: Strengthened Controls Needed to Detect and Deter Small Arms Parts Thefts (GAO/NSIAD-91-186, July 17, 1991) and Defense Inventory: New York Army National Guard Weapons Parts (GAO/NSIAD-91-28, Nov. 30, 1990).

Objectives, Scope, and Methodology

The Chairman, Senate Committee on Governmental Affairs, expressed concern over persistent problems in controlling small arms parts within the military supply system. Consequently, we evaluated the Army and the Army National Guard controls over small arms parts at the retail level. Specifically, we evaluated internal and inventory controls and physical security covering small arms parts.

We performed our work at the National Guard Bureau and the Office of the Assistant Secretary of the Army for Supply and Logistics, Washington, D.C., and the Army's Armament, Munitions, and Chemical Command, Rock Island, Illinois. We visited the following three active Army and three Army National Guard units:

- Fort Benning, Georgia (Maintenance and Supply and Services Divisions, Directorate of Logistics);
- Fort Campbell, Kentucky (801st Maintenance Battalion);
- Fort Sill, Oklahoma (Directorate of Logistics and the 226th Maintenance Battalion);
- Connecticut Army National Guard (Hartford and Windsor Locks);
- Georgia Army National Guard (Atlanta and Fort Stewart); and
- Michigan Army National Guard (Lansing).

As a result of alleged theft of small arms parts at the Michigan Guard, our Office of Special Investigations also conducted investigative work and review. This work was coordinated with the Federal Bureau of Investigation and the U.S. Attorney's Office in Grand Rapids, Michigan. Investigators from our Office of Special Investigations interviewed the Michigan guardsman who admitted stealing small arms parts. This Office, along with our evaluators, purchased small arms parts at gun shows in six states.

We selected a judgmental sample of sites from data on requisitions of small arms parts. We also tried to visit sites that were geographically dispersed. We selected active Army sites that had varied mission functions. For example, we chose a training facility (Fort Benning), an infantry support operation (Fort Campbell), and an artillery operation (Fort Sill). Some sites had several small arms repair and supply operations, and we visited the operation with the most activity in small arms supply and repair, as identified by local officials. References to Fort Benning, Fort Campbell, and Fort Sill apply only to the operations we visited. At Fort Sill and the Georgia Guard, we visited a second operation (noted above), where our scope of work was limited.

We discussed the weapons repair and parts supply process with supply and repair foremen and personnel, reviewed a sample of small arms work orders, and inventoried some small arms parts and compared the results to inventory records. We reviewed small arms bench and shop stock lists to determine whether only allowable parts were on the lists and the lists had been reviewed and approved as required. We also evaluated requirements and practices for reporting inventory discrepancies. We discussed and reviewed controls over computer systems used in warehouses and repair shops to run daily operations. We reviewed the physical security controls at each supply and repair facility and tested the controls by inspecting physical security and inventories and by checking the facilities' compliance with DOD and Army regulations.

We reviewed supply management, maintenance and repair, and physical security regulations issued by DOD, the Army, and the National Guard Bureau as well as local procedures at warehouses and repair shops. In addition, we examined internal and external reviews of general operations, repair parts warehouse operations, and physical security. Finally, we reviewed the controls over computer systems at warehouses to identify weaknesses that could allow thefts to occur.

To determine whether military small arms parts are widely available, we visited 15 gun shows in six states between September 1992 and January 1993. The states we visited were California, Illinois, Massachusetts, Michigan, New York, and Texas. Thousands of gun shows are held annually throughout the United States. We looked for six parts that could be used to convert a civilian semiautomatic weapon to the equivalent of a fully automatic military M16 as well as other parts for small arms. In doing this work, we dressed and acted as if we were regular gun show customers.

We performed our work between November 1991 and January 1993 in accordance with generally accepted government auditing standards. We released this report only after the conclusion of the Justice Department's criminal investigation into the thefts of small arms parts at the Michigan Guard.

Small Arms Parts Are Being Stolen

Military small arms parts have been stolen from many Army installations. As a result of our work, two Michigan national guardsmen admitted stealing small arms parts and selling them to a national gun dealer. Thefts have been described in several of our reports, reported on by the news media, or revealed in military or local law enforcement files. In all of these cases, the thefts involved military personnel, and in all but one case, the thefts were discovered accidentally.

Determining the pervasiveness of the thefts is impossible because the parts are not controlled or accounted for well enough to permit such a determination. However, our visits to geographically dispersed gun shows indicate that the problem is more widespread than DOD generally recognizes. At gun shows in five states, we were able to purchase M16 parts that could be used to convert a civilian semiautomatic weapon to a fully automatic M16. At one gun show in Illinois we purchased parts from the national gun dealer connected to selling small arms parts to the Branch Davidian religious sect in Waco, Texas.

Significant Theft Uncovered at Michigan Guard Warehouse

At the Michigan Guard, our work led to the discovery that a guardsman assigned to the repair parts section of a warehouse had been stealing small arms parts for at least 5 years. The investigation of these thefts, uncovered in early 1992, led to the suspicion of theft by another guardsman at the same warehouse. Both had federal firearms licenses, which allowed them to function as dealers in buying and selling weapons and small arms parts.

One of the reasons we selected the Michigan Guard for review was the high requisition costs—relative to all Guard units nationally—of selected M16 parts. The first guardsman implicated in the thefts admitted that he had stolen mostly M16 parts and some M60 machine gun parts from 1987 until 1991, when the guardsman learned of our upcoming review. The site's internal review team estimated the amount of the thefts at about $6,400, based on September 1990 to January 1992 transactions involving controlled small arms parts. On the basis of discussions with this guardsman and the guardsman's rough approximations of the quantity and kinds of stolen parts, however, we calculated the amount to be almost $29,000 for thefts occurring between January 1987 and December 1991. The figure may be much higher because the guardsman claimed that a substantial portion of this site's small arms parts requisitions for 5 years was for items stolen.

This guardsman's thefts were discovered after site officials began reviewing requisitions, at our request in early May 1992, for small arms parts. They noted that some shops were ordering parts they were not authorized to use. As a result of further examination, these officials suspected the guardsman assigned to the repair parts section of the warehouse had ordered the parts. They reported the suspected theft to our audit team in mid-May 1992 and to the headquarters of the National Guard Bureau in late May 1992 and sent a copy of the report to the local Federal Bureau of Investigation. Guard headquarters staff later reported the suspected theft to the U.S. Army Forces Command. Neither the National Guard Bureau nor the U.S. Army Forces Command investigated the suspected theft. In June 1992, the National Guard Bureau did request that all of its units reconcile inventories and records of selected small arms parts (see ch. 3). Investigation of the suspected theft by our Office of Special Investigations and the Federal Bureau of Investigation led to the admission of theft by the involved guardsman and the discovery of thefts by a second Michigan guardsman.

In addition to the above, one of these Michigan guardsmen has admitted to stealing small arms parts that were shipped back from Germany at the conclusion of Operation Desert Storm. We were also told that a Michigan guardsman was using parts to construct weapons to give retiring officers. Furthermore, we were told that small arms parts stolen by a Michigan guardsman were sold to a national gun dealer in Illinois, who in turn was connected to the sale of small arms parts to the Branch Davidian religious sect in Waco, Texas.

Small Arms Parts Have Been Stolen Elsewhere Within DOD

In the last 5 years, actual or suspected thefts of small arms parts have occurred at both the retail and wholesale levels of DOD's supply system. In all but one of these thefts, the involvement of military personnel and small arms parts was discovered by accident instead of through internal control processes.

In May and June 1992, two Texas guardsmen were convicted of burglarizing the home of a gun collector. During the investigation of the burglary, the guardsmen were found to have military small arms parts in their possession. It was believed, though never proven, that one of the convicted guardsmen stole some of the parts from a Guard repair shop, where he worked as a weapons repairer.

In August 1992, 4 machine guns, 50 M16 barrels, and military ammunition were seized from two white supremacist groups in Georgia and Alabama. Five military personnel from Fort Benning allegedly supplied these groups with weapons, ammunition, and small arms parts. Officials from Fort Benning publicly denied that the weapons came from the post, and representatives from Fort Benning's Maintenance Division said that they found nothing missing during a check of sensitive parts (which would include gun barrels). The Bureau of Alcohol, Tobacco and Firearms is leading an investigation of this incident.

Between January and August 1991, a civilian warehouse foreman, a supply sergeant, and a retired Nashville, Tennessee, police officer conspired to steal government property, including small arms parts, from Fort Campbell. The thefts were discovered only because off-base police stopped the vehicle with the stolen property for a minor traffic violation. The civilian warehouse foreman, who was responsible for inspecting incoming shipments, had put misaddressed shipments aside and, with the supply sergeant's help, removed the items by military vehicle to a remote location on base. The items were then transferred to a civilian vehicle and driven off base. Stolen items worth about $80,000 were recovered. Some of these items were from Operations Desert Shield and Desert Storm. All the conspirators were convicted and sentenced to jail.

In November 1990, two Kentucky Army National Guardsmen, one a small arms repairer, were found with military small arms parts and an AR15 rifle illegally converted to a fully automatic M16 rifle. According to a state police official, who was also an officer of the Kentucky Guard's Criminal Investigation Division, the parts could not be linked to the Guard because they contained no traceable markings. The guardsmen were found with the small arms parts through the investigation of a hunting infraction.

In 1989, two former New York guardsmen were convicted of stealing small arms parts from a Guard repair shop over a number of years. One of these guardsmen was a small arms repairer at the repair shop. Two others, a former guardsman and a police captain from Rochester, New York, were convicted on related charges. The parts were used to assemble small arms, including .45-caliber pistols and AR15s, that were sold illegally. The thefts were discovered by accident during an investigation into thefts of military clothing.

In another incident in 1989 at Fort Campbell, a foreman at the armament shop at a maintenance battalion stole 10 M16 upper receivers and other

small arms parts. In this instance, an internal control mechanism—taking an inventory—led to the early discovery and recovery of the missing parts.

In addition to incidents of items stolen at the retail level, during our previous review we learned of instances of theft and attempted thefts of small arms parts at the wholesale level. These include the following:

- During a 1989 sting operation, eight employees at the Red River Army Depot, Texas, were apprehended in connection with the theft of electronics and computer components. According to one of the eight implicated, he and his accomplices had stolen M16 and other rifle components worth about $77,000 over a period of 7 years.
- Red River's provost marshal found magazines from 9-millimeter handguns under a pile of trash in the secure warehouse. She believed that thieves used this means to steal items from a nominally secure building.
- An unlocked shipping container filled with four different small arms parts valued at about $33,000 was found on the loading dock of a Red River receiving warehouse. About the time the container was discovered, a night patrolman in the warehouse area challenged individuals, who fled the depot in their car. Although material is routinely stored on this loading dock, Red River officials suspected that the material had been repositioned for theft.
- A warehouse employee at Red River was caught attempting to steal about $600 in depot stock, including four forearm assemblies for the M60 machine gun, packaged and ready for shipment. The employee had placed the material under a shipping warehouse loading dock that was routinely covered with material. He returned to the depot after work hours, when the warehouse area was normally closed for the evening.

Military Small Arms Parts Are Sold in Private Sector

The ready availability of small arms parts to the public at gun shows across the country is an indicator of widespread theft of military parts. We purchased these small arms parts at gun shows in all six states we visited during our review. We purchased military small arms parts at 13 of 15 gun shows we visited. In some cases, the parts were in government packaging that included the stock number and other data. In other cases, the parts were not in government packaging but were positively identified by Army experts as parts manufactured for military use. According to the DOD regulation on the disposal of property, "Small arms, weapons and parts are not authorized for sale to the general public except as scrap after necessary demilitarization is completed." This applies to small arms

currently in use in the military, such as the M16 rifle and the M60 machine gun.

At the gun shows in five states, we were able to purchase all of the six M16 parts that could be used to convert the semiautomatic AR15 to a machine gun.[4] These six parts are the hammer, trigger, bolt carrier, disconnector, selector lever, and automatic sear (see fig. 2.1). Army experts verified that almost all of the parts we purchased were manufactured for military use. The government's cost of these parts is approximately $55, and the cost of the same parts at the gun shows ranged from $85 to $165.

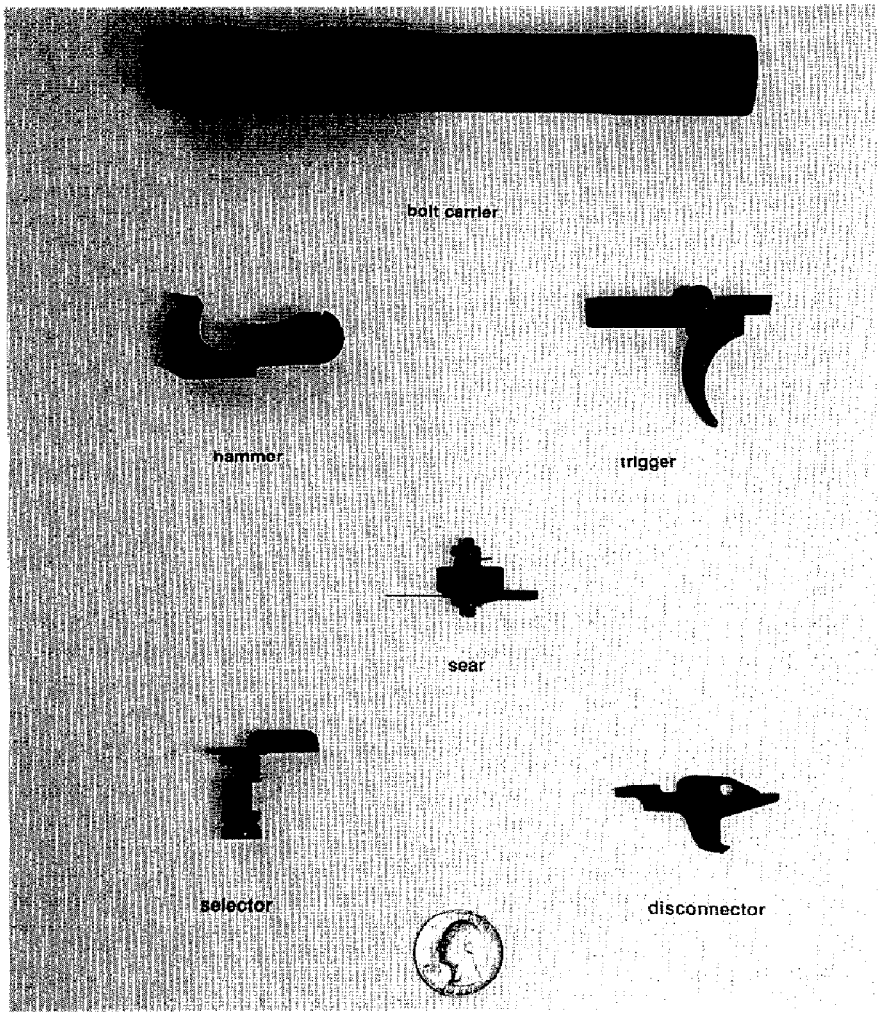


Figure 2.1: Six M16 Parts Used to Convert a Semiautomatic AR15 to a Machine Gun

[4]Generally, a machine gun is a firearm originally designed to fire, or to be capable of firing, automatically by a single pull of the trigger. A more detailed definition is found at 26 U.S.C. 5845(b).

At almost every gun show we visited, we purchased and/or observed 30-round M16 magazine clips in government packaging. The package shown in figure 2.2 includes the government stock number, the contract number, the manufacturer's name and address, and the date of manufacture—only 9 months prior to our purchase. We confirmed with the president of one manufacturing company that the magazine clips should be available only in the military supply system. As we discuss in chapter 3, a large number of these same magazine clips were unsecured and unaccounted for at Fort Sill.

Figure 2.2: Thirty-Round M16 Magazine Clip Purchased at a Gun Show

The Lack of Basic Controls and Management Oversight Invites Theft

The sites we visited had a variety of breakdowns in basic controls. The combination of failures to control or oversee small arms parts has created an environment in which military small arms parts can easily be stolen for personal profit or gain, for example, through the resale of the parts for money. The thefts we discovered at the Michigan Guard would have been more difficult, if not impossible, to accomplish had site officials ensured that one individual was not responsible for supply and inventory functions, employees were adequately supervised, employees could not use the computer system to aid in thefts, and physical security was adequate to prevent thefts.

The management officials of the Army and the Army National Guard have not always adequately established a positive and supportive attitude toward internal controls or incorporated specific control processes to effectively prevent, detect, or correct errors, irregularities, fraud, and abuse. To demonstrate support for strong internal controls, management must emphasize the value of internal auditing, respond promptly when control problems are identified, and comprehensively review high-risk areas for reports done under the Financial Integrity Act (FIA).[5] In addition, management must establish clear and standardized reporting relationships and responsibilities within the organization. Once a strong control environment has been established, specific management techniques must be used to ensure that control objectives are met.

Inattentive Management Creates an Atmosphere Conducive to Theft

In many cases, the lack of strong management oversight has created an environment that allowed the theft of small arms parts. Oversight is part and parcel of the internal control system, which should have been designed to detect the thefts of small arms parts that have occurred over a number of years. Without attentive supervision and oversight, employees have taken advantage of opportunities to steal.

The lack of management concern is particularly evident in the FIA reports concerning the six sites we visited because they did not cite as material weaknesses any of the deficiencies we found. These weaknesses contributed to the thefts at the Michigan Guard. At the Georgia Guard, we were told that the FIA reports were totally lacking in any supporting review

[5]The mandate of the Federal Managers' Financial Integrity Act (FIA) of 1982, now codified in 31 U.S.C. chapter 35, requires executive branch agencies to establish internal accounting and administrative controls which provide reasonable assurance that, among other things, funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Internal control evaluations are completed at all echelons of an organization and are funneled upward for an agencywide assessment of internal controls.

or checklist analysis. We also question the validity of the FIA reviews due to the fact that the Michigan guardsman who was discovered to be stealing was able to conduct illegal activities undetected for at least 5 years.

The sites we visited failed to use a combination of recognized internal controls over inventory management. As a result, they were vulnerable to fraud and theft. These techniques are essential to effective inventory management in supply and repair organizations. Some specific techniques include

- separating key duties,
- taking physical inventory,
- verifying stock locations,
- researching inventory discrepancies,
- coding items that require greater care or security,
- controlling access to computer systems, and
- maintaining tight physical security.

Although we did not examine each of these techniques during our review, we found that a combination of some of them were absent at all six of the sites we visited.

Key Duties Are Not Separated

At Fort Campbell and the Georgia and Michigan Guards, there was no separation of key duties in both the supply and repair functions, particularly between record-keeping responsibilities and operational duties such as ordering and handling repair parts. For example, one guardsman who admitted theft at the Michigan Guard had complete access to the computer system (record-keeping) and to small arms parts. Through the computer, the guardsman obtained information about on-hand quantities of repair parts and the status of repair orders, enabling the guardsman to manipulate and create repair parts transactions without question or detection. The guardsman also had physical access to repair parts, again without question. The guardsman's privately owned vehicle was parked near the warehouse, allowing the thefts to be completed with ease.

Office personnel and material handlers at the Michigan Guard were cross-trained and shared duties in the warehouse when they were shorthanded or during breaks, a situation that invites the manipulation of transactions. At the Georgia Guard, we were told that the warehouse supervisor has access to the computer system and responsibility for

handling repair parts. In addition, at the Georgia and Michigan Guards, supply personnel assigned to the maintenance supply office had both record-keeping and parts-handling responsibilities. Moreover, in the armament section of repair shops at Forts Benning, Campbell, and Sill, the same person can inspect weapons for needed repairs, determine the parts needed, and repair weapons. Work orders do not document who did the initial inspection.

These situations leave small arms parts vulnerable to theft. We noted in our 1990 report on the New York Guard that the failure to separate key duties in the repair process was a major deficiency and recommended that the Army assign key duties and responsibilities to separate individuals in the supply and repair process. In response to our recommendations, the Army drafted a regulatory change (scheduled to be published in December 1993) separating repair and clerical duties. This change is not sufficient to correct the problem, however, because it fails to separate duties within the repair functions and within the clerical functions.

Reviews of Requisitions for Repair Parts Are Inadequate

Requisitions for small arms parts are not routinely reviewed to determine if the orders are authorized. In several cases, lower-level repair shops requisitioned small arms parts for repairs they were not authorized to do. From a limited test of requisitions for 10 small arms parts at lower-level repair shops at five sites (data was not available from Fort Benning), we found that some requisitions for 8 of the 10 parts were unauthorized. It appears likely that some of these unauthorized requisitions may involve theft, since the guardsman who had been stealing for 5 years at the Michigan Guard used this weakness in controls to cover up thefts by using the address codes of lower-level repair shops to requisition small arms parts. Some of the unauthorized requisitions we found were for three of the six parts needed to convert a weapon to a fully automatic mode.

In June 1992, the National Guard Bureau requested its units to review and reconcile their requisitions for selected small arms parts. The directive cited continuing problems with the management of small arms parts and internal controls and the perception that small arms parts were being used to assemble weapons illegally. The purpose of the review was to determine whether the incidents were isolated or widespread. After most of the units had reported, the Bureau concluded that the problem was not widespread. We question this conclusion, however, because of our findings. Furthermore, in the directive, the Bureau did not provide guidance or criteria to ensure that the units' responses would be uniform and

comparable. A Guard unit we did not visit even called to ask us how to respond to the Bureau's directive. When we tried to obtain copies of some of the unit responses to the directive, a Bureau official said that all the responses had been destroyed.

Inventory Controls Are Inadequate

A variety of inventory control weaknesses leaves small arms parts open to theft or loss. In many instances, small arms parts that we found in repair shops were not accounted for on any parts list, and inventory documentation was not always accurate or complete.

Repair Parts Are Unaccounted For

In the armament section at Fort Sill (where only bench stock was allowed), we found numerous sensitive and high-dollar shop stock parts that were not authorized on any list. After our discovery of these parts, site personnel turned in as excess small arms parts worth over $37,000.

In the vault of the armament room at the Connecticut Guard, 46 machine gun barrels and related parts were being stored until the rest of the order came in. The barrels had been in the vault for over 9 months, and the remaining parts are not expected until 1994. Although the barrels were adequately secured, they were not on any inventory records. The value of the barrels was $38,000, a large amount for generally low-cost small arms parts. We found a similar situation at other sites; that is, parts had been pulled for a repair order while awaiting the rest of the parts to arrive. These orders did not involve large dollar amounts or long time frames, however.

At Fort Sill, over 2,500 M16 magazines valued at over $9,000 were unaccounted for on any records and stored in an unlocked storage area, even though these parts were classified as pilferable. Site officials took corrective action immediately and added the magazines to official records. We purchased or observed similar magazines in government packaging at public gun shows we visited in six states.

Periodic reviews of bench stock lists do not ensure that only authorized parts are on the lists. At Forts Benning and Campbell and the Georgia Guard, we found bench stock parts that were not low cost (at Fort Benning, one part cost almost $800) and that did not meet the sensitivity criteria for bench stock. Such parts should not be allowed in repair shops, particularly since the accountability requirements for bench stock are minimal. Even when reviews of bench stock lists were done, the lists often

did not contain adequate information for the reviewer to assess their validity. At Fort Benning, periodic reviews of shop stock lists were not done at all, and all necessary data for such review was not available.

Inventory records were not always accurate. We did a small sample inventory of selected small arms parts at the six sites we visited. We then compared our physical count of each of these parts with the sites' inventory records. Although two sites' inventory records and our count showed only minor discrepancies, the records at Fort Campbell could not be reconciled for 7 of the 17 small arms parts we inventoried. Many of the seven parts were sensitive, pilferable, and/or high cost.

Units are allowed to turn in excess quantities of materials without question or documentation (known as free turn-in), an approved practice at Forts Benning and Sill. Until the receiving unit can identify and record these materials, they are not on any inventory records and are thus vulnerable to theft or loss. The processing of materials, some from Operation Desert Storm and some small arms parts, was backlogged at these two sites. (Fig. 3.1 shows turned-in material awaiting processing.) In addition, personnel were responsible for both recording and handling the excess materials, a lack of a separation of duties.

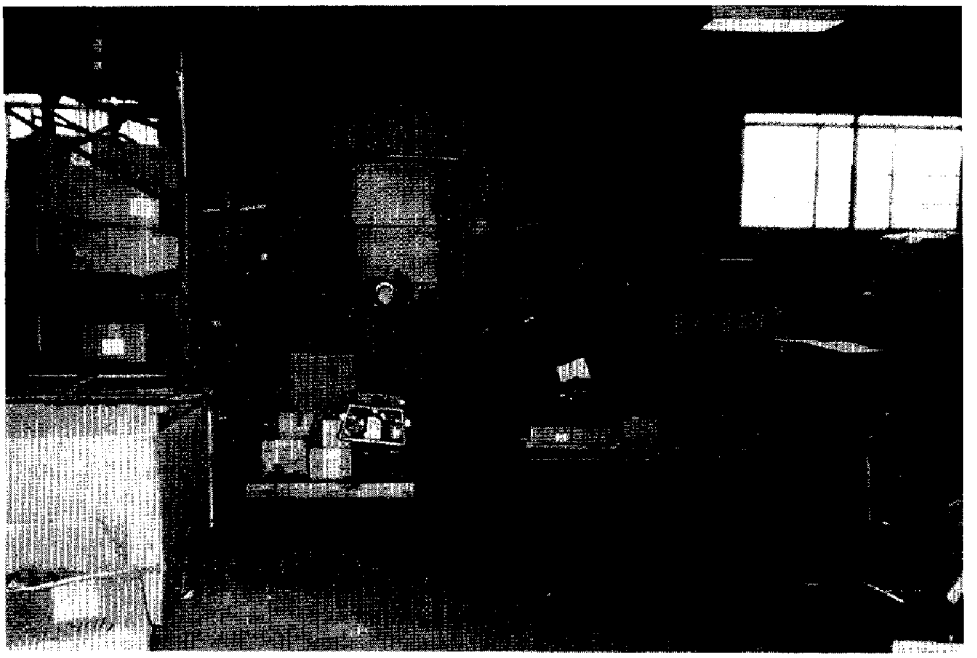


Figure 3.1: Excess Materials Turned in Without Documentation - Fort Benning

Inventory Documentation Is Incomplete

Some documentation of the physical inventories at warehouses was incomplete. In many instances, the initials of the counter and the recorder had not been recorded on the computerized count sheet that warehouses use during inventories; changes were made but were not initialed on the sheet; and at some sites, the count sheets were not retained. Furthermore, at the Michigan Guard, an inventory adjustment form was not used, and as a result the final physical inventory adjustments were not being reviewed and approved at a higher level, as required. The Georgia Guard could not find this required inventory adjustment form, and the Connecticut Guard adjusted its inventory records before review and approval from a higher level and thus reported very low adjustments in its annual inventory.

Current Army regulations allow maintenance supply shops to adjust inventory records without documentation or review. These adjustments result from discrepancies between the records and the physical counts of shop stock inventories. Although shop stock was inventoried, as required, at most sites we visited, documentation of the inventories, discrepancies, or adjustments was not adequate. Further, at the Georgia and Michigan Guards, the person that adjusted the inventory records was often responsible for handling parts and keeping the daily supply records. We reported on this same situation at the New York Army National Guard and recommended in November 1990 that shop stock discrepancies be documented and reviewed. The Army agreed to take action, and a regulatory change, scheduled to be published in December 1993, requires documentation on inventory discrepancies and research on the causes of the discrepancies.

Physical Security Is Weak

Physical security at the supply and repair operations we visited was, for the most part, inadequate to protect small arms repair parts and other government property. Assessments of local requirements for meeting Army physical security regulations indicate that perimeter barriers, key and lock controls, stringent construction criteria for storage areas, and personnel and vehicular entry control, among other factors, should be considered. In addition, minimum physical security requirements for repair parts require, among other things, that parts be stored in a locked, separate building or room, in a steel cage, and in a built-in container or free-standing container and that portable, pilferable-coded items be separated from other stock and stored in a separate room, building, or container with controlled access.

Poor Controls Over Access to Areas Storing Small Arms Parts

At most of the sites we visited, deficiencies in physical security allowed unauthorized access to facilities storing small arms parts or offered opportunities for theft. At Fort Benning and the Georgia and Michigan Guards, employees were allowed to park their privately owned vehicles near building bay doors. This deficiency at the Michigan Guard warehouse (see fig. 3.2) allowed a guardsman assigned to the warehouse to easily steal small arms parts. The Georgia Guard allowed employees to park privately owned vehicles in front of and behind a warehouse building. The rear of the warehouse proved to be particularly vulnerable because it was isolated from the rest of the installation and the receiving bay door remained open throughout the workday. In addition, this warehouse building's main entrance was unlocked and often unattended. Officials at this site immediately took corrective action after we brought these deficiencies to their attention.

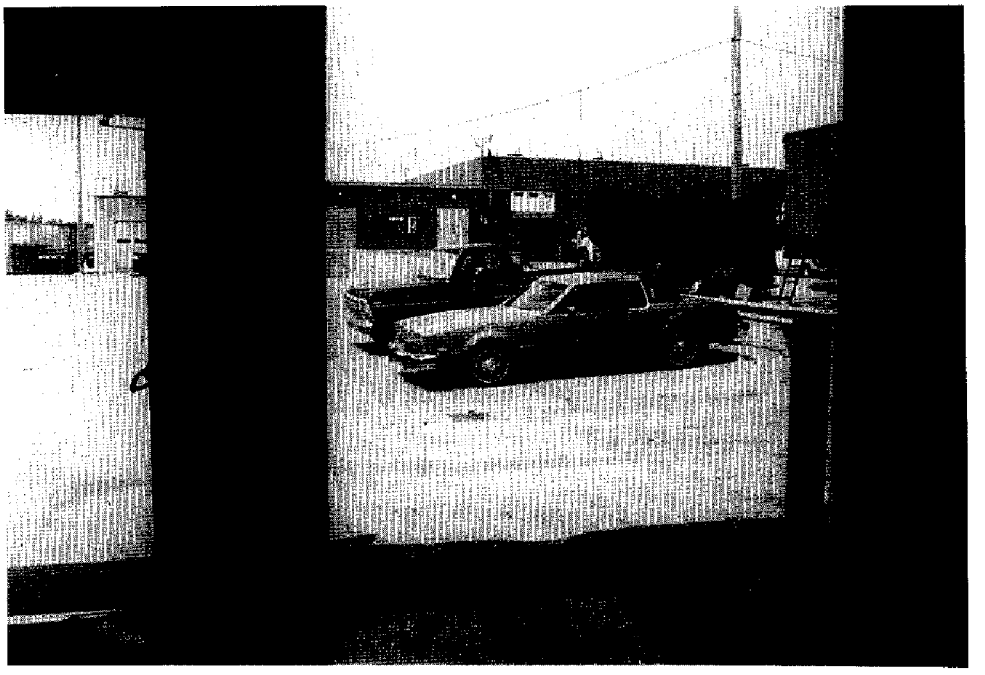


Figure 3.2: Privately Owned Vehicles Parked Next to Open Warehouse Exits - Michigan Guard

At Fort Benning and the Connecticut, Georgia, and Michigan Guards, no security guards were posted at open installation gates during operating hours, and three of these sites did not require visitors to log in and out. At Fort Benning, small arms parts were stored in several locations on base,

including a warehouse, a maintenance supply shop, and two repair shops. At the warehouse, a central receiving point for all items entering the installation, the fence covering an open bay door had a hole large enough for a person to enter undetected (see fig. 3.3). The breach in the fence, which was at the rear of the building in an isolated area, led directly to the area where pilferable and other small arms parts were stored. In addition, the maintenance supply shop had no barriers restricting access to the supply room by unauthorized administrative employees working in office space at one end of the building. The office workers took breaks in an area that allowed them unrestricted access to supply room stock.

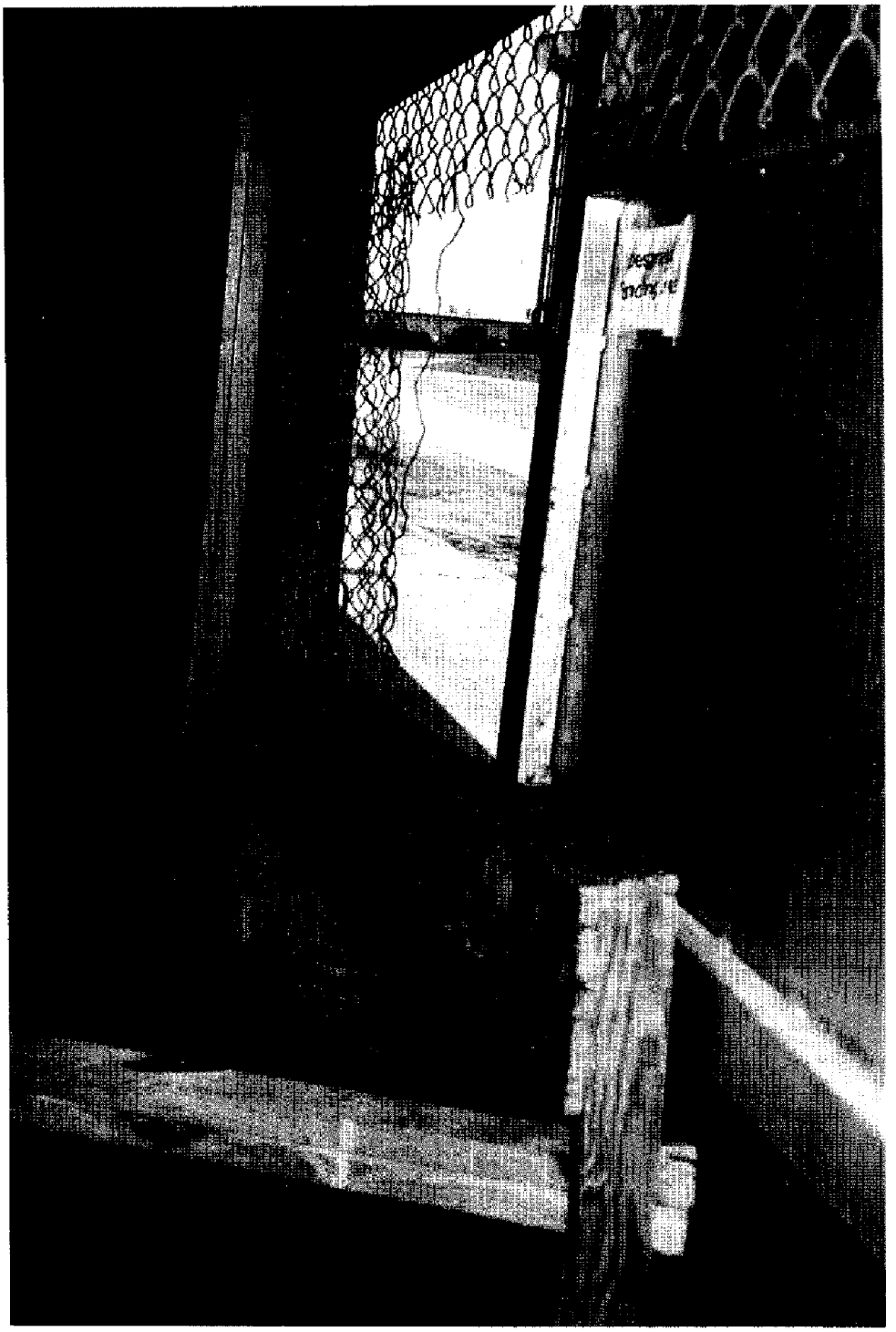


Figure 3.3: Hole in Warehouse Fence Leading Into Small Arms Parts Area - Fort Benning

At the Michigan Guard, unauthorized access to buildings could be easily gained because no guards were assigned during duty hours, gates and warehouse doors were usually open, and the lobby desk was usually unattended. We occasionally met truck drivers in the warehouse attempting to locate someone in order to make a delivery. Packages or vehicles that entered or left the facility were not inspected. Buildings were not alarmed, although a guard was assigned during off-duty hours. Restricted area signs on some entrances were in poor condition and needed to be repainted.

According to an official of the provost marshal's office at Fort Benning, most warehouse and supply operations at this site do not meet minimum Army physical security requirements. For example, a 1978 waiver allows the operation of one warehouse where some sensitive small arms parts and hundreds of weapons, including M16 rifles and M60 machine guns (see fig. 3.4), are stored without meeting minimum security requirements. We noted that the padlocked main entrance appeared weak and could be easily breached. Since only two workers were assigned to operate the facility and it had no restroom, on occasion only one worker was controlling the stock items and weapons. These factors, plus the building's isolated location, leave the contents of the building vulnerable to theft.

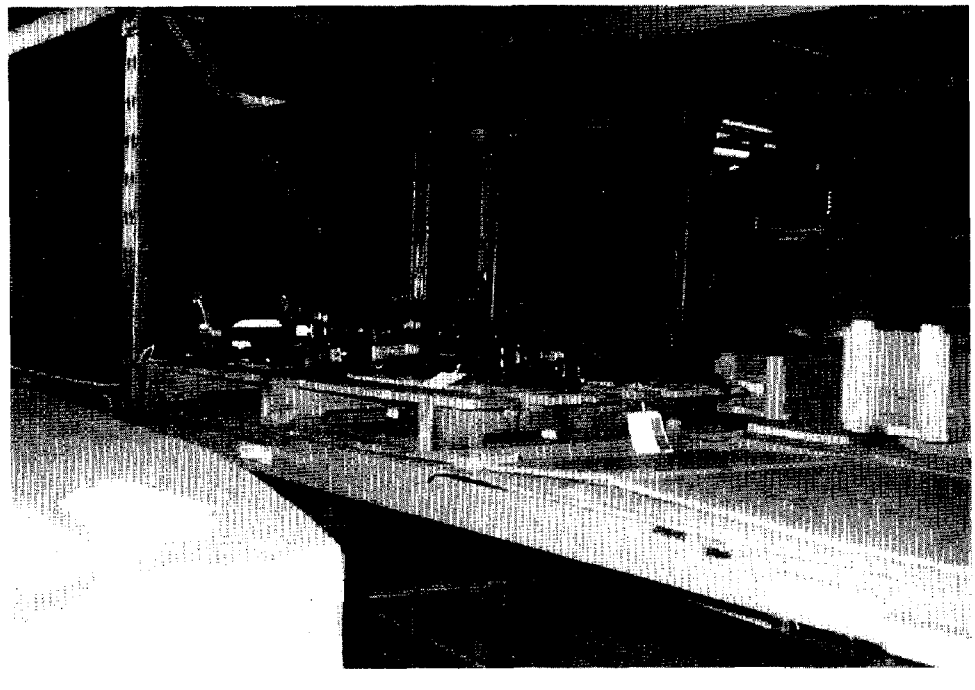


Figure 3.4: Small Arms Stored in a Warehouse That Does Not Meet Minimum Security Requirements - Fort Benning

At the Connecticut Guard, an open railroad gate allowed access to the rear of the installation from public streets (see fig. 3.5). Site officials recognized the security problem posed by the open railroad gate but could do little because the keys to the gate were controlled by the railroad company. Although these officials have asked that the gate be closed and locked after use, railroad personnel have not cooperated.

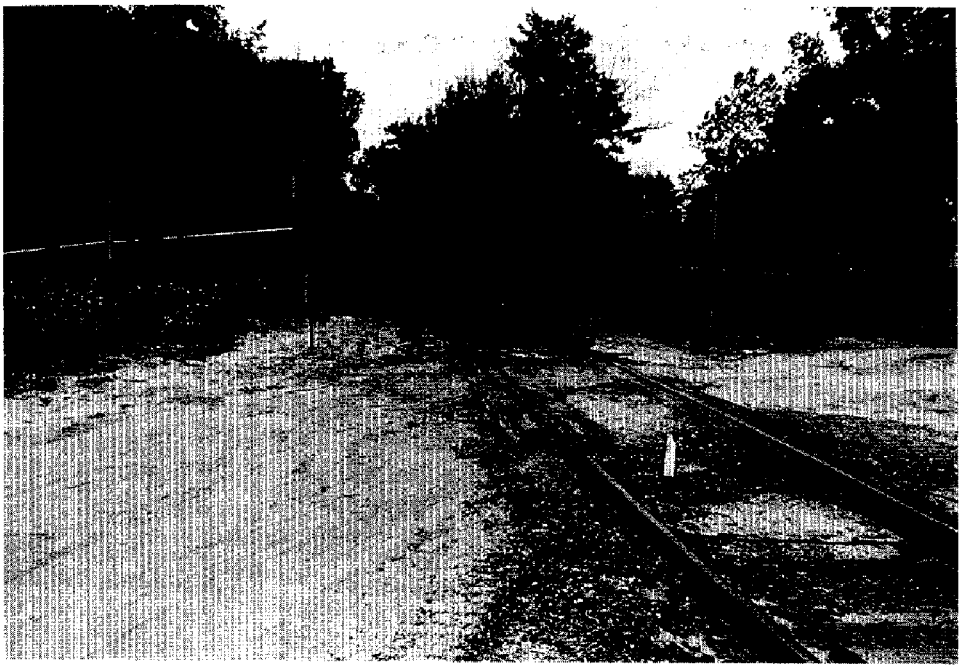
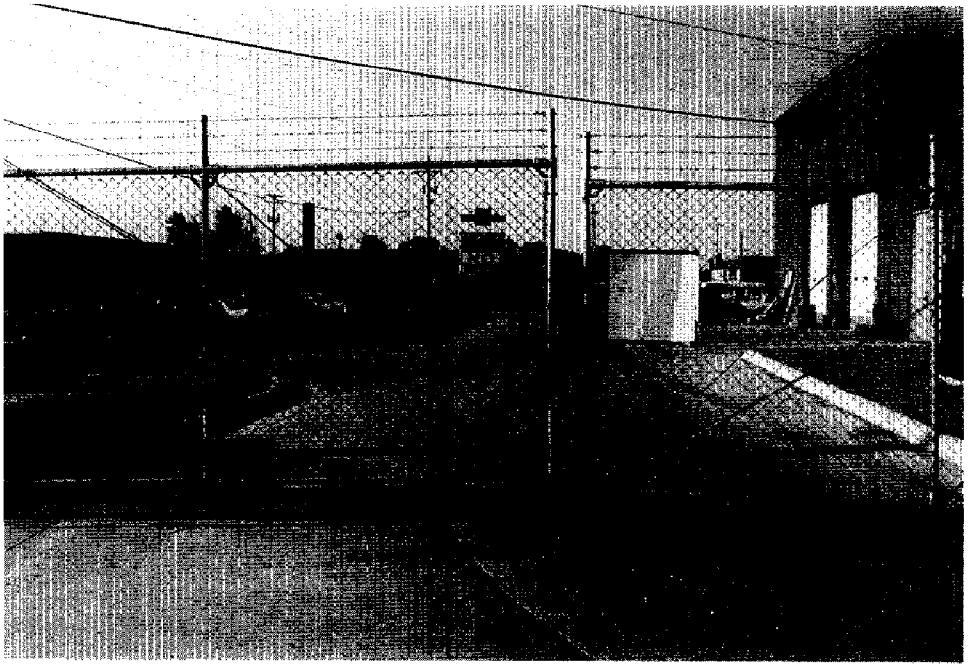


Figure 3.5: Open Railroad Gate in Rear Area of Installation - Connecticut Guard

At the Connecticut and Michigan Guards, the overgrowth of shrubs and trees violated the Army physical security requirement for a clear zone along perimeter fencing. At the Michigan Guard, the perimeter fence had holes and spaces large enough for a person to pass through (see fig. 3.6). On one late night in early 1992, security personnel caught three people entering the site through the gap under the gate in figure 3.6. Also at this site, barbed wire was missing in some places along a fence top; trees, poles, or other objects such as crates, sheds, and vehicles were near the fence, hiding or facilitating intrusion; and a section of the fence in a remote area was only 4 feet high. Some perimeter fencing, however, was well secured with rolls of barbed wire along the inside, and other remote areas of fencing had double rolls of barbed wire. Officials had planned to

improve the physical security of the installation by, for example, building a perimeter road along the inside of the fence, but work was suspended due to a lack of funds. When and if the road is completed, the fence could more easily be seen and perimeter patrols could be made.

Figure 3.6: Gap in Perimeter Fence Gate - Michigan Guard



Finally, at Fort Campbell, the warehouse processed sensitive and pilferable small arms and other repair parts in a condemned building that had large plywood patches (see fig. 3.7), a rear bay door that could not be locked, and a rear pedestrian door with the lock's hinge ripped from the doorframe (see fig. 3.8).

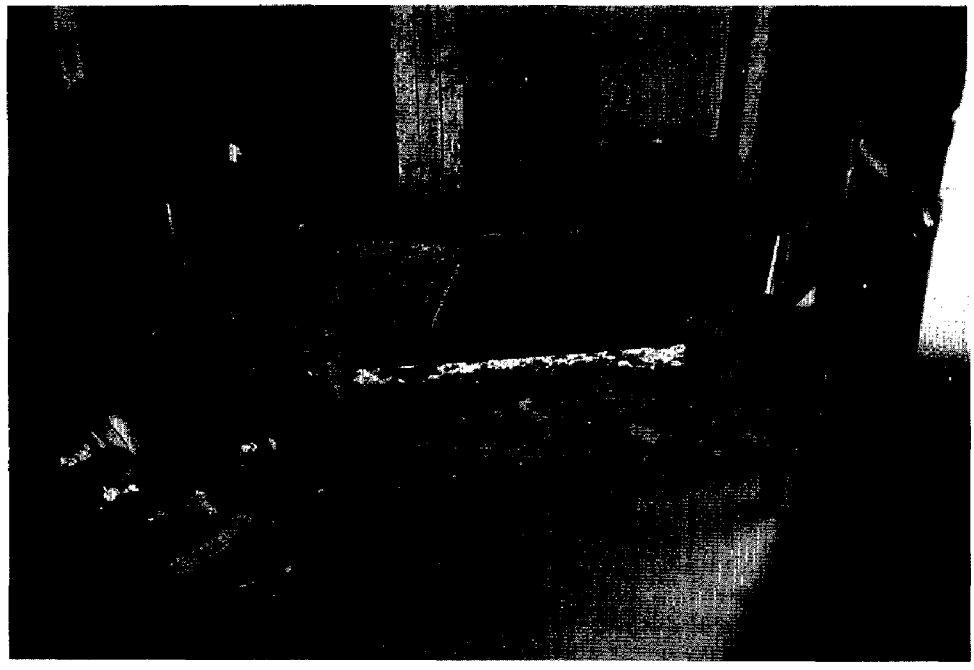


Figure 3.7: Patched Exterior Wall of Warehouse - Fort Campbell

Figure 3.8: Rear Warehouse Door With Unsecured Latch - Fort Campbell

The Army has no plans to repair this structure, and new facilities being constructed are not anticipated to be ready until December 1993. In the interim, this dilapidated building invites unauthorized entry and theft.

Small Arms Parts Are Not Properly Secured

Although the Army requires sensitive and pilferable small arms parts to be stored in secured areas with limited access, at Forts Benning and Campbell and the Michigan Guard, these items were often not adequately protected. Sensitive and pilferable small arms parts were commingled with other repair parts and left in areas where they could easily be stolen.

At Fort Campbell, all shop stocks were located in the small arms repair shop, collocated with bench stock, and physically accessible to all small arms repair personnel. Although Army regulations do not prohibit this practice, the Army allows the storage of and access to shop stocks at repair shops only when the repair shops are widely separated[6] from the maintenance supply operations. Although the facilities are separated at this site, we do not believe that the distance of the separation justifies the collocation of the parts. Some sensitive small arms parts were not properly secured at this site's warehouse. On our initial visit to the warehouse, we found nine squad assault weapon barrels outside the locked, caged area where they should have been stored. On a later visit, five sensitive machine gun barrels were similarly not properly stored. We later discovered the machine gun barrels were not accounted for on the warehouse's inventory of small arms parts.

At the Fort Benning maintenance supply shop, both sensitive and pilferable small arms parts were stored with other repair parts throughout a large warehouse building under no additional security. According to site officials, this building contains some physical security design deficiencies, including many large windows built low to the ground, because it was not originally designed to be a warehouse. During an initial tour of the facility, we found a large number of rifle barrels stacked on a pallet under an open window where they were accessible to anyone walking outside the building. We were told the window was left open for ventilation. After we brought this security weakness to the attention of site officials, the window was closed (see fig. 3.9).

[6]The term widely separated is specified in the Army supply regulations but is not defined.

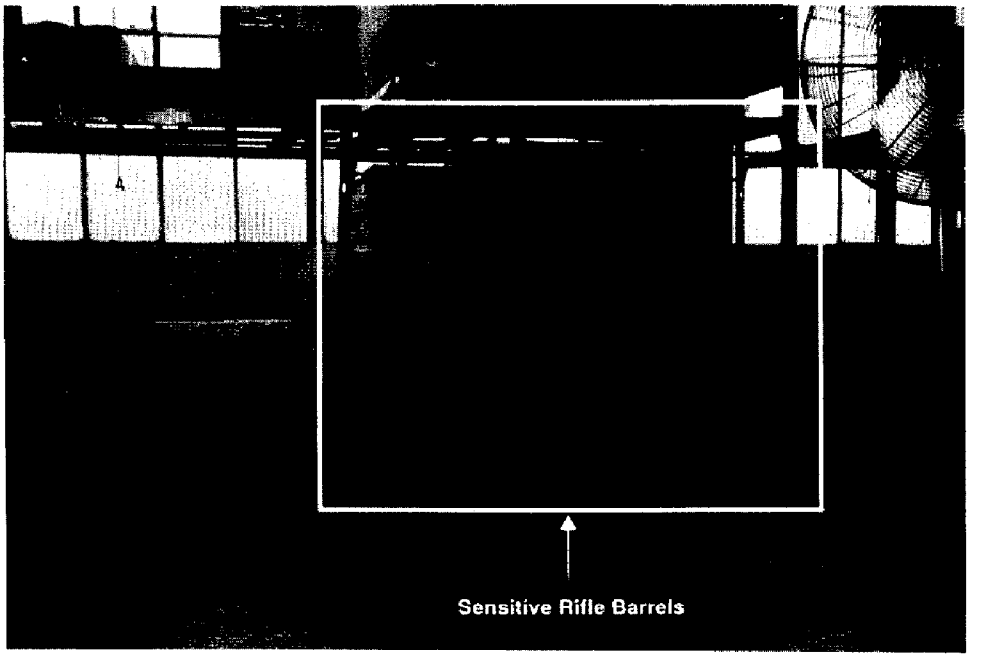


Figure 3.9: Sensitive Rifle Barrels Stacked Near Window - Fort Benning

At the Michigan Guard, small arms parts had been stored on open shelving in unsecured areas, where warehouse personnel had easy access. A week before our visit, pilferable and sensitive small arms parts were moved to a fenced area and secured with a temporary plywood door. Sensitive weapons parts were placed under double lock and key in a cabinet secured with another temporary plywood door within the fenced area. Despite these attempts to improve physical security, the parts remained vulnerable to theft because the hinges on the plywood door were installed on the outside surface of the door where they could be removed, and the area could be accessed by scaling shelving from adjacent aisles. Site officials plan to replace temporary plywood doors with stronger steel mesh doors at entrances of parts storage areas in the warehouse and supply shop. In addition, the area where the parts were turned in was not secure and was located near a bay door that was normally left open. Finally, although a gate separates the repair parts section from the main warehouse, the gate was always open during the day, and the warehouse locks have not been changed in 10 years. The Chief of the Internal Review Office is the key custodian of the keys and locks, so the office basically audits itself during internal reviews.

Automated Systems Used to Hide Thefts

Vulnerabilities in the Army's Standard Army Retail Supply System (SARSS), coupled with lax physical security and internal controls, contributed to the ease of the thefts we discovered at the Michigan Guard. SARSS is a retail inventory management computer system used at the warehouse level. The system has been described by the Army as the critical foundation for its future single supply system. Michigan Guard officials believe that the vulnerabilities in SARSS are serious and could lead to theft in any Army organization that uses the system.

To ensure reliability of computer systems and safeguard against theft, adequate physical security, internal controls, and system controls must be in place. These controls are essential to ensure total system integrity from origination of source documents through final disposition of output products. Lax or nonexistent controls create an environment in which computer systems can be manipulated and used to hide theft. Our review of the repair parts section at the Michigan Guard disclosed serious vulnerabilities in control over access to SARSS, a flawed batch entry process, and system controls that could easily be circumvented.

Controls Over Access to SARSS Are Inadequate

The Michigan guardsman was readily able to enter SARSS and steal because of the following access control weaknesses:

- The guardsman had complete access to the system and could issue sensitive commands reserved for the warehouse systems manager.
- The system master password has remained unchanged since 1982.
- There was no historical record of password usage and no tie-in of transactions to personnel making data entries.
- Users did not have to log off the system.
- No edit checks were installed in the system to prevent unauthorized requisitions.
- User activity was not monitored.
- The system does not automatically shut down when not in use.

The Batch Entry Process at the Theft Site Is Flawed

The guardsman's thefts were also aided by flaws in the batch entry system. For example, requisitions on printouts and on computer disks that were sent by customers were not checked at the warehouse. Only the number of requisitions on the disks was checked to see whether it matched the number of requisitions on the printout. Controls over requisitions relied on a system-generated confirmation that was sent to the customer. However, there was inadequate control to ensure that the customer actually received

a confirmation. Confirmations were printed in the warehouse office and set on a table in an unsecured mail area.

System Controls Could Easily Be Circumvented

SARSS controls can easily be circumvented using the following methods, some of which the guardsman used in stealing small arms parts:

- changing quantities in the system while requisitions are in the files awaiting batch processing;
- using system file maintenance transactions to lower on-hand inventory quantities and then taking the items from the supply area;
- establishing a line item, placing an order for that item to cause an automatic reorder, then canceling the order and stealing the items when received;
- turning off locally installed codes that flag certain small arms parts transactions for management review to enable the ordering of unauthorized parts without management review or approval;
- processing bogus transactions through SARSS to simulate customer orders in the system, automatically lowering warehouse inventory levels; and
- entering requisition transactions and later canceling them after it is too late for the depot to stop shipment.

Recommendations

We recommend that the Secretary of Defense direct the Secretary of the Army to

- enforce the existing regulations governing small arms parts and other equipment at all levels of the supply and repair systems,
- direct local commanders to reemphasize the importance of maintaining physical security over small arms parts and all government property and ensure that minimum procedures are being followed,
- ensure that adequate controls and safeguards are built into the computer systems used for ordering and controlling repair parts at the retail level (such as controlling and updating the password system),
- ensure that the deficiencies we found at each of the six sites are corrected, and
- examine the thoroughness and validity of the FIA reports submitted by various units.

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