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GENERAL ACCOUNTING OFFICE WASHINGTON DC PROCUREMENT --ETC F/G 15/5
THE NAVY MUST IMPROVE ITS ACCOUNTABILITY FOR CONVENTIONAL AMMUN--ETC(U)
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS
AND READINESS DIVISION

B-202556

The Honorable Caspar W. Weinberger
The Secretary of Defense

Dear Mr. Secretary:

Subject: The Navy Must Improve Its Accountability
For Conventional Ammunition. (PLRD-81-54)

We have completed our study of the Navy's accountability for conventional ammunition. We found that the Navy's Conventional Ammunition Inventory Management System (CAIMS) does not provide the required accountability to effectively manage sizable ammunition inventories. The Navy has been unable to reconcile its inventory records with those of the single manager for conventional ammunition. Moreover, the inventory controls necessary to maintain accountability and visibility over fleet ammunition returned to weapons stations are either weak or nonexistent. Therefore, managers rely upon data that inaccurately reflect the quantity, location, and condition of this ammunition.

Sound management practices are needed to correct these weaknesses. More specifically, our study showed that:

- In spite of a \$46 million dollar unreconciled downward adjustment to align CAIMS records with the single manager's inventory in April 1980, CAIMS still contains numerous discrepancies. An additional \$3.5 million downward adjustment would be required to align CAIMS with the inventory at just one single manager storage depot.
- On the basis of inventories made at two weapons stations, we could not find \$7.4 million of ammunition shown on the accountable records. Another \$1.4 million of ammunition was found in storage but was not on the accountable records.
- Fleet-returned ammunition is not available for issue until it has been inspected and its true condition and quantity have been determined. In September 1980, the backlog of ammunition awaiting inspection amounted

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to 776 tons at one weapons station and occupied 106 railcars at another. Some of the ammunition stored are priority items (those items where the Navy has less than the required number). And, some items had been in storage for over 18 months.

- Accountability for fleet ammunition is inadequate. We compared 42 line items of this ammunition, valued at about \$538,000, and identified differences of more than \$99,000 between what the ship reported it had turned in and what the weapons station had returned to inventory.
- The Navy program to determine the condition of ammunition by inspecting it aboard ships has not been successful. Upon receipt by the weapons station, inspected ammunition is often classified as needing inspection before it can be issued. Accordingly, resources spent for shipboard inspection are wasted. For example, in August 1980, 907 tons of ammunition were unloaded from the USS Saratoga at Earle, New Jersey. The condition coding by a shipboard inspection team, which cost about \$51,800, was ignored by the Earle weapons station. The ammunition was put into a suspended condition and was stored until it could be inspected.
- Ammunition received at a weapons station for transfer to another destination is recorded in CAIMS only as "intransit." Consequently, visibility is inadequate over this ammunition. And, ammunition is dropped from the intransit file if it has not been received at its destination within 90 days. For example, in June 1978, Earle received 96 projectiles, costing \$28,800, for transfer to the USS Nitro. In August 1980, these projectiles were still on a railcar pending transfer. They were no longer on the Navy's accountable records because they had been dropped from the CAIMS intransit file.

SCOPE

We performed work at the Naval Sea Systems Command and the Naval Air Systems Command, Washington, D.C.; Ships Part Control Center, Mechanicsburg, Pennsylvania; Naval weapons stations, Yorktown, Virginia, and Earle, New Jersey; and Letterkenny Army Depot, Chambersburg, Pennsylvania. We traced the documentation

flow, verified the accuracy of ammunition items down loaded from selected ships, and conducted inventory reconciliations on Navy-owned material.

INTRODUCTION

In June 1980 the Navy's worldwide conventional ammunition assets were valued at \$6.7 billion. About \$3 billion of these assets was distributed to the fleets, overseas bases, and minor continental United States activities. The remaining \$3.7 billion inventory was stored at major continental United States activities.

Navy ammunition is stored at inland depots and at coastal outloading activities. All activities periodically report ammunition receipts, issues, expenditures, and losses to CAIMS. The data base from this system constitutes the Navy's ammunition accountable records which are the basis for day-to-day management decisions, program planning, and budget justifications.

UNRECONCILED ADJUSTMENTS OF NAVY AND SINGLE MANAGER INVENTORY RECORDS

Despite writing off large amounts of ammunition from CAIMS, the Navy has been unable to reconcile CAIMS with the single manager's inventory. The Navy did not make an investigation to determine the reasons for the adjustments. Moreover, an additional \$3.5 million must be written off from these inventories to adjust them for discrepancies at just one single manager depot.

On October 1, 1977, the Army became the single manager for conventional ammunition. At that time, the Navy transferred wholesale inventory management responsibility for its air munitions and ship gun ammunition to the single manager. However, the Navy is responsible for financial accountability for these items.

Since 1977, several attempts have been made to reconcile CAIMS with the single manager's inventories. Although partially successful, in April 1980, there still remained an unreconciled balance of \$46 million. Accordingly, the \$46 million--about 4 percent of wholesale stock value of these items--was written off CAIMS. No investigation was made by either the Navy or the single manager to determine why this writeoff was necessary.

Our August 1980 test of the Navy's inventory records for ammunition stored at the Letterkenny Army Depot showed that CAIMS would have to be adjusted downward another \$3.5 million to be reconciled with the depot's records, as shown on the following page.

Comparison of Navy Ammunition Records
With Those of the Letterkenny Army Depot
as of August 14, 1980

	<u>Ammunition line items</u>		Dollar value of adjustment to Navy records <u>gains/losses (-)</u>
	<u>Navy</u>	<u>Army</u>	
Navy-owned items on file	482	470	
Reported by Navy but not Army	20	-	\$ -211,510
Reported by Army but not Navy	—	-8	151,017
Reconciled totals	462	462	
Discrepancies noted on both records	<u>-80</u>	<u>-80</u>	<u>-3,464,200</u>
Lines in agreement	382	382	
Adjustment needed to reconcile inventory balances	<u>108</u>	<u>80</u>	<u>\$-3,524,693</u>

Letterkenny officials inventoried each of the discrepant line items as of January 29, 1981. We gave the correct inventory balances to the Navy to correct CAIMS.

According to the Chief of Naval Operations:

"Since early CAIMS/SMCA [single manager for conventional ammunition] system interface problems and SMCA use of unique local documentation has caused untraceable file errors, total reconciliation without a complete physical inventory of SMCA stocks is not possible."

The Navy apparently believes the most practical solution to this problem is to continually adjust CAIMS asset balances, as required by the single manager. A final reconciliation of these inventories is planned upon completion of a physical inventory of the single manager's stocks--which may take years to complete.

In the meantime, the lack of reconciliation of these inventories results in inefficient ammunition management. The net effect is missed "required delivery dates" for ammunition in support of fleet and shore units. In addition, requisition lead-time is increased, and additional effort is required to reconcile differences in records.

INADEQUATE ACCOUNTABILITY FOR AMMUNITION
RETURNED TO WEAPONS STATIONS

The Navy has inadequate accountability for ammunition returned from the fleets to weapons stations. The inventory controls necessary to maintain accountability and visibility over these items, while in storage or intransit, are either weak or nonexistent. Fleet-returned ammunition is put into a suspended condition--unavailable for issue until inspected--even though some of it has been inspected aboard the ships. This action contributes to large backlogs of ammunition awaiting inspection at weapons stations, results in the waste of resources used to inspect the ammunition aboard ships, and negates the savings attributable to the preinspection program.

An inventory of ammunition stored at the Yorktown and Earle weapons stations identified ammunition costing \$7.4 million which could not be found in storage, although activity records showed a storage location. Another \$1.4 million of ammunition in storage was not shown on the activities' inventory records.

Storage activities, such as Yorktown and Earle, match their records twice a year with CAIMS. After checking documentation to see if differences can be identified, the Navy adjusts CAIMS to agree with the storage activity's records. Such adjustments should not be made without investigating the underlying causes of the discrepancies. Moreover, we believe that adjustments made without causative research are ineffective and contribute to overall inventory inaccuracies. The following table contains examples of such discrepancies.

Unreconciled Inventory Discrepancies as
of August/September 1980

<u>Ammunition recorded but not stored</u>	<u>Quantity</u>	<u>Unit</u>	<u>Cost</u> <u>Total</u>
Tartar missile guidance section	36	\$35,000	\$1,260,000
5" 54 projectile	105	250	26,250
81-mm. cartridge	283	69	19,527
Sparrow missile guidance and con- trol section	18	27,375	492,750
 <u>Ammunition stored but not recorded</u>			
Sidewinder missile guidance and con- trol section	10	\$13,380	\$133,800
Phoenix missile wing assembly	12	874	10,488
Phoenix missile fin assembly	13	874	11,362
Sparrow missile firing switch	101	60	6,060

Some of the differences between the activity's records and ammunition actually located in storage were due to the failure to record transactions or lengthy delays in recording transactions when the ammunition was shipped. For example, of the 18 Sparrow missile guidance and control sections, 2 were built up into missiles in June and July 1978 and 1 was built up in February 1979. There was no record on the disposition of the other 15, but they were no longer at the weapons station. Also, the 36 Tartar missile guidance sections had been built up into missiles during 1977-80, but these changes were not reflected on the inventory records.

Ammunition in storage also can be incorrectly condition coded. For example, 12 Phoenix missiles at Yorktown were shown in serviceable condition and ready for issue. However, these missiles were

overdue for inspection and should have been marked for issue only in an emergency. Yorktown personnel identified an additional 60 missiles in similar condition and processed changes to reflect the condition of all 72 missiles.

Suspended ammunition compounds
accountability problems

Large quantities of ammunition were being stored at weapons stations while awaiting inspection. Much of this ammunition could have been available to fill requisitions if the weapons stations had relied on the results of inspections aboard ship by special teams.

Some of the ammunition included in our physical inventory was in a suspended condition. This ammunition had been issued to the fleet and was later returned to a storage activity, such as a weapons station. Quality assurance procedures require that this ammunition be segregated and inspected to determine its condition and quantity. The Navy was not able to keep pace with the volume of fleet-returned ammunition and, as a consequence, in September 1980, Yorktown and Earle had 776 tons and 106 railcars, respectively, of ammunition waiting to be inspected.

Although suspended ammunition is entered into the accountable records upon receipt, it cannot be issued until it has been inspected and its condition determined. Therefore, suspended ammunition remains in temporary storage for long periods while awaiting inspection. Some suspended ammunition at Yorktown and Earle had been in temporary storage for more than 18 months. For example, a Shrike missile costing \$16,000 was still in temporary storage after 19 months. Also, 585 projectile propelling charges had been in storage for 11 months, even though these charges had been designated as a priority readiness item by the Navy.

Once the suspended ammunition is inspected, CAIMS is changed to show the actual stock number, condition, and quantity. The changes are necessary because significant differences from the data originally recorded are found during inspection. The overages and shortages are not reconciled to account for the differences. The following table shows a comparison of what ships reported they offloaded for 42 line items of ammunition at Yorktown during 1980 versus what Yorktown reported it had received after the items were inspected.

Comparison of Fleet Returned Ammunition
Reported by Ships and by Yorktown
After Inspection

	<u>Line</u> <u>items</u>	<u>No. of</u> <u>items</u> <u>reported by</u> <u>ship</u>	<u>No. of</u> <u>Items</u> <u>reported after</u> <u>inspection</u>	<u>Differences</u>	
				<u>No. of</u> <u>items</u>	<u>Cost</u>
Understated by ship	17	5,973	7,452	1,479	\$70,836
Overstated by ship	12	20,399	12,822	-7,577	-28,388
No difference	13	8,095	8,095	0	0
	<u>42</u>	<u>34,467</u>	<u>28,369</u>	<u>-6,098</u>	<u>\$42,338</u>

The above table shows that 69 percent of all line items were adjusted. The adjustments were made without determining the reasons for the discrepancies. Of these uninvestigated adjustments, the most important are those involving shortages, where 37 percent of items overstated by the ships could not be accounted for. Overall, the accountable records required an adjustment of more than 9,000 items, costing more than \$99,000.

Preinspection of ammunition

Over the last few years the Navy has been sending inspection teams aboard large ammunition carrying ships to expedite the processing of fleet-returned ammunition. The teams inspect and assign condition codes to the ammunition which will be unloaded at a weapons station. This practice presumably avoids suspending the ammunition and placing it in storage until it can be inspected.

The Navy reports a cost avoidance for each ship on which the ammunition is inspected before it is unloaded at a weapons station. For example, 907 tons of ammunition were inspected aboard the USS Saratoga before the ammunition was unloaded at Earle in August 1980 and a cost avoidance of \$365,000 was reported. Earle ignored the condition codes the inspection team had assigned and suspended and stored all of the ammunition designated to stay at Earle until it could be reinspected.

For one of the line items, the Saratoga's documents showed that the Saratoga had unloaded 491 MK83 bombs which had been condition coded "A" by the inspection team. Earle automatically placed all bombs in a suspended condition code. Additionally, Earle's pier count showed only 375 bombs. The loss of 116 bombs was neither investigated nor formally reported. Also, the preinspection team cost of about \$51,000 was wasted and the \$365,000 reported as a cost avoidance was negated.

Earle quality assurance personnel generally stated that their responsibilities to the fleet did not permit them to accept the inspection team's condition codes. The primary reason given was the possible damage inspected ammunition might incur because it is handled repeatedly and exposed to the elements. According to Earle officials, this reduces their confidence in the ammunition's condition and, therefore, they must reinspect it.

We examined 31,769 ammunition items which were inspected aboard the USS Saratoga and unloaded at Earle in September 1980. All of these items were put into a suspended condition and stored in railcars. As of April 15, 1981, 95 percent of the items had been reinspected at Earle. Of the items previously inspected, only three were found to be unserviceable as shown in the following table.

Ammunition Inspected Aboard Ship and
Reinspected at Earle

<u>No. of items</u>	<u>Condition</u>	
	<u>Ship inspection</u>	<u>Earle inspection</u>
23,246	a/A	A
6,800	b/H	H
3	A	c/E
1,720	A	d/N/A

a/Condition code A - issuable without qualification.

b/Condition code H - condemned.

c/Condition code E - limited restoration needed.

d/Had not been inspected by Earle as of April 15, 1981.

The items in condition code E were 1,000-lb. general-purpose bombs determined to have excessive rust on the base plates.

For seven ships which unloaded 6,768 tons of preinspected ammunition at Earle during 1979-1980, the cost avoidance reported was \$1.5 million. The Navy, however, did not realize these savings because Earle, as a matter of policy, reinspects the ammunition.

Inadequate visibility over
ammunition for further transfer

Ammunition received at a weapons station for transfer to another destination is recorded in CAIMS only as "intransit" without a final destination. Accordingly, visibility is poor over this ammunition. And, it is purged from the intransit file if it has not been received at its destination within 90 days. Therefore, accountability is lost completely.

Part of the ammunition unloaded by ships is forwarded to other storage facilities and is designated ammunition for further transfer (FFT). While ammunition is carried in the intransit file, there is no information on its condition and status. When transfer is not made in a timely manner, the delays affect ammunition visibility in CAIMS. In October 1980 Earle had 16 railcars of FFT ammunition, mostly for shipment to Yorktown. Four of these cars had been awaiting shipment for 4 months and contained 134 missiles which had been unloaded by the USS Butte on September 9, 1980. As of October 29, 1980, these missiles had not been forwarded to Yorktown. In this case, the item manager knew the missiles were intransit, but CAIMS had no visibility over their status.

The Navy is aware that it has inadequate visibility over FFT ammunition while this ammunition is intransit. In January 1980, the Navy issued an instruction which, if properly implemented, would provide CAIMS visibility over individual FFT items intransit, along with tonnage statistics. However, the Earle weapons station was not following the instruction.

Ammunition which remains intransit too long is purged from the system. For example, in June 1978, Earle received 96 projectiles from Charleston, South Carolina, for transfer to the USS Nitro. In August 1980 these projectiles were still in a railcar at Earle pending transfer. They were not accounted for in CAIMS because they had been purged from the intransit file.

CONCLUSIONS

The reliability of the Navy's CAIMS depends on accurate and timely reporting of changes in ammunition inventories. CAIMS, however, is maintained without effective procedures for reconciling its records with those at Navy and single manager storage sites. Adjustments, such as the \$46 million write off, should not be made without determining the causes of the discrepancies.

Delays in processing transactions and documentation discrepancies in recording fleet-returned ammunition cause the net asset position to be overstated or understated. Differences between quantities of ammunition shown at the time it is unloaded from ships and the amount later processed into inventory should not be adjusted arbitrarily. As a consequence, under current practices, inventory managers do not have accurate information on the availability of ammunition to fill customers' needs.

Under present policy and procedures, managers are uncertain as to the quantity and condition of the ammunition in a suspended condition. Better accountability and visibility are needed over this material to allow managers to know what ammunition is ready for issue and if ammunition needed to improve readiness is part of the stored material.

The onboard preinspection program now being used to preclude ammunition from needing inspection at weapons stations is not effective. Preinspected ammunition is being reclassified to a suspended condition causing unnecessary costs to be incurred.

A January 1980 reporting instruction for FFT ammunition is not being consistently followed by storage activities. Accordingly, CAIMS does not have adequate visibility on ammunition status and interim location. This situation will not improve until the reporting procedures are enforced. Accountability should be reestablished before FFT ammunition is purged from the intransit file.

RECOMMENDATIONS

We recommend that you have the Secretary of the Navy take action to improve the Navy's practices relevant to accountability, control, and visibility over conventional ammunition. Specifically, the Secretary should:

- Develop a program to expedite the reconciliation of CAIMS, through physical inventories if necessary, with the inventories at storage activities, including single manager depots. Causes of significant inventory adjustments should be investigated.
- Enforce and modify, as necessary, the procedures for reporting and investigating discrepancies to determine whether ammunition was lost or stolen.
- Develop a capability within CAIMS to effectively monitor the status of ammunition transactions.

- Process suspended ammunition promptly, giving consideration to priority items. Inventory records should accurately reflect the quantities and locations of suspended ammunition.
- Determine whether the preinspection program should be continued since there is less than full acceptance and commitment to the program. If the program is continued, the reasons for the lack of acceptance and commitment should be addressed and alleviated, and other alternatives, such as inspecting some returned ammunition at the pier, should be explored.
- Develop a procedure requiring interim accountability for ammunition designated for further transfer and enforce the reporting of this material to CAIMS. Cognizant personnel should be aware of priority items designated for further transfer to assist in determining the order and manner of shipping.

AGENCY COMMENTS

On June 29, 1981, we discussed our findings and recommendations with Navy officials. They agreed with all of our conclusions and recommendations. They also said that, on the basis of their past experiences, it would be useless to try to reconcile CAIMS with storage activity records without performing physical inventories. We agree with this position and believe that the physical inventories should be completed as soon as possible.

According to Navy officials, the following actions are being taken to correct the deficiencies identified in our report:

- To improve the reporting and investigating of ammunition discrepancies, the Navy will issue an overall instruction in the near future. The instruction will cover reporting and investigating discrepancies and reporting inventory gains and losses. In addition, the instruction will cover inventory controls, location surveys and audits, and inventory effectiveness reviews.
- To improve overall intransit asset visibility, the Navy has a high priority CAIMS project which will provide closed-loop transaction tracking and will flag overdue shipments for followup review and monitoring. The estimated completion date is April 1982.
- To enhance timely and accurate reporting, the Navy has established an inspection team to visit and audit the reporting procedures at storage activities.

--To process priority suspended ammunition in a more timely manner, the inventory control point is issuing a monthly listing of the top 20 priority items for guidance for activities performing renovation, segregation, screening, and overhaul.

--The Naval Sea Systems Command will reexamine the preinspection program and determine whether the degree of inspection duplication can be reduced.

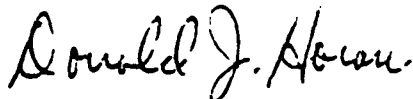
Navy officials also said that accountability and control over ammunition will be significantly improved after their new Enhanced Optical Scanning System is installed at weapons stations. This system should expedite the fleet return segregation process and improve inventories and location records at reduced cost.

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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 would appreciate receiving a copy of this statement.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Navy; the Chairmen, House and Senate Committees on Armed Services; and the Chairmen of the above-mentioned committees.

Sincerely yours,



Donald J. Horan
Director

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