Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONTROLS OVER MANAGEMENT OF MEAT AND TOBACCO PRODUCTS AT SELECTED COMMISSARY STORES

Report No. 94-184 September 6, 1994

Department of Defense

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

DoD Hotline

To report fraud, waste, or abuse, call the DoD Hotline at (800) 424-9098 or write to the DoD Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of writers and callers is fully protected.

Acronyms

ASAC	Automated System for Army Commissaries
COR	Call Order Register
DeCA	Defense Commissary Agency
STANFINS	Standard Finance System

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

September 6, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Audit Report on Controls Over Management of Meat and Tobacco Products at Selected Commissary Stores (Report No. 94-184)

We are providing this report for your review and comment. It discusses controls over meat and tobacco products at selected commissary stores. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3, requires that all recommendations be resolved promptly. Therefore, we request that you provide additional comments on Recommendations 1. and 2. and the potential monetary benefits of $5.2 million by November 4, 1994.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr.Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418) or Mr.Walter R. Loder, Jr., Audit Project Manager, at (703) 604-9413 (DSN 664-9413). The distribution of this report is in Appendix I. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-184 **September 6, 1994**
(Project No. 3LA-2002.05)

CONTROLS OVER MANAGEMENT OF MEAT AND TOBACCO PRODUCTS AT SELECTED COMMISSARY STORES

EXECUTIVE SUMMARY

Introduction. This report is being issued as part of our audit of the FY 1993 Financial Statements for Defense Commissary Agency Operations (Project No. 3LA-2002). The report discusses the lack of accountability and internal controls over meat and tobacco products at 21 commissary stores, and relates the finding to the 360 commissary stores within the Defense Commissary Agency (DeCA). Meat and tobacco sales for all commissary stores in FY 1993 totaled $1.4 billion, which is about 25 percent of overall commissary sales.

Objectives. The audit objective was to determine whether the DeCA stores had adequate management and financial accountability for meat and tobacco inventories. We also determined whether the physical inventory controls prevented loss of meat and tobacco products. We evaluated the adequacy of internal controls as they applied to our audit objectives.

Audit Results. The commissary stores did not have satisfactory management accountability or internal controls over meat and tobacco products inventories. As a result, financial records were unreliable, and the 21 commissary stores we visited could not account for about $5.2 million in meat and tobacco products inventories over the 6-year Future Years Defense Program. If the remaining commissary stores are experiencing a similar lack of controls and accountability, a potential loss of $15.2 million exists. (The $5.2 million and $15.2 million figures are not based on a valid statistical projection, but are shown to indicate the potential magnitude of the problem.)

Internal Controls. The audit identified material internal control weaknesses in the management and safeguarding of meat and tobacco products inventories against loss, theft, damage, and waste. See Part I for a discussion of internal controls reviewed and Part II for a discussion of internal control weaknesses identified.

Potential Benefits of Audit. We identified potential monetary benefits for the 21 commissary stores visited. Additionally, implementation of the recommendations in this report will improve the DeCA accounting and financial controls. (Appendix G summarizes the potential benefits resulting from the audit.)

Summary of Recommendations. We recommended that the Director, DeCA, develop policies and procedures to compare commissary store monthly meat and tobacco product counts to the Automated System for Army Commissaries or the Standard Finance System, to revise DeCA Directive 70-6 to require store managers to develop loss data, and that DeCA require regional personnel to establish plans to train management support center personnel.

Management Comments. Management did not state it would revise policies and procedures for comparing monthly physical inventory counts to inventory or general ledger records and to modify DeCA Directive 70-6 as needed. The Director, DeCA,

stated that DeCA will continue to follow current practices for the meat department. In addition, the Director stated that DeCA is testing procedures for maintaining accountability over tobacco. Based on the test results DeCA will decide by October 1, 1994, whether to extend tobacco accountability procedures beyond the test phase and to modify DeCA Directive 70-6 as needed. The Director further stated that in early 1994 regions began site visits to provide training to all stores in all phases of store operations, to include Management Support Center training.

The Director, DeCA, nonconcurred with the $5.2 million of potential monetary benefits. He stated that the amount should be reduced to $2.8 million based on accounting procedures requiring that actual losses be offset by actual gains. Management comments are discussed in Part II and the complete text of management comments is in Part IV.

Audit Response. Management comments on two recommendations to establish policies and procedures and on the potential monetary benefits were not responsive. Potential monetary benefits are valid because the benefits are based on actual physical losses. The management response to our recommendation to establish plans to train management support center personnel was considered responsive. We request that the Director, DeCA, reconsider his position and provide comments on the unresolved recommendations and the potential monetary benefits by November 4, 1994.

Table of Contents

Executive Summary i

Part I - Introduction 1

Background 2
Objectives 2
Scope and Methodology 3
Internal Controls 4
Prior Audits and Other Reviews 4
Other Matters of Interest 5

Part II - Finding and Recommendations 7

Controls Over Meat and Tobacco Products Inventories 8

Part III - Additional Information 19

Appendix A. Calculation of Gains and Losses for the Meat Department and Tobacco 20
Appendix B. Flow of Information on Accountability Documents 23
Appendix C. Differences Between Meat Department Amounts Reported on DeCA Form 40-10 and Auditor Calculations 24
Appendix D. Meat Department Internal Controls 25
Appendix E. Tobacco Products Internal Controls 26
Appendix F. Calculation of Potential Loss for DeCA 27
Appendix G. Summary of Potential Benefits Resulting From Audit 28
Appendix H. Organizations Visited or Contacted 29
Appendix I. Report Distribution 30

Part IV - Management Comments 33

Defense Commissary Agency Comment 34

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

Defense Commissary Agency Mission and Organization. The Defense Commissary Agency (DeCA) purchases name brand grocery items and resells them to authorized customers at prices approximating cost. DeCA is organized into a Headquarters, seven regions, two service centers, and 360 commissary stores around the world. Regions manage the commissary stores assigned to them. The service centers provide accounting and computer support. The goal of the commissary store is to provide grocery, meat, and produce items to its authorized customers at a 25-percent savings over items available in the private sector. On average, the grocery department makes up about 79 percent of the total commissary store sales dollars, meat about 15.5 percent, and produce about 5.5 percent. In FY 1993 meat and tobacco products sales made up $1.4 billion, or about 25 percent, of total commissary sales.

Meat and Meat Products Inventories at Commissary Stores. Meat and meat products sold at all commissary stores include beef, fresh fish, lamb, pork, poultry, prepackaged cold cuts, and veal. Many commissary stores process uncut meat into saleable form, while others purchase prepackaged meat from vendors. For FY 1993, meat sales totaled $903 million.

Tobacco and Tobacco Product Inventories at Commissary Stores. Tobacco products are part of the grocery department and account for 9.2 percent of the total commissary store sales. Tobacco products include chewing tobacco, cigarettes, cigars, and snuff. Tobacco products are not sold in commissary stores at Navy installations. The selling price for tobacco products does not include state excise taxes. For FY 1993, DeCA estimated $534 million of tobacco product sales at applicable commissary stores.

Prior Audit. In 1993 we audited the controls exercised over tobacco products at 11 commissary stores (see Prior Audits and Other Reviews, page 4). The 11 commissary stores were selected based on location and sales volume. We found material internal control weaknesses and issued Inspector General, DoD, Audit Report No. 94-044, "Controls over Tobacco Products at Selected Commissary Stores," on February 24, 1994. Based on the results, we selected additional stores to determine whether the control weaknesses noted were a DeCA-wide deficiency.

Objectives

The audit objective was to determine whether DeCA commissary stores had adequate management and financial accountability for meat and tobacco products inventories. We also determined whether the physical inventory

controls adequately prevented the loss of meat and tobacco products. We evaluated the adequacy of internal controls as they applied to our audit objectives.

Scope and Methodology

Audit Methodology and Locations. As part of our audit of the FY 1993 Defense Commissary Operations financial statements, we visited 21 commissary stores within 6 DeCA continental United States regions. The 21 commissary stores were judgmentally selected based on FY 1992 sales data for meat and tobacco products. The average monthly sales for meat and tobacco products for the 21 commissary stores was $687,187 in FY 1992.

Audit Scope. We conducted meat inventory counts at the 21 stores and tobacco counts at 17 stores. To determine the amount of gains or losses, we reconciled the dollar value of our inventory counts for each commissary store to what the inventory value should have been. The inventory value should have been the value of the official physical inventory plus store receipts, minus sales.

Limitations to Audit Scope. We could not perform tobacco counts at four commissary stores located on Navy installations because those stores did not sell tobacco products. Our audit scope was limited at the Fort Buchanan commissary store, San Juan, Puerto Rico. The book inventory value at Fort Buchanan could not be determined because meat sales and receipt information were not recorded separately from the grocery department data. Therefore, we were unable to compare our physical inventory counts and their dollar value to the value calculated using store records. In addition, our computations were not based on statistical sampling techniques and no statistical projections are possible.

Use of Computer-Processed Data. We did not rely on computer-processed data for our review. Instead, we relied on manually prepared store documents. We reviewed DeCA's purchases (receipts) and sales data for meat and tobacco products and the related commissary store accountability records from the date of the last official physical inventory conducted in spring 1993 to the date of our inventory. The accountability records reviewed included DeCA Form 70-12, "Store Block Control Journal," tally register, and call order register (COR).

Audit Standards. We performed this financial-related audit from May 10, 1993, through January 31, 1994, in accordance with financial auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We included such tests of internal controls as were considered necessary. The organizations visited or contacted are in Appendix H.

Internal Controls

Internal Controls Reviewed. We reviewed internal controls applicable to compliance with laws, regulations, and procedures for controlling inventories. Specifically, we reviewed the ordering, receiving, sales, and accounting procedures practiced by DeCA for meat and tobacco products resale stocks. We also reviewed physical security controls.

Internal Control Weaknesses Identified. The audit identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls were not effective to safeguard meat and tobacco products as required by DeCA directives and to ensure accurate and reliable accounting records. Tobacco products were not covered in an assessable unit in the Internal Management Control Program at DeCA.

All recommendations in this report, if implemented, will assist in correcting the material internal control weaknesses identified. The audit identified total quantifiable potential monetary benefits of $5.2 million (see Appendixes A and G). A copy of the final report will be provided to the senior officials responsible for internal controls in the Office of the Secretary of Defense and DeCA.

Prior Audits and Other Reviews

The Inspector General, DoD, has issued two reports related to controls over meat and tobacco products.

Inspector General, DoD, Report No. 94-044 stated that commissary managers were not exercising satisfactory management accountability and control over tobacco products at 11 commissary stores. As a result, tobacco products inventories could not be accounted for. In addition, the report stated that the commissary stores were not entering receipt information on tobacco products into the bill paying system in accordance with the time requirements established in DeCA policy and that the commissary store and regional personnel were not fully implementing DeCA Directive 40-19, "Operations Security Programs," February 28, 1992. We recommended that DeCA separately account for tobacco products, improve security, and input receipts into the bill paying system in a timely manner. DeCA management concurred with the audit recommendations or proposed acceptable alternative action. The alternative action proposed was to perform a 6-month test of tobacco product controls and then evaluate the cost-effectiveness of the controls. At the time of this review, DeCA had not completed the 6-month test of tobacco product controls.

Inspector General, DoD, Report No. 93-129, "Inventory Controls at Moffett Field Commissary Store, Sunnyvale, California," June 25, 1993, stated that receipt information was not entered into the bill paying system in a timely

manner. In addition, the meat department management did not have sales data available to properly manage the meat department, which resulted in over-ordering and excessive inventories of meat. We recommended that the Moffett Field commissary store prioritize receipt processing and improve management control by loading uniform product codes into the scanning system to provide detailed sales data to meat department management. DeCA management concurred with the recommendations.

Other Matters of Interest

During our audit, DeCA issued Directive 70-6, "Financial Procedures for Commissary Management Support Center," July 23, 1993. Each commissary has a management support center that is responsible for basic accounting functions. Directive 70-6 provides guidance to management support center personnel for processing commissary store financial information and other information to help prevent instances of fraud, waste, and mismanagement.

Of the 21 commissary stores visited, 2 had sold expired meat to customers. The expired meat was either added to ground beef or repackaged as new meat, after the outside was trimmed off. Selling expired meat violates established procedures, which state that expired-shelf-life meat must be marked down, frozen, and sold within 30 days. Selling expired shelf-life meat to customers was not appropriate and reflected the lack of control over meat inventory. We informed DeCA management about this problem at a meeting on March 4, 1994.

Part II - Finding and Recommendations

Controls Over Meat and Tobacco Products Inventories

DeCA did not have effective management and accountability controls for meat and tobacco products inventories. The lack of controls occurred because commissary stores did not:

o compare monthly inventory counts with balances in the Automated System for Army Commissaries or the Standard Finance System to determine losses or gains;

o require periodic counts of tobacco products or other high-dollar value inventory for comparison with accounting or inventory records; and

o implement existing internal controls for segregation of duties, accounting documentation, use of automated meat cutting test, and physical security.

As a result, financial records were unreliable and DeCA will not be able to account for about $5.2 million in meat and tobacco products inventories at 21 commissary stores over the 6-year Future Years Defense Program. (The $5.2 million figure is not based on a valid statistical projection, but is shown to indicate the magnitude of the problem.)

Background

Meat and Tobacco Products Accounting Procedures. Meat and meat products are sold at vendor invoice cost plus a markup of 3 percent to recover losses due to shrinkage. Tobacco products are sold at invoice cost. Basic accounting concepts provide that, over an extended period, the total value of meat or tobacco products receipts should be about the same as the total value of sales.

The Automated System for Army Commissaries (ASAC) is the automated system used by DeCA to account for inventories. The Standard Finance System (STANFINS) is the official accounting system used by the Defense Finance and Accounting Service to record DeCA financial transactions. Data on inventories are input into ASAC primarily by the management support center personnel at commissary stores. ASAC processes this information and transfers summary data to STANFINS. The inventory dollar amounts shown in ASAC should be the same as STANFINS. The accuracy of these systems is maintained by periodically reconciling physical inventory counts with the amounts shown in ASAC and STANFINS and with store level accountability records. DeCA requires annual physical inventory counts and reconciliation to accountability records.

Accountability Records. The DeCA internal control system relies on a variety of documents for accountability of inventory. See Appendix B for a chart of the documents used. The accountability records include the store block control journal, tally register, and the COR. The store block control journal is a manually prepared document that summarizes transactions, including sales and receipts posted to the DeCA inventory, bill paying, and accounting systems. The store block control journal should be reconciled monthly to the voucher register and general control resale report, a product of the ASAC. The voucher register and general control resale report should be reconciled to the STANFINS, DeCA's general ledger system. The tally register is a manually prepared daily listing of merchandise received at a commissary store, and the COR is a manually prepared list of orders placed with vendors each day.

If the reconciliation between the ASAC or STANFINS inventory amounts and the physical inventory value results in a gain (when the physical inventory value is greater than book value), it could indicate that purchase (receipts) and sales data are inaccurate, receipts are missing, or, for meat products, that the markup exceeds the allowable 3 percent or that expired products are incorrectly being sold. Losses (when physical inventory value is less than the ASAC or STANFINS amounts) normally would indicate physical losses, such as pilferage.

Financial Management Guidance. The DoD Accounting Manual 7220.9-M, chapter 34, "Inventories and Work In Process," states that the physical inventory counts are to be matched to the item property accountability records, which should in turn be reconciled to the balances in the general ledger accounts. The purpose of this reconciliation is to ensure the physical existence of products and the accuracy of accounting records.

DeCA Directive 70-6 describes policies and procedures for the preparation and maintenance of the store block control journal, tally register, and COR. DeCA Directive 70-6 states that management support center personnel at each commissary store should ensure that all orders are recorded and controlled in the COR and should ensure the tally register is maintained to record deliveries at each commissary receiving point. DeCA Directive 70-6 requires that the tally register and the store block control journal be reconciled to the receipts processed and transmitted to the inventory control system, the ASAC. DeCA Directive 70-6 also requires that the delivery tickets and related DeCA forms be maintained at the commissary store.

Guidance for Operating a Meat Department. DeCA Directive 40-3, "Operations - Meat Department," May 8, 1992, provides procedures for operating a commissary store meat department, including the preparation of DeCA Form 40-10, Record of Operations. DeCA Directive 40-3 requires that an inventory count of the meat department be conducted at least once a month. The results of the inventory count must be compared with the store block control journal. DeCA Directive 40-3 states that the receiving of meat products should be performed only by authorized personnel who did not order the delivery. Additionally, the commissary officer or a designated representative should spot check, without prior notification, receiving procedures. DeCA Directive 40-3 also gives step-by-step instructions on how to perform a

meat-cutting test accurately. Meat-cutting tests are used to determine the selling price of individual cuts of meat based on the purchase cost of the whole piece of meat.

Guidance for Conducting a Security Program. DeCA Directive 40-19 requires that adequate security requirements for safeguarding resources be established and maintained at all facilities. DeCA Directive 40-19 requires that commissary officers designate in writing a primary and alternate key custodian to monitor the issuance and control of accountable keys and locks as well as unescorted access into sensitive storage areas. The unescorted personnel are to receive specifically numbered accountable keys and locks on a temporary or permanent basis as determined by need. Only personnel authorized in writing may have unescorted access to a sensitive storage area. In addition, DeCA Directive 40-19 states that sensitive area security cages will extend completely to the ceiling.

Cigarette Industry Standards. The Food Marketing Institute, "Cigarette Security Guide," describes common industry practices for controlling and accounting for cigarettes. The Cigarette Security Guide recommends at least monthly cigarette counts for comparison to sales and receiving records to determine inventory losses (shrinkage). The guide recommends the use of a "Cigarette Inventory Audit Form," which uses a methodology for calculating losses similar to our audit approach. The guide states that an analysis of losses for each major category of products should be done to minimize losses because shrinkage varies among categories of merchandise.

Accounting for Meat and Tobacco Products Inventories

Results of Comparison of Physical Inventories With Accounting Records. Based on our comparison of the physical inventory to commissary store level accounting records and general ledger or inventory system records for the 21 commissary stores, we calculated that the 21 commissary stores lost a total of $870,737 annually for meat and tobacco products (see Appendix A) and gained $397,635 annually. We reconciled our actual physical counts with the latest annual inventory by commissary store. If this condition continued for the 6-year Future Years Defense Program, DeCA could not account for $5.2 million in meat and tobacco products inventories for the 21 commissary stores we visited. If the conditions found at the 21 commissary stores are representative of all 360 commissary stores, DeCA will not be able to account for $15.2 million of meat and tobacco products annually. (The $5.2 million and $15.2 million figures are not based on a valid statistical projection, but are shown to indicate the potential magnitude of the problem.)

Causes for Estimated Losses and Gains. The estimated losses and gains in physical inventories were attributed to the following causes:

o Commissary stores did not compare monthly meat inventory counts to balances in official inventory or accounting records to determine gains or losses.

o Commissary stores were not required to take periodic counts of tobacco and to determine actual gains or losses.

o Commissary stores failed to implement existing or necessary internal controls, including physical security and the use of the DeCA automated meat-cutting test.

Monthly Inventory Counts for the Meat Department. All 21 commissary stores did not compare monthly inventory counts to balances in official inventory or accounting records. Commissary stores were not required to reconcile inventory counts to the ASAC or the STANFINS, but were required to reconcile DeCA Form 40-10 to the store block control journal. Seven commissary stores did not reconcile the DeCA Form 40-10 to the store block control journal. Nine commissary stores attempted reconciliations of DeCA Form 40-10 to the store block control journal, but the store block control journal had not been reconciled to the ASAC by the service centers to ensure that the store block control journal balances were correct.

Commissary store meat departments conducted monthly inventory counts and compared the results to commissary store level accounting records, using DeCA Form 40-10. Management support center personnel at the commissary store calculated an inventory value based on the beginning inventory, sales, and receipt data using commissary store records. The calculated inventory value was compared with the physical inventory count value and a variance was determined. Management support center personnel completed DeCA Form 40-10 and forwarded it to the appropriate region.

Of 20 commissary stores (Fort Buchanan did not have a meat department) 9 commissary stores did not correctly prepare DeCA Form 40-10 because they did not include all meat receipts for 1 or more months. As a result, the 9 commissary stores reported misstated meat inventory gains or losses of $1,000 or more. Appendix C compares cumulative DeCA Form 40-10 inventory gains or losses with audit determined gains or losses. We also found mathematical or transposition errors at all 20 commissary stores.

At one commissary store, for example, the DeCA Form 40-10 for the meat department showed a cumulative gain in meat inventory of $6,106. We determined that a loss of $34,602 had occurred because all receipts had not been included on the DeCA Form 40-10 prepared by the commissary store. At another store, two management support center employees prepared DeCA Form 40-10 for the same period for meat inventory using the same physical count amounts. One employee calculated an inventory loss and the other employee calculated an inventory gain. The DeCA Form 40-10 that reflected the inventory gain was forwarded to the region. Inaccurate records, such as the store block control journal and DeCA Form 40-10, indicate that management support center personnel responsible for preparing the documents are not adequately trained.

By not comparing monthly inventory counts to balances in the ASAC and STANFINS, commissary stores may not know that their DeCA Form 40-10

contained errors. When a reconciliation is prepared, differences that occur will be detected. The employee preparing the reconciliation is alerted to an error and should research the reason for any differences.

Periodic Counts for Tobacco Products Inventory. Another cause for inventory losses is that DeCA did not require that tobacco products and other high-dollar grocery inventory be periodically counted and compared with official commissary store records to determine gains or losses. Tobacco products were not counted separately from other grocery items during periodic inventory counts. As a result of not separately counting tobacco products, DeCA stores could not use available records to determine whether gains or losses had occurred or whether the gains or losses were significant. Of the 17 commissary stores selling tobacco products, 2 commissary stores maintained separate records for tobacco products sales, receipts, corrections, and vendor credit memorandums. Those two stores had a gain or loss within the allowable tolerance levels. DeCA commissary stores were not giving adequate visibility to high-volume, high-dollar cigarettes.

By not determining tobacco products shrinkage (losses), DeCA cannot be assured that the dollar value of tobacco transactions recorded and posted to both the ASAC and STANFINS were accurate. In response to Report No. 94-044, DeCA agreed to conduct a 6-month test of accountability procedures for tobacco products. DeCA had not conducted those tests at the time of this audit.

Implementation of Internal Control Procedures. Commissary stores had not implemented internal control procedures required by DeCA directives (Appendixes D and E list results by commissary store). Most importantly:

o Duties for receiving and ordering meat products were not segregated or authorized.

o Accounting documentation, such as receiving records, tally registers, and CORs, were not always accurate or complete.

o The DeCA standard automated meat-cutting test was not always used, resulting in calculation errors.

o Physical security controls were not implemented.

Segregation and Authorization of Duties for Ordering and Receiving Meat Products. Ten of the 21 commissary stores we visited did not follow procedures for segregating or authorizing the duties for ordering and receiving meat products as required in DeCA Directive 40-3. The same employee should not order and receive meat to ensure the receipt of meat at the accurate price and quantity. In addition, employees must be authorized, in writing, to order or receive meat products. At two commissary stores, the same employee placed orders for products and received those orders. Seven commissary stores authorized the same employee to place orders and receive deliveries. Four commissary stores allowed unauthorized personnel to

receive meat deliveries. The failure to appropriately segregate responsibility for receiving and ordering meat products allows meat inventories to be vulnerable to pilferage.

Accuracy and Completeness of Accounting Documentation. At 8 of 21 commissary stores, we could not determine the accuracy and completeness of store-level summary receiving records, such as the store block control journal, the tally register, and the COR. The documents supporting the summary records were not maintained in accordance with DeCA Directive 70-6.

Receiving Records for Meat and Tobacco Products. Supporting documentation for the summary receiving records should be filed in the management support center in the sequence of the block control number that the receipt was assigned. At 8 of 21 commissary stores, the delivery tickets were not filed by the corresponding block control numbers, and receipts were missing. Six stores could not provide the auditors with all the meat receiving documents requested and three stores were unable to provide us with all the tobacco receiving documents. For example, one commissary store was unable to locate supporting documentation for nine tobacco products receipts valued at $84,229. Lost documents inhibit the establishment of an audit trail, making it difficult to research vendor queries or other requests for information.

Use of the Tally Register to Record Deliveries. When an order is delivered, receiving personnel record the delivery in the tally register and assign a tally number. The receiving personnel submit the tally register to the management support center for reconciliation with receiving reports.

The tally registers reviewed were inaccurate and incomplete at 10 of the 21 commissary stores, and could not be used by the store management support center personnel to reconcile receipts before the receipts were submitted to the service center. Receiving personnel at 10 commissary stores did not record all meat deliveries on the tally register, indicating insufficient training of receiving personnel on proper receiving procedures or a disregard of approved procedures. As a result, 52 meat deliveries, totaling $108,450, were not recorded on tally registers. Similarly, receiving personnel at one commissary store did not record four tobacco products receipts, totaling $71,802. Unless the commissary stores reconcile the receiving and accounting records before posting receipts to the ASAC or STANFINS systems, DeCA cannot be assured that the receipt values in the ASAC or STANFINS are accurate, possibly leading to delayed or incorrect payments to vendors.

Use of the Call Order Register to Track Orders. The COR is maintained by management support center personnel to keep track of all orders placed and received, and for research purposes. When an order is placed with a vendor, management support center personnel give the order a call order number in the COR and record the date ordered. When the order is delivered, management support center personnel record the date received, the tally number, the amount of the delivery, and the block control number from the store block control journal in the COR.

The 21 commissary stores we reviewed did not prepare the COR in accordance with DeCA Directive 70-6. For example, management support center personnel did not record the dollar amount received, the receipt date, and the block control number assigned to the order in the COR when the delivery was received. Additionally, commissary stores were not identifying canceled orders. The COR was intended to serve as a tracking system of all orders placed. Therefore, complete and accurate CORs are essential to verify that all orders have been delivered, and the management support center informed for input into the automated systems.

Use of the Standard Automated Meat-Cutting Test to Price Meat. Nine commissary stores were using a manual meat-cutting test instead of the DeCA standard automated meat-cutting test. DeCA created the automated cutting test to improve efficiency and accuracy. DeCA management provided all meat department managers with training on the use of the standard automated cutting test. The nine commissary stores that continued to use the manual cutting tests did not always account for the weight of the meat recorded on the box (tag weight) and made math errors in their calculations. The math errors caused incorrect selling prices. Using the automated meat-cutting test would eliminate math errors and would require commissary stores to account for the full weight of the meat.

Physical Security of Inventories. Physical security is an essential internal control used to protect inventories, especially meat and tobacco products inventories, because of the high dollar value of those items. Proper security of meat and tobacco products inventories to prevent pilferage includes keeping the inventory in locked areas, allowing only authorized employees access to the inventories, controlling the issuance of keys to the locked areas, and avoiding excessive access to the inventories.

Securing Meat and Tobacco Products. The 21 commissary stores were not physically securing meat and tobacco products adequately. Meat and tobacco products inventories must be physically secured to prevent losses due to theft. Of the 21 commissary stores, 9 did not have locks, locking mechanisms, and secure storage areas in the meat department. Physical security problems for tobacco products were also identified at five stores. For example, personnel at three commissary stores did not lock the door to the tobacco products warehouse during working hours. At two other commissary stores, cigarettes were left unattended outside the tobacco products warehouse. Further, another commissary store did not construct a secured tobacco area that prevented inventory theft, because one wall of the tobacco products warehouse did not extend to the ceiling.

Escorting Personnel in the Tobacco Secure Area. At 4 of the 21 commissary stores, unauthorized individuals were allowed access to the tobacco products secure area without an escort. Individuals without written authorization to access the tobacco products secure area should be escorted by an authorized employee.

Use of the Key Issue Log to Control Access to the Tobacco Products Secure Area. Commissary stores were not controlling the keys to the

secure tobacco products area in compliance with DeCA Directive 40-19 to prevent unauthorized access to the tobacco products. Three stores had not designated in writing the personnel with authorized access to the storeroom keys. At three other commissary stores, employees without written authorization signed out the key for the tobacco products storeroom in the key issue log. The keys at one commissary store were not appropriately numbered to ensure adequate controls over the keys. Employees, confused by the numbering process, obtained the correct key but signed out the incorrect key number in the key issue log. One warehouse foreman did not sign out the key in the key issue log. At several commissary stores, the signatures of the employees signing out the storeroom keys were illegible. Neither auditors nor store personnel could decipher the signatures.

Number of Persons Allowed Access to the Storeroom Keys. Commissary stores authorized access to the tobacco products warehouse to an excessive number of employees. At one commissary store, 18 employees were authorized access to the secured area, which exceeded the number of authorized employees at other stores. At another commissary store, the dairy and frozen food manager was authorized access to the tobacco products warehouse.

Effect of Internal Controls on Inventory. As a result of the lack of internal controls, we estimated that the loss of meat and tobacco inventory for the 21 stores in FY 1993 totaled $870,737. The loss was determined by calculating the commissaries' average daily loss for meat and tobacco products and multiplying the daily loss by 365 days (see Appendix A). We accounted for an allowable tolerance of 0.5 percent for shrinkage when calculating the loss for tobacco products. Therefore, the reported tobacco products losses represent the amount of losses that exceed the allowable tolerance. We also identified $76,961 in meat gains and $33,722 in tobacco products gains for our review period.

If the conditions found at the 21 commissary stores are representative of all 360 commissary stores, the loss could be as much as $15.2 million (see Appendix F) based on FY 1993 meat and tobacco products sales. (The $15.2 million figures is not based on a valid statistical projection, but is shown to indicate the potential magnitude of the problem.) Losses calculated for the meat department were about 1.27 percent of meat sales, which exceeded DeCA's allowable inventory loss tolerance of 0.03 percent by 1.24 percent. We also accounted for DeCA's 0.5 percent allowable inventory loss tolerance when calculating the loss for the tobacco department. DeCA commissary store managers should have determined the causes of the inventory losses and taken corrective actions because the losses exceeded allowable tolerances.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Commissary Agency:

1. Revise procedures in Defense Commissary Agency Directive 40-3, "Operations - Meat Department," to require commissary store managers to compare the monthly physical inventory values for the meat department to the balances in the Automated System for Army Commissaries or the Standard Finance System.

Management Comments. The Director, DeCA, partially concurred with the recommendation, but did not state that he would revise DeCA Directive 40-3. The Director stated that DeCA Directive 70-6 requires that DeCA Form 40-10 be reconciled to the Store Block Control Journal before it is finalized and forwarded to Region/Headquarters. He also stated that the Store Block Control Journal is reconciled to the DeCA Form 40-10 and forwarded to the service center. The service center reconciles the Store Block Control Journal to the voucher register and general control (VRGC), the output from the Automated System for Army Commissary (ASAC).

Audit Response. We consider management's comments to be nonresponsive. The Director, DeCA, restated current DeCA policy, which we found was inadequate. Reconciling the DeCA Form 40-10 and the Store Block Control Journal to each other is a practice that does not meet the intent of our recommendation, because the Store Block Control Journal is not an official accounting record. DeCA Form 40-10 should be compared and reconciled directly with the official inventory or accounting records, at the store level, so that the store manager can take immediate action to correct imbalances. We request that the Director, DeCA, reconsider his comments and provide additional comments in response to this final report. We also request the completion date for planned actions.

2. Revise Defense Commissary Agency Directive 70-6, "Financial Procedures for Commissary Management Support Center," to require commissary store managers to take monthly counts of tobacco products and other high-dollar inventory items and compare the results to the Automated System for Army Commissaries or the Standard Finance System records. Defense Commissary Agency Directive 70-6 should also require store managers to develop loss data for specific categories of products, such as cigarettes, to be used in monitoring losses.

Management Comments. The Director, DeCA, partially concurred with the recommendation, stating that as a result of a previous Inspector General, DoD audit, DeCA is testing maintaining accountability over tobacco. Based on the results of the test phase and the development of loss data, DeCA will decide by October 1, 1994, whether to extend tobacco accountability past the test phase. The Director stated that Defense Commissary Agency Directive 70-6 will be changed as appropriate, after a decision is made on extending the test phase. DeCA also plans to compare monthly tobacco accountability results to the Store Block Control Journal and not the ASAC or STANFINS.

Audit Response. We consider management's comments to be essentially an interim response. The magnitude of losses found during our audit should be fully considered by DeCA as the testing is completed. We request that the

Director, DeCA, provide additional comments, including a full discussion of the conclusions reached after the testing, in response to this final report.

3. Require regional management personnel to monitor compliance with established internal controls and establish plans to train management support center personnel in DeCA accounting policies and procedures, such as the correct preparation of DeCA Form 40-10.

Management Comments. The Director, DeCA, partially concurred with the recommendation, stating that DeCA Headquarters has continuously emphasized the requirement for DeCA regions to monitor store activities more closely to ensure compliance with policies and procedures. DeCA has formed Management Assistance and Training teams to provide assistance in all phases of store operations, including Management Support Center training.

Audit Response. DeCA's response is acceptable. DeCA's efforts to train Management Support Center personnel are commendable.

Monetary Benefits.

Management Comments. The Director, DeCA, stated that the $5.2 million in potential monetary benefits is not an accurate estimate because the figure is based on projected losses without regard to projected gains. The Director stated that accounting procedures require that actual losses be offset by actual gains; therefore, the potential monetary benefits should be reduced to $2.8 million.

Audit Response. We consider management's comments to be nonresponsive. The losses shown in our report are based on actual physical losses, after considering merchandise receipts and sales. The gains indicate accounting irregularities in the recordkeeping by the Management Support Center at the commissary stores, such as failing to record all receipts of products in the accounting records. We request that the Director, DeCA, reconsider his position and provide additional comments in response to this final report.

Part III - Additional Information

Appendix A. Calculation of Gains and Losses for the Meat Department and Tobacco

Commissary	Calculated Gain [1]	Period Reviewed [2] (days)	Average Daily Gain [3]	Annualized Gain [4]
		Meat Department Gains		
Clear Creek	$21,810	107	$203.83	$ 74,398
Dahlgren	124	72	1.72	629
Fort Eustis	229	77	2.97	1,086
Fort Lee	16,088	133	120.96	44,151
Fort Myer	11,002	42	261.95	95,612
McGuire Air Force Base	12	62	0.19	71
Presidio	27,696	161	172.02	62,789
Subtotal	$76,961			$278,736
		Tobacco Gains		
Aberdeen	$ 1,538	85	$ 18.10	$ 6,606
Clear Creek	11,399	101	112.87	41,196
Fort Myer	2,445	40	61.12	22,310
Oakland	18,174	140	129.81	47,380
Vint Hill Farms	166	43	3.85	1,407
Subtotal	$33,722			$118,899
Total Meat and Tobacco Annualized Gains				$397,635

[1]The calculated gain equals the difference between the physical inventory we counted and the book inventory (accountable inventory plus receipts, minus sales) we calculated.
[2]The period reviewed equals the number of days between the accountable inventory and our physical inventory.
[3]The average daily gain equals the calculated gain divided by the period reviewed.
[4]The annualized gain equals the average daily gain multiplied by 365 days.

Commissary	Calculated Loss	Allowable Tolerance[1]	Loss Exceeding Tolerance[2]	Period Reviewed (days)	Average Daily Loss[3]	Annualized Loss[4]
			Meat Department Losses			
Aberdeen	$ 13,493	0	0	85	$158.74	$ 57,941
Dover Air Force Base	595	0	0	42	14.17	5,171
Fort Detrick	878	0	0	50	17.56	6,409
Fort Monmouth	847	0	0	56	15.13	5,521
Fort Story	36	0	0	70	0.51	188
Moffett Field	40,220	0	0	148	271.76	99,191
Oakland Air Base	16,269	0	0	140	116.21	42,416
Patuxent Naval Air Station	16,524	0	0	41	159.12	58,080
Roosevelt Roads	6,947	0	0	147	47.26	17,249
Travis Air Force Base	31,870	0	0	182	175.11	63,915
Vint Hill Farms	88	0	0	43	2.05	747
Wainwright II	2,725	0	0	108	25.23	9,209
Wright-Patterson Air Force Base	1,578	0	0	61	25.87	9,442
Subtotal	$122,070					$375,479

[1]The allowable tolerance is accounted for in the price of meat as a 3% markup of cost and it includes shrinkage.
[2]The loss exceeding tolerance is the amount of the calculated loss that exceeds the loss allowable tolerance.
[3]The average daily loss equals the calculated loss divided by the period reviewed.
[4]The annualized loss equals the average daily loss multiplied by 365 days.

Commissary	Calculated Loss	Allowable Tolerance[1]	Loss Exceeding Tolerance[2]	Period Reviewed (days)	Average Daily Loss[3]	Annualized Loss[4]
			Tobacco Losses			
Dover Air Force Base	$ 2,055	$ 1,225	$ 830	36	$ 23.06	$ 8,417
Fort Buchanan	910	6,553	0	121	N/A[5]	N/A
Fort Detrick	8,591	322	8,269	43	192.30	70,190
Fort Eustis	9,347	4,250	5,097	78	65.35	23,853
Fort Lee	2,828	6,586	0	126	N/A	N/A
Fort Monmouth	28,326	2,708	25,618	49	522.82	190,829
Fort Story	17,932	6,070	11,862	70	169.46	61,853
McGuire Air Force Base	11,905	9,724	0	64	N/A	N/A
Presidio	10,655	5,003	5,651	162	34.88	12,731
Travis Air Force Base	5,618	11,789	0	189	N/A	N/A
Wainwright II	33,202	2,946	30,256	100	302.56	110,434
Wright-Patterson Air Force Base	12,920	9,019	3,901	84	46.44	16,951
Subtotal	$144,289		$91,484			$ 495,258
Total Meat and Tobacco Annualized Losses						$ 870,737
$870,739 x 6 years (Future Years Defense Program)						$5,224,422

[1]The allowable tolerance equals 0.5 percent of department sales for the period reviewed and allows for shrinkage.
[2]The loss exceeding tolerance is the amount of the calculated loss that exceeds the allowable tolerance.
[3]The average daily loss equals the calculated loss (loss exceeding tolerance for tobacco) divided by the period reviewed.
[4]The annualized loss equals the average daily loss multiplied by 365 days.
[5]Not applicable

Appendix B. Flow of Information on Accountability Documents

The following chart describes the information that commissary personnel record on the accountability documents. Cross-referencing information allows commissary personnel to ensure the receipt or cancellation of a delivery. The call order register and tally register are internal documents maintained at the commissary store level. The store block control journal is forwarded to the service centers for reconciliation to the official accounting records.

Action	Call Order Register	Tally Register	Store Block Control Journal
1. Order is placed with vendor.	Record call order number, vendor, delivery date, and estimated dollar amount.		
2. Delivery is received.		Record tally number call order number, vendor, and date received.	
3. Receipt is entered in DeCA Interim Business System and blocked with a group of receipts.	Record tally number, date received, dollar amount, and block number*.		Record block number and total dollar amount of all receipts in block.
or			
Order is canceled.	Write "Canceled" by the call order number.		

*The block number is assigned by the DeCA Interim Business System and identifies the month received and the department in which it belongs, such as meat, grocery, or produce.

Appendix C. Differences Between Meat Department Amounts Reported on DeCA Form 40-10 and Auditor Calculations

Commissary	DeCA Form 40-10[1]	Auditor Calculations[2]	Difference[3]	Months Evaluated[4]
Aberdeen	$ (443)	$ 2,073	$ 2,516	2
Clear Creek	7,059	8,651	1,592	2
Dahlgren	136	124	12	2
Dover Air Force Base	(665)	(551)	114	1
Fort Detrick	(482)	(298)	184	1
Fort Eustis	(1,868)	(1,869)	1	2
Fort Lee	(4,120)	(2,783)	1,337	3
Fort Monmouth	1,082	503	579	1
Fort Myer	(368)	(376)	8	1
Fort Story	(490)	(1,127)	637	1
McGuire Air Force Base	(30,394)	(30,052)	342	2
Moffett Field	6,106	(34,602)	40,708	4
Oakland Army Depot	(20,450)	(22,830)	2,380	4
Patuxent Naval Air Station	(9,365)	1,042	10,407	2
Presidio	(7,723)	(12,190)	4,467	4
Roosevelt Roads	8,406	(3,511)	11,917	4
Travis Air Force Base	5,640	(5,273)	10,913	5
Wright-Patterson Air Force Base	(1,999)	5,276	7,275	2
Vint Hill Farms	(870)	(2,536)	1,666	1

Note: Fort Hood has two commissary stores, Clear Creek I and Wainwright II, each with a meat department, but for reporting purposes the two are consolidated. Fort Buchanan does not have a meat department; therefore, it does not prepare a DeCA Form 40-10.

[1] Column 1 shows the cumulative gain or loss reported on the DeCA Form 40-10 that was the last completed form before the date of our review.
[2] Column 2 shows the gain or loss calculated by the auditors for the same period covered by the DeCA Form 40-10.
[3] Column 3 shows the absolute difference between the cumulative gain or loss reported on the DeCA Form 40-10 and the auditor calculations.
[4] Column 4 shows the number of complete months during the period reviewed.

Appendix D. Meat Department Internal Controls

Commissary Store	Reconciled DeCA Form 40-10 to SBCJ[1]	DeCA Form 40-10 Missing Receipts	Authorized Personnel Received Meat	Same Employee Ordered & Received Delivery	Same Employee Authorized to Order & Receive	Spot Checking Receipts	Provided All Receipts	Deliveries Recorded on Tally Log	Used Manual Cutting Test	Secured Meat Dept
Aberdeen	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Clear Creek	Yes	No	Yes	No	No	N/D	Yes	Yes	No	Yes
Dahlgren	No	No	Yes	N/D	Yes	Yes	Yes	No	Yes	Yes
Dover Air Force Base	Yes	No	Yes	No	No	No	Yes	Yes	Yes	Yes
Fort Buchanan	N/D[2]	N/D	No	No	No	Yes	Yes	No	N/A[3]	Yes
Fort Detrick	Yes	N/D	N/D	N/D	N/D	Yes	Yes	N/D	No	No
Fort Eustis	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Fort Lee	N/D	Yes	No	No	No	Yes	No	Yes	No	No
Fort Monmouth	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Fort Myer	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fort Story	Yes	Yes	Yes	No	No	Yes	No	No	No	No
McGuire Air Force Base	N/D	Yes	Yes	N/D	N/D	Yes	Yes	Yes	No	Yes
Moffett Field	No	Yes	Yes	N/D	Yes	Yes	No	No	No	Yes
Oakland Army Depot	No	No	Yes	N/D	N/D	No	Yes	No	Yes	No
Patuxent Naval Air Station	No	Yes	Yes	N/D	No	Yes	Yes	No	Yes	No
Presidio	Yes	Yes	N/D	N/D	Yes	Yes	No	No	No	No
Roosevelt Roads	N/D	Yes	N/D	N/D	N/D	No	Yes	N/T[4]	Yes	No
Travis Air Force Base	Yes	Yes	No	N/D	Yes	Yes	No	No	No	No
Vint Hill Farms	Yes	N/D	Yes	No	No	Yes	Yes	No	No	Yes
Wainwright	N/A	N/A	Yes	N/D	N/D	N/D	Yes	Yes	N/A	Yes
Wright-Patterson Air Force Base	No	N/D	Yes	No	No	Yes	No	No	Yes	No

[1]SBCJ Store Block Control Journal
[2]N/D Not Determined.
[3]N/A Not Applicable.
[4]N/T No Tally Log.

Appendix E. Tobacco Products Internal Controls

Commissary Store	Separate Records for Tobacco	Provided All Receipts	Tobacco Products Always Secured	Secured Area Prevented Theft	Authorized Employees Only in Secure Area	List of Authorized Access to Keys for Secure Area	Authorized Signatures for Secure Area Keys
Aberdeen	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clear Creek	No	Yes	Yes	Yes	No	Yes	Yes
Dover Air Force Base	No	Yes	Yes	Yes	Yes	No	Yes
Fort Buchanan	No	Yes	Yes	Yes	Yes	Yes	No
Fort Detrick	No	Yes	Yes	Yes	Yes	No	Yes
Fort Eustis	No	Yes	Yes	Yes	Yes	No	Yes
Fort Lee	No	Yes	Yes	Yes	Yes	Yes	Yes
Fort Monmouth	No	Yes	No	Yes	No	Yes	Yes
Fort Myer	No	No	Yes	Yes	Yes	Yes	Yes
Fort Story	No	Yes	Yes	Yes	Yes	Yes	Yes
McGuire Air Force Base	Yes	No	No	Yes	Yes	Yes	Yes
Oakland Army Depot	No	Yes	Yes	Yes	Yes	Yes	
Presidio	No	Yes	Yes	Yes	No	Yes	Yes
Travis Air Force Base	No	Yes	Yes	Yes	Yes	Yes	No
Vint Hill Farms	No	Yes	Yes	Yes	No	Yes	Yes
Wainwright	No	Yes	Yes	Yes	Yes	Yes	Yes
Wright Patterson Air Force Base	No	No	Yes	No	Yes	Yes	No

Appendix F. Calculation of Potential Loss for DeCA

Meat Products

Calculated loss (see Appendix A)	$122,070
Sales for period reviewed	$9.6 million
Loss as a percent of sales	1.27 percent

Estimated annual loss based on FY 1993 meat products sales of $903 million ($903 million x 1.27 percent) is $11.47 million.

Tobacco Products

Calculated loss exceeding tolerance* (see Appendix A)	$91,484
Sales for period reviewed	$13.2 million
Loss as a percent of sales	0.7 percent

Estimated annual loss based on FY 1993 tobacco products sales of $534 million ($534 million x 0.7 percent) is $3.74 million.

Total Estimated Annual Loss

The total estimated annual loss for DeCA's FY 1993 meat and tobacco departments is:

Meat	$11.47	million
Tobacco	3.74	million
Total	$15.21	million

*The tobacco loss equals the amount of the loss we calculated that exceeds an allowable tolerance of 0.5 percent for shrinkage.

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.,2., and 3.	Internal Controls. Increases internal controls over highly pilferable assets and increases awareness of security weaknesses.	Funds put to better use. Safeguarding valuable merchandise could result in savings of $5.2 million (Commissary Resale Stocks 97X4930.5K00)

Appendix H. Organizations Visited or Contacted

Defense Agencies

Defense Commissary Agency, Fort Lee, VA
East Service Center, Petersburg, VA

Commissary Stores

Aberdeen Proving Ground, MD
Dahlgren Naval Surface Warfare Center, VA
Dover Air Force Base, DE
Fort Buchanan, PR
Fort Detrick, MD
Fort Eustis, VA
Fort Hood I, Clear Creek, TX
Fort Hood II, Wainwright, TX
Fort Lee, VA
Fort Monmouth, NJ
Fort Myer, VA
Fort Ritchie, MD
Fort Story, VA
Little Creek Amphibious Base, VA
McGuire Air Force Base, NJ
Moffett Field Naval Air Station, CA
Oakland Army Depot, CA
Patuxent River Naval Air Station, MD
Presidio of San Francisco, CA
Roosevelt Roads Naval Station, PR
Travis Air Force Base, CA
Vint Hill Farms, VA
Walter Reed Army Medical Center, Washington, DC
Wright-Patterson Air Force Base, OH

Appendix I. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Personnel and Readiness)
Comptroller of the Department of Defense
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
  National Security and International Affairs Division, Technical Information Center
  National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues

Non-Defense Federal Organizations (cont'd)

National Security and International Affairs Division, Military Operations and Capabilities Issues

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Panel on Morale, Welfare and Recreation, Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

REPLY TO ATTENTION OF

JUL 26 1994

IR

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Draft Audit Report on Controls Over Management of Meat and Tobacco Products at Selected Commissary (Project No. 3LA-2002.05)

Reference: DoDIG Memorandum, June 8, 1994, SAB.

Per your request in referenced memorandum, attached are our comments to the recommendations, monetary benefits, and the internal control weaknesses addressed in Part I of subject report.

RICHARD E. BEALE, JR.
Major General, USA
Director

Attachment:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Draft Audit Report on Controls Over Management of Meat and Tobacco Products at Selected Commissary (Project No. 3LA-2002.05)

Recommendation 1. Revise procedures in Defense Commissary Agency Directive 40-3, "Operations - Meat Department," to require commissary store managers to compare the monthly physical inventory values for the meat department to the balances in the Automated System for Army Commissaries or the Standard Finance System.

Action Taken. Partially concur. DeCA Directive 70-6 requires the Record Of Operations, DeCA Form 40-10, be reconciled to the SBCJ before it is finalized and forwarded to Region/Headquarters. DeCA's Management Assistance and Training teams have been instructed to put additional emphasis on this reconciliation. After the SBCJ is reconciled to the DeCA Form 40-10 by the commissary, the SBCJ is forwarded to the Service Center. The Service Centers then reconcile the SBCJ to the Voucher Register and General Control (VRGC), the output from the Automated System for Army Commissary (ASAC) and the AVK 619, Monthly Status of Inventory Account, and the output of the Standard Finance System (STANFINS).

Recommendation 2. Revise Defense Commissary Agency Directive 70-6, "Financial Procedures for Commissary Management Support Center," to require commissary store managers to take monthly counts of tobacco products and other high-dollar inventory items and compare the results to the Automated System for Army Commissaries or the Standard Finance System records. Defense Commissary Agency Directive 70-6 should also require store managers to develop loss data for specific categories of products, such as cigarettes, to be used in monitoring losses.

Action Taken. Partially concur. As a result of a previous DoDIG audit, DeCA is testing maintaining accountability over tobacco. Based on the results of the test, a decision will be made by October 1, 1994 on the feasibility to extend tobacco accountability beyond the test phase. One of the results of conducting tobacco accountability is development "of loss data" which becomes the basis for action to identify sources of loss and combat these problems. For reasons discussed regarding procedures in recommendation 1, DeCA will compare monthly tobacco accountability results only to SBCJ and not directly to ASAC or STANFINS. Procedures on tobacco accountability will be added to chapter 23 of DeCAD 70-16 if the decision is made to implement the procedures within DeCA.

Recommendation 3. Require regional management personnel to monitor compliance with established internal controls and establish plans to train management support center personnel in DeCA accounting policies and procedures, such as the correct preparation of DeCA Form 40-10.

Action Taken. Partially concur. DeCA Headquarters has continuously emphasized in correspondence and at various meetings and conferences that DeCA regions must monitor store activities more closely to ensure compliance. DeCA policies and procedures, internal controls, and training of MSC personnel remain a high command priority.

A MSC training team made visits to the regions in August, 1993, to train on the revised DeCA Directive 70-6. In early 1994, regions began forming teams to make site visit and provide "cluster-type" training to all stores in the respective region. DeCA Headquarters has formed Management Assistance and Training teams (MAT teams) that are currently making site visits to provide assistance in all phases of store operations to include MSC training.

Additionally, as a result of previous site visits, DeCA MAT team personnel have revised DeCA Form 40-10 with testing of the revised form due to begin by August 1994.

Monetary Benefits. The audit report sites $5.2M in potential monetary benefits as a result of this audit. This is not accurate since benefits are claimed based on projected losses without regard to projected gains. Accounting procedures require that actual losses be offset by actual gains. Therefore, projected losses should be reduced to $2.8M which would be the potential monetary benefits.

Internal Control Weaknesses. We concur that internal control weaknesses existed in the areas addressed in the report and actions are being taken to correct these areas. The statement in the report that meat and tobacco products were not assessable units in the Internal Management Control Program at DeCA is not correct. The commissary meat department is part of the assessable unit inventory for DeCA.

Audit Team Members

Shelton R. Young
Robert J. Ryan
Walter R. Loder
Samuel D. Brister
Joseph A. Powell
Ellen P. Hamm
Sharon S. Jarrett
Virginia G. Rogers
Cheryl D. Smith