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1813-65/2

Chief, Audit Staff

3 MAR 1965

MEMO : Deputy Director for Support  
Director of Logistics

Report of Audit of Supply Division  
1 July 1963 - 30 November 1964

REF : Memorandum from Acting Chief, Audit Staff, to  
Director of Logistics, dated 6 January 1965,  
subject as above

1. The Office of Logistics is in general agreement with the majority of the findings and recommendations contained in the subject report. Specific comments are covered in detail in paragraph 3 below.

2. Unfortunately we have not completed the total implementation of the improvements planned for our electronic data processing activities. The Systems Analysis Group had completed its studies of supply procedures and, in conjunction with representatives of the Office of Finance and the Office of Computer Services/DESAT, agreed to complete new programming for supply operations. As of 1 July 1964 we were hopeful of implementing all of the improvements within a 10-month period; but due to factors beyond our control, this has not been accomplished. The major improvements, such as computer availability editing, computer inventory adjustment processing, the elimination of manual posting, the rescheduling of status reports, the quick reaction computer response to status inquiry, and several other changes are still pending. The most recent report from the Office of Computer Services, dated 4 February 1965, outlines two plans to accomplish the objectives of this office in computer operations relative to supply activities. The Office of Computer Services is presently planning a replacement of existing hardware with more sophisticated equipment (third generation computers) and has tailored all plans and programs within its office accordingly. As indicated on their report, copy attached, this will result in a further delay in implementing the desired programs for the Office of Logistics. While we are not pleased with this arrangement it is quite possible we will have no alternative but to accept the situation and live with it. At such time as the new equipment is installed and all of our requirements have been provided for we earnestly hope we will be meeting the requirements of effective utilization of EDP facilities with a corresponding reduction in manual performance of clerical functions related to supply activities.

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3. Response to your recommendations is outlined below and is keyed to paragraph 2 of your report. Subparagraph (v) included herein addresses itself to paragraph 12 of your report which was not mentioned in your paragraph 2.

(a) We concur in the concept of utilizing the computer for performing Economic Order Quantity (EOQ) replenishment actions. This entails innumerable variable factors which must be organized and considered in a logical pattern for introduction into the computer program. This is a complex exercise and would consume considerable manpower in working out the details. There are other more important operations which we feel must be given priority attention by OCS at this time.

(b) Concur. A memorandum is being sent to each technical component requesting that the component provide disposition and/or repair instructions for all C-3 items under its cognizance.

(c) Concur. The revision of the Field Supply Procedures Manual is in progress, and subject to manpower limitations we hopefully expect that it will be ready for publication on or about 1 July 1965.

With regard to the Supply Division Operating Instructional Handbook, we concur in the principle that internal instructions, procedures, and functional charters should be up to date; however, from a practical standpoint, such a handbook can never be completely current because of organizational changes, improvements in systems, streamlining of procedures, electronic data processing innovations, and a host of other reasons. In an effort to stay current, Supply Division is continuously publishing new instructions and revising existing ones.

(d) Concur, paragraph 6.a. The records of Allocation 05 (Items on loan to Agency activities for test, evaluation or demonstration) are in the process of being corrected and updated. Reconciliation has been effected on approximately 75% of the items, with a complete reconciliation expected by 1 May 1965.

Concur, paragraph 6.b. Follow-up action is being conducted on the overdue items in Allocation 05 and will continue to be conducted on a monthly basis to insure that no on-loan items become delinquent without either a follow-up notice being sent or a costing of the material to the appropriate account.

With regard to the statement on requisitions that the material is "to be used for test, evaluation, or demonstration only", we wish to point out that the Chief, Supply Division, also may authorize the loan of property for purposes other than

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test, evaluation, or demonstration. The authority to approve requisitions for items to be used in test, evaluation, or demonstration has been redelegated to the Chief, Supply Management and Cataloging Branch. It happens from time to time that loan-issues are approved on the basis of operational justifications known to the Chief, Supply Division. In such instances, the signature of the Chief, Supply Division, constitutes a valid approval. Supply Division Instruction 45-7 is scheduled for revision, and the revision will include more up-to-date and specific details concerning the administration of Allocation 05.

Non-concur, paragraph 6.c. We do not agree that material issued under the definition of Allocation 05 should be costed to the user at the time of issue with a reversal of the transaction (credit) when the material is returned. Such costing would involve adjustment problems, and we feel that with the improved controls and closer follow-up on such transactions we can administer the account satisfactorily under our proposed revised system.

(e) Concur. Every effort will be made to limit telephoned requisitions to those instances of extreme and true emergencies, which are justified by the operational components, and which are true crash requirements.

(f) Concur, paragraph 8.a. We have taken action to insure that voucher checks are conducted on a timely basis.

Non-concur, paragraph 8.b. In June 1964, the division instituted a voucher or document control system using EDP to insure processing of all documents. This control is working quite satisfactorily. With reference to individual line item control proposed in paragraph 8.b., we have made a subsequent random sampling of 15 vouchers for each of six months, July through December 1964, to determine the validity of the proposal. Our examination indicates that the 90 documents comprising 1,572 line items were processed with a total of three line item errors (.0019 percent error margin) which resulted from incorrect coding. None of these three were errors of omission. We therefore feel that any additional control techniques involving further clerical effort for input to the computer would not be justified.

(g) Concur. The discrepancies reflected in paragraph 9 have been reduced to under \$1200 with the final transactions presently being researched prior to processing. We have initiated action to complete the reconciliation of the machine runs to documentation and also to correct the discrepancies on a current basis.

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(h) Concur. An inventory has been completed and the necessary research and reconciliation are expected to be completed by the end of March 1965.

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(i) Concur. Effective with the February 1965 cutoff, there will be separate reports for on-hand property at Headquarters [REDACTED]

(j) We concur and have implemented the recommendation that the information contained on the locator cards should be limited to storage locations only and not include status information. We do not agree with paragraph 13 wherein it states that the locator information should be made a part of the EDP status report. To be effective on a computer operation, the computer equipment must be available for continual reference to the warehouse for response on location matters. This is presently not possible.

(k) Concur. The items in Allocation 07 are in process of being inventoried, and adjustments will be made as of the February cutoff to clear them from Allocation 07. The items in 18 stock groups which are normally exempt from inventory will be inventoried, reconciled, and cleared out of Allocation 07 by the end of March.

(l) Concur. The requisition cross-reference file has been eliminated.

(m) Concur. The reconciliation of property on loan to other agencies is almost complete. All users have been identified and follow-up procedure is in effect for those items which remain overdues.

(n) Non-concur. Property-In-Use Account 6207 contains in excess of 1100 items, many of which were processed into the account during the period prior to 1952. This account was established to reflect the so-called operational type items converted from manual "in-use" records. Since 1960, adjustments to this account have been made when overages in other Headquarters Property-In-Use accounts matched items in Account 6207. The account was reduced by some \$10,000 through this method. To attempt to research, inventory, and establish the location and the person responsible for each item would be practically impossible. We plan to transfer any administrative items in this account to Account 6205, to write off those items which are identified as installed property, and also to drop any remaining items for which we cannot establish responsibility to a specific person or organization.

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The items in Accounts 6006, 6006-991, and 6006-996 have been transferred to Account 6007 and will be handled according to the plan outlined above.

Account 6090 was consolidated into Account 6005 some years ago and those items remaining in 6090 represent errors in coding subsequent documents. The items have now been transferred to Account 6005, and Account 6090 is closed.

(o) Concur. The Responsible Officer for Accounts 6005 and 6010 has received his consolidated memorandum receipts, and we shall follow-up to insure that non-administrative type items are cleared from Account 6005 and transferred to Account 6010.

(p) Concur. We agree that some inventories are overdue, partly because of manpower shortages and partly because of unforeseen circumstances (significant discrepancies) encountered in the inventory process itself. In the 1964 and 1965 schedules, it was necessary to give priority to those commodity classes which had not been inventoried under the 1962 and 1963 schedules. The overdue inventories mentioned in paragraph 19 of the report are scheduled for inventory during 1965. The items of \$275,964 value (with no record of inventory) represent small-quantity items with very inactive issue experiences, and we feel that we can delay that inventory until the 1965-66 schedule is prepared. The report shows that overdue inventories represent a dollar value of \$1,677,103; however, many of the commodity classes in this overdue figure are high dollar value classes, and inventories now in process apply to \$6,000,000 of this figure.

Weekly stock locator checks have been resumed and will be continued on a regular basis.

To date the voucher register and voucher files have been checked through FY-1964, and checks are continuing for FY-1965. We will insure that these checks are conducted on a timely basis hereafter.

(q) Non-concur. We do not feel that it is necessary to establish a permanent Audit and Adjustment Unit as a formal element within the Table of Organization of Stock Control Branch or of Supply Division. The duties which this unit performs are inherently those of a supervisory and review nature related to stock control and financial accounting for property and should not require any special staffing. Three employees have been assigned full time due to an excessive backlog in reconciling the machine listings forwarded by the Office of Finance. The reconciliations are now current. We

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intend that stock control supervisory employees will perform this function and that additional personnel will be assigned temporarily whenever the circumstances indicate that a backlog is developing.

(c) Concur. The item in question appeared on Agency Excess List 64-1 dated 30 June 1964. That list has been completely circulated with no interest for that specific item, and disposition instructions are in process.

(d) Concur. Future procurements, or issues from stock, of spare parts for rehabilitation purposes will be recorded as indirect costs and reductions in the property requisitioning authority of the user.

(e) Non-concur. These items were transferred as a disposal to a covert proprietary project. At a later date, the project asked for temporary storage pending sale. These items are reflected in the proprietary records and will remain there pending completion of sale.

(f) Concur. Logistics Instruction 1-5 is being amended to permit Chief, Supply Division, to redelegate authority to COMUS depots to dispose of unserviceable, uneconomically repairable, non-regulated property.

(g) Concur. The Finance Officer at [REDACTED] reported as of 19 February 1965 that he had taken care of all suspensions. 25X1A

(h) Concur. This item was included with the many computer functions requested from OCS/DDEMT. [REDACTED] 25X1A

ALAN M. WARFIELD

Attachment:

OCS Report dated 4 February 1965

Distribution:

- Orig & 1 - Addressee, w/cy att.
- 2 - DSS, w/cy att.
- 1 - IO, w/o att.
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OL/SD: [REDACTED] 139/3442 (26 Feb 65)

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