Comment: We have determined that the number of instances where duplicate items of tooling had not been properly inventoried was small. However, immediate steps were taken to correct this deficiency when it was pointed out to Northern Ordnance management. The facilities operated by Northern Ordnance are surrounded by a double chain link fence and are closely surveyed by a large staff of security guards so that the danger of loss of Government tooling with or without inventorying is very unlikely.

16. Material

Financial accounting controls not maintained

"One contractor official, who estimated that several million dollars worth of Government-furnished material was on hand at his plant, stated that monetary controls for the Government-furnished material were impractical and that the contractor was primarily concerned with only quantities. Nevertheless this contractor maintained monetary controls over its own materials inventories." (page 56)

Comment: Northern Ordnance maintains records which permit the development of the cost of inventory parts when such information is required; however, total values for individual parts in inventory or for total inventories are not maintained. Because of the volume and complexity of the items produced by Northern Ordnance, it is estimated that the establishment of detailed monetary controls over Government-owned materials would cost the Government approximately $120,000 annually. In view of the stringent controls applied to the quantities of materials, we believe the establishment of additional detailed financial accounting controls would be an unwarranted expenditure of the taxpayer's money. The statement that "this contractor maintained monetary controls over its own material inventories" is not entirely true. Detailed monetary controls are maintained only over all our raw materials and over the inventory of work-in-process for our commercial products, the sum of which represents only 5 percent of the total inventory value of contractor-owned materials. These controls are necessary for proper financial reporting in accordance with acceptable accounting principles. No detailed financial controls for individual parts are maintained over the contractor-owned materials under Government fixed-price type contracts for the same reasons that we do not maintain such controls over Government-owned materials under Government cost-type contracts. Accordingly in these situations the contractor treats its own materials in the same manner that it handles Government-owned materials.

17. Inventory taking ineffective

"In some cases adequate internal control did not exist because the taking of the inventory did not incorporate appropriate segregation of duties of participating personnel. For example, at one location, the individual who maintained the stock records was custodian of the material, and he also took inventory. In such cases differences between the records and the physical count can be reconciled by adjusting the records or removing the stock cards, without independent evaluation of the propriety of the transactions." (page 57)

Comment: We consider that the establishment of a separate crew to inventory materials in the stockroom would be an inefficient use of personnel resulting in unjustified additional costs to the Government. The inventories currently performed have been reviewed by resident Government personnel and are currently being double checked on a spot check basis by representatives of the Northern Ordnance Quality Control Department. In addition, plant peripheral controls and controls over receipt and shipment of material are considered adequate to prevent loss of Government materials by pilferage and mishandling.

18. Inventory taking ineffective

"The inventory taking was incomplete in some cases because it was limited to verifying listings prepared from the property records and furnished to participating personnel; therefore, items which may have been physically on hand but not included on the listings provided would be omitted from the count.

"At one location the contractor performed a physical inventory of Government-furnished material but did not require a physical inventory of material it had acquired for the account of the Government. Also in a few cases, written procedures were lacking, the work was not properly documented, the results were not furnished to the Government, or inventories were not priced out." (page 57)