that incorrect transaction entries were the reason for the discrepancy. The investigative practices observed at one center are illustrated by the following example.

Water chlorination kits (FSN 6850–270–6225)

In June 1966 the center personnel concluded their investigation of a physical loss adjustment of 8,341 units of a water chlorination kit having a total value of about $28,360. This loss adjustment had been posted to the stock accounts in January 1966. The investigation developed the following information.

Month adjustment posted to stock records	Reason for adjustment	Quantity increase or decrease (–)
1965:		
May	Physical inventory	11,829
September	Not given	640
1966:		
January	Physical inventory	–8,341
March	Physical inventory (special)	5,201
April	Not stated	1,300
June	Physical inventory (special)	–9,404
Net increase		1,225

On the basis of the above data, the investigative personnel concluded that no further investigation or corrective action was necessary inasmuch as the series of adjustments appeared to be offsetting.

In other cases we reviewed, we could find no evidence that the investigations attempted to establish the basic causes for the physical inventory adjustments. In our opinion the investigative practices are not in accord with DSA procedures and are not conducive to improvement of stock record accuracy.

Internal audit reports show stock record inaccuracies and related difficulties as a continuing problem

We reviewed 35 reports issued between January 1964 and June 1966 by the internal audit groups of the DOD organizations. These reports indicated that differences between stock records and items on hand were a continuing problem. Also they frequently called attention to failures to—

1. Conduct prescribed physical inventories;
2. Control documentation for transactions occurring during the inventory cycle;
3. Properly reconcile stock records with the physical stock position as of the inventory cutoff date; and
4. Properly adjust stock records for differences.

Furthermore, they noted problems caused by—

1. Erroneous locator records;
2. Poor counting;
3. Selection of nonrepresentative samples for statistical inventorying; and
4. Lack of ownership identification for items owned by two or more managers but stored at one location.

In the majority of instances the internal audit recommendations for improving the accuracy of the records or solving the inventory control problems were directed to stricter adherence to the prescribed procedures.

In our opinion, the audit coverage, except for the Air Force, was adequate in scope and frequency of review. During the period reviewed, the Air Force auditors had issued only one report on one phase of inventory control at the depot level. We believe that the area is sufficiently important to warrant greater attention.

In fiscal years 1965 and 1966, the Navy internal auditors issued two Navy-wide reports that showed an overall 28 percent difference between the physical inventories and the stock records at 18 Navy and three Marine Corps stock points. However, these reports failed to deal with the causes for such conditions. We believe that in-depth reviews of previously identified problem areas should be considered by the internal audit groups.