

\$130,000. We found that these invalid adjustments resulted from the depot's failure to adequately control the documentation for transactions occurring during the inventory cycle and to properly consider these transactions in arriving at a physical stock position as of the inventory cutoff date.

We believe that adequate control of the documentation for transactions occurring during the inventory cycle could have eliminated a significant part of the erroneous adjustments to the stock records. In our opinion, adequate research of the major adjustments could have shown these errors, made their correction possible, and reduced their recurrence.

Physical inventory adjustments not researched

We found that suitable research of adjustments to the stock records for major differences disclosed by physical inventories was frequently not accomplished by the DOD supply activities. Although each supply command's criteria vary slightly, the commands have prescribed procedures for research of major adjustments that are designed to determine causes for the differences and to make provisions for eliminating them or reducing their recurrence.

We found that two Army ICPs processed inventory adjustments for about \$197 million in 1966 and failed to research a substantial number of the adjustments representing major stock variances. At another Army ICP, we found that eight of 17 alleged reconciliations were considered proper and not in need of research on the basis of a comparison of a second physical inventory count with the stock record as adjusted by the first physical inventory count.

For example, on August 18, 1966, a depot inventory group physically counted 57 units of a particular item (FSN 1420-629-2626). The ICP's stock record for this item showed a zero balance as of the inventory cutoff date. On August 27, 1966, without performing any research, the ICP adjusted its stock record for the item to show an on-hand quantity of 57 units. The stock record then agreed with the count reported by the depot.

The Army requires a second physical count and research for all major variances. Therefore, on September 1, 1966, the depot made another physical count of the item and again reported an on-hand quantity of 57 units. The ICP personnel compared the reported results of the second physical count, 57 units, with the stock record balance which, as a result of adjustments made to record the first physical count, showed 57 units. They determined that, since the second physical count and the stock record balance agreed no research was necessary.

We found that, at one of the Navy supply activities, a procedure had been established that provided for postaudits and follow-up corrective action on all inventory adjustments valued at \$2,000 or more. However, we found that the procedure had been of little value because no follow-up corrective action had been taken.

During fiscal year 1966 postaudits were performed on 1,923 inventory adjustments which met the \$2,000 or more criteria. We found that no analysis had been made of the results of the fiscal year 1966 postaudits and that the results of these audits had not been reported to any organizational element above the group responsible for the postaudits. We found also that no corrective measures had been taken to eliminate or minimize the causes of recurring inventory errors identified by the postaudits. After we brought this situation to the attention of officials at the supply center, they informed us that, in the future, postaudit results would be turned over to a quality assurance group for review and follow-up action.

We found that, at one DSA supply center, approximately 33,700 stock records were adjusted in fiscal years 1965 and 1966 to reflect physical inventory gains and losses totaling about \$93 million, or a net inventory gain of approximately \$43 million. However, subsequent investigations of these adjustments showed that many of them were incorrect. After the correcting entries were made, the net inventory gain of \$43 million was reduced to \$1.8 million.

On the basis of our review, we believe that the investigations of physical inventory adjustments, when made, generally were not conducted in sufficient depth to establish the basic causes for the adjustments. In those instances where a single transaction or a group of transactions appeared to account for all or a major portion of the physical inventory adjustment, it was usually assumed