need for increased support to Southeast Asia. They indicated also that the failure to accomplish the majority of the location audits was due in large part to the implementation of a new depot system known as MOWASP (Mechanization of Warehousing and Shipment Procedures).

Under MOWASP all Defense supply centers and depots will utilize standardized computer systems and uniform programs. This system is being designed to improve warehousing operations and stock locator accuracy by mechanization of various warehouse functions, including computerized assignment of warehouse stock locations for material receipts, previously performed manually. Also, DSA Headquarters officials informed us that they recognized the need for better inventory performance reporting in order to better monitor and evaluate the inventory program. They also indicated that revisions were under development which they believed would give them the means to attain more effective control over the physical inventory program.

Receipt and issue documentation not adequately controlled and proper reconciliations not performed

Our review revealed that physical inventories were frequently made without proper control of documentation for receipts and issues occurring during the inventory cycle. The inventory cycle is the time period from establishment of the recorded balances for the line items to be included in the physical inventory through the actual count and summarization of those line items to the reconciliation of the recorded balances with the physical quantities. Also we found that, in a number of instances, personnel failed to perform proper reconciliations of the stock record balances with the physical stock position as of the physical inventory cutoff date.

All DOD supply activities follow the practice of taking open physical inventories; that is, receipt and issue of material continues during the inventory cycle. Therefore, it is necessary to identify and control the documents for transactions occurring during the inventory cycle. Also, it is necessary to perform a reconciliation of the physical counts with the stock records that will ensure the same effect from any interim transactions on both the recorded balances and the determination of the physical stock positions as of the cutoff date. Adjustment must be made to the records for any differences between the recorded balances and the physical stock positions that remain at the completion of the reconciliation. If the foregoing procedures are accomplished properly, the stock records should then show the physical stock position as of the inventory cutoff date.

During our review of Army supply activities, we tested the adjustments that one ICP made to 26 of its stock records for major variances between the recorded balances and the physical stock position as of the inventory cutoff date. We found that 19 percent of the records were adjusted incorrectly because personnel failed to adequately control the documentation for transactions occurring during the inventory cycle and failed to properly consider these transactions in performing reconciliations.

At two other Army ICPs, our tests showed a number of cases where major stock variances between the stock records and the physical inventory counts were researched inadequately and reconciled improperly. These activities allegedly reconciled the stock records with the physical inventory counts for 71 major variances, amounting to about $532,000, that were revealed by physical inventories taken and reported to the ICPs by one depot. We found that, in performing the reconciliations, personnel failed to properly take into consideration the effect of transactions that occurred during the inventory cycle. This resulted in erroneous reconciliations for 18 percent of the 71 major variances.

Personnel at two DSA depots did not follow the prescribed procedures for control of documentation in the performance of physical inventories taken in 1965 and 1966. We examined into the control that one DSA depot exercised over the documents for transactions that occurred during its physical inventory cycles. As a result of physical inventories conducted by the depot, adjustments totaling about $540,000 were made to the records for 550 items.

Our review indicated that the depot reported inaccurate quantities for about 14 percent of the 550 items which resulted in invalid adjustments totaling about