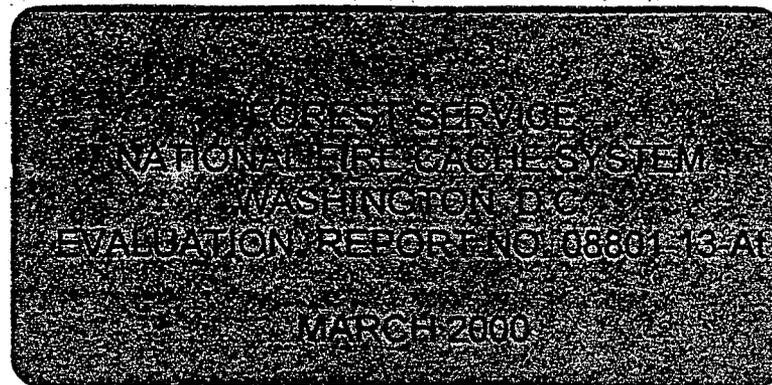




United States
Department of
Agriculture

Office of Inspector General



Evaluation Report

FOREST SERVICE
NATIONAL FIRE CACHE SYSTEM
WASHINGTON D C
EVALUATION REPORT NO 08801-13-A1

MARCH 2000

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
SOUTHEAST REGION
301 WEST PEACHTREE STREET NW SUITE 2328
ATLANTA GA



UNITED STATES DEPARTMENT OF AGRICULTURE



OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: **MAR 31 2000**

REPLY TO

ATTN OF: 08801-13-At

SUBJECT: Forest Service National Fire Cache System

TO: Mike Dombek
Chief
Forest Service

ATTN: Vincette Goerl
Deputy Chief
Office of Finance

SUMMARY

This report contains the results of our evaluation of Forest Service's (FS) activities associated with two of the nine national fire caches (Missoula and Redding) it manages. Your February 29, 2000, response to the draft report is included as an exhibit with excerpts incorporated into the relevant sections of the report. Our review disclosed several internal control weaknesses which were cited in our prior audit report.¹ The internal control weaknesses were that the physical inventory counts and adjustments to perpetual inventory records were not documented and key duties relating to the physical custody of inventory items were not separate from the maintenance and control of inventory records. We also found that (1) fire cache operations had not been reviewed in recent Fire and Aviation Management activity reviews, (2) FS officials did not follow established standards for maintenance and inspection of meals ready to eat (MRE) and medicines contained in prepositioned mobile cache vans, and (3) fire cache managers who were responsible for fire equipment and supplies did not verify that excessive fire loss/use was investigated and corrective actions were taken. These conditions were present because FS' instructions either did not provide adequate guidance or were not followed. As a result, FS has no assurance that the two fire caches with inventories valued at \$14.7 million were properly accounted for and safeguarded against loss or unauthorized use. We discussed these issues with the responsible FS Washington office official who agreed with our findings.

¹ OIG Audit Report No. 08099-107-SF, Firefighting Inventory and Property Control, dated January 31, 1991.

BACKGROUND:

There are 11 National Fire Equipment Systems - National Interagency Support Caches. FS manages nine fire caches and the U.S. Department of the Interior's Bureau of Land Management manages the other two. The fire caches provide equipment and supplies to wildland fire incidents throughout the Nation. Fire cache managers maintain equipment and supply levels in accordance to their fire support plans. As of September 30, 1998, the 11 caches' inventories were valued at about \$67 million. The value of FS' nine fire caches was about \$40 million. The value of the Missoula, Montana, and Redding, California, fire caches was \$11.1 and \$3.6 million, respectively.

OBJECTIVES:

Our objectives were to evaluate FS' (1) controls over fire caches' inventories and (2) procedures for fire loss/use reports.

SCOPE AND METHODOLOGY:

Our review covered activities related to two of the nine FS managed fire caches for the 1998 fire season; however, other periods were reviewed as necessary. Fieldwork was conducted at the National Interagency Support Caches at Missoula, Montana, and Redding, California; Mendocino National Forest, Willows, California; and Lolo National Forest, Missoula, Montana. The Redding fire cache was selected because the responsible FS Washington office official is stationed there. The Missoula fire cache was selected because it has the largest FS cache inventory. The national forests were selected based on the size and number of fire incidents. We conducted a physical count of 44 judgmentally selected cache items (e.g., shirts) to verify inventory balances. The items were judgmentally selected based on adjustments made after inventory counts, sensitivity of the inventory item, and value. There were about 1,000 inventory items for the Redding fire cache and about 2,000 for the Missoula fire cache. In addition, we reviewed selected expenditures from three fire incidents to verify fire loss/use tolerance rates. We also interviewed FS officials regarding procedures used for maintaining physical inventories and making inventory adjustments. This review was conducted in accordance with Quality Standards for Inspections as developed by the President's Council on Integrity and Efficiency, dated March 1993.

DETAILS:**Physical Inventory Counts and Adjustments to Inventory Records Were Not Documented**

The two fire caches did not use inventory count sheets on a consistent basis to document physical inventory counts nor did they reconcile actual inventory counts with perpetual inventory records. This was reported in our prior audit report. FS instructions still do not

describe sufficient detail or provide adequate instructions on how physical inventories should be conducted and documented, or how to reconcile and document adjustments to perpetual inventory records as a result of a physical inventory count. As a result, the two fire caches made about \$9.2 million in adjustments to perpetual inventory records based on the 1998 fire season physical inventory count without proper documentation and approval from the appropriate FS official.

FS Manual 5161.44, "Cache Inventory and Documentation," effective November 10, 1998 states that "Inventory by physical count and document fire cache inventories on an annual basis." To support the physical count of items recorded during the physical inventory process, FS should use count sheets or tags. The count sheets identifies the item being counted, location(s) of the item, total number of the item counted, the initials or signature of the person conducting the count, and the date the count was performed.

For example, the Missoula fire cache did not use count sheets to document its 1998 fire season physical inventory count. The responsible FS official stated that instead of using count sheets, personnel reported the number of inventory items to him via a two-way radio. He then compared the number of items counted to the related perpetual inventory record or worksheet. The inventory worksheet showed the item number, location, description, unit, and quantity on hand for each item. If there were none or only minor differences (+ or - 10 percent, or under \$150), he would record the result of the inventory counts on the inventory worksheet. For major differences, he had a re-count performed and recorded the results on the inventory worksheet. However, without count sheets there was no evidence to support that the inventory count recorded on the inventory worksheet was the actual physical inventory count taken.

To further exasperate this condition, the two fire caches made adjustments to perpetual inventory records based on physical inventory counts which were not properly documented as described above. Based on the 1998 fire season transaction-by-transaction report, the two fire caches made a total of 1,342 adjustments to about 3,000 inventory items. Our review disclosed that FS officials did not properly document the reason(s) for the adjustments. The documentation for the adjustments at the Missoula fire cache consisted primarily of margin notes (e.g., re-count, no return to stock documentation) on the transaction-by-transaction type report. At both fire caches, neither the transaction-by-transaction type report nor any other source documents were signed or initialed by the FS official making the adjustment. Also, there was no evidence to indicate that the responsible FS official approved the adjustments.

Key Duties and Responsibilities Still Not Separate

At the Redding fire cache, key duties relating to the physical custody of inventory items were not separate from the maintenance and control of inventory records. FS personnel who maintained the fire cache inventory also had access to inventory

records and could make changes to those records. In our prior audit report, we cited the Redding fire cache for this same condition. We reported that warehouse personnel who maintained physical custody of inventory items had access to the inventory record data base and frequently made adjustments to inventory records.

The Redding fire cache responsible official informed us that all full-time personnel had access to the inventory record data base and could make changes. He further stated that he had not separated the duties because the FS manual or handbook does not require it, and he did not believe this to be a problem. However, FS Manual 5162.42 states that key duties of inventory custody and verification are to be separate from inventory recordkeeping.

National Fire Caches Not Included in FS Activity Reviews

The two fire cache operations had not been included in recent Fire and Aviation Management (F&AM) activity reviews. These types of reviews will be helpful in identifying and correcting the conditions we noted in our review. The FS Manual 1410 establishes the FS requirements for management reviews of which activity reviews are the most common. One of the specific objectives of these reviews is to provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Also, FS Manual 1414 states that at a minimum, property inventories and reconciliation procedures should be reviewed.

MRE and First Aid Kits Were Not Inspected

The Redding fire cache was not following established standards for inspecting MRE² and medicine contained in first aid kits that were stored in prepositioned mobile cache vans. Redding fire cache officials cited cost of bringing vans back to the cache and then repositioning them as a factor for not performing the inspections. As a result, in at least one instance, MRE and medicine contained in first aid kits were issued to firefighters beyond their inspection or expiration dates during the 1998 fire season.

MRE - In January 1999, our review disclosed that two prepositioned mobile cache vans issued by the Redding cache had 576 MRE's each with either inspection or test dates of December 1996 and November 1997. Also, we found that on September 2, 1998, a third mobile cache van (No. 8175) containing MRE's with a November 1997 inspection or test date was dispatched to the Garcia fire on the Mendocino National Forest. The fire loss/use report shows that most of the MRE's were consumed during the fire incident. There was no evidence that the MRE's in the three prepositioned mobile cache vans were inspected or tested prior to their issuance.

² FS follows the Fire Equipment Storage and Refurbishing Standards, effective September 1998, prepared by the National Fire Equipment System Refurbishment Standards Task Group.

The fire equipment storage and refurbishing standards established estimated shelf-life for MRE based on various sustained (24-hour average temperature) temperatures. The estimated shelf-life ranges from 1 month at 120 degrees to 96 months at less than 50 degrees. The refurbishing standards also state that prepositioned vans not used in a fire incident will be rotated back to the issue cache for visual inspection and review. The visual inspection for MRE's involves looking at the container for damage, leakage, foul odors, or signs of rodent or insect infestation. Also, the refurbishing standards require periodic inspections for MRE's stored in hot weather, vehicles, mobile cache vans, and fire cache warehouses.

We interviewed the Redding cache manager regarding warehouse conditions and MRE inspection/test dates. The Redding cache manager stated that his warehouse was not temperature controlled and temperatures could reach 90 degrees. Also, he stated that his prepositioned mobile cache vans were stored outside and subject to various temperatures ranging from below freezing to 90 degrees. The cache manager stated that a visual inspection of MRE stored in his warehouse is only performed during the inventory process. Also, he stated that prepositioned mobile cache vans were not rotated back to the fire cache for review and inspection at the end of the fire season. He stated that this was a value-based judgment of comparing the cost of bringing the vans back to the cache and then repositioning them compared to the value of the items being replaced.

When asked about the procedure or method for determining at what point MRE would not be issued, the Redding cache manager stated that he had no specific procedure. MRE's were issued as long as there were no complaints, and if he did not see gas bubbles, leakage, or notice a foul odor.

First Aid Kits - Our January 1999 review disclosed that six preposition mobile cache vans contained first aid kits with medicines that had expiration dates between September 1996 and May 1998. The above cited van (No. 8175) with MRE's issued beyond their inspection or expirations dates also contained first aid kits with medicines that had lapsed expiration dates. Standards for 10-person first aid kits require expiration dates to be checked on an annual basis and expired medicines are required to be disposed. The medicines found in the 10-person first aid kits were aspirin, acetaminophen, povidone iodine swabs, insect sting medicine, and eye wash solution.

The Redding fire cache manager stated that the cache checked first aid kit medicines' expiration dates prior to the beginning of the fire season. The only exception was that they did not inspect and replace expired medicines in first aid kits of prepositioned mobile cache vans, which are not rotated back to the cache.

Fire Loss/Use Procedures Need Improvement

Fire loss/use reports show the amount of firefighting equipment and supplies used and lost during a fire incident and compared these amounts to specified tolerance rates.

FS developed procedures for fire loss/use tolerance rates in response to a recommendation from our prior audit report. FS procedure (FSM 5160.43), effective November 10, 1998, states, that the forest supervisor is the responsible official for ensuring that reviews of fire loss/use rates are conducted, followup investigations are made, and corrective actions are taken. Also, the FS procedure (FSM 5151.45) requires the forest supervisor to document findings and recommend appropriate followup actions if fire loss/use tolerance rates have been exceeded. The fire caches issue fire loss/use reports to national forests for related fire incidents. Fire loss/use reports and recommended followup actions are filed with fire records for related fire incidents at the national forest.

Erroneous Reports - The fire loss/use reports issued to national forests by the Redding fire cache provide erroneous component loss/use rates because non-compatible data was used. Specifically, individual component items (e.g., sleeping bags) contained in a kit (e.g., mobile cache support van) were issued as a kit. However, when returned, they were checked back in as individual components. Consequently, the fire loss/use report showed more sleeping bags returned than issued, when in fact, there was a significant loss. Without an accurate report, significant losses may go undetected.

National Forest Fire Loss/Use Followup Reports Were Not Reviewed - Fire cache officials who were responsible for maintaining fire equipment and supplies were not required to verify that excessive fire loss/use was investigated and corrective actions were taken. There was no requirement for the forest supervisor to submit the fire loss/use report and recommended followup actions to the responsible fire cache manager for their review and concurrence. As a result, there is no assurance that forest supervisors are conducting the required investigations of excessive fire loss/use and taking meaningful corrective action.

We discussed this issue with the FS official responsible for FS' fire caches and she agreed that the followup reports would be helpful to fire cache managers in determining whether excessive tolerance rates are being investigated and if corrective action would solve the noted problems.

Recommendation No. 1 - Establish guidance for conducting and documenting annual physical counts of FS' fire cache inventories, including reconciliation, documenting adjustments, and the use of count sheets.

FS Response:

In its February 29, 2000, response, FS replied, "The National Interagency Support Cache (NISC) adopted in 1999 a written inventory procedure which is included in the NISC standard operating procedures. This inventory process incorporates reconciliation, documenting adjustments, and the use of count sheets. This procedure was recently implemented for the 2000 NISC inventory. * * *"

OIG Position:

We concur with FS' management decision for this recommendation.

Recommendation No. 2 - Ensure F&AM activity reviews include coverage of FS' fire cache operations and that emphasis is placed on separation of key duties concerning inventory custody and verification from inventory record keeping.

FS Response:

In its February 29, 2000, response, FS replied, "We will add this requirement to our next scheduled F&AM activity review."

OIG Position:

To reach management decision for this recommendation, FS needs to provide us with its review guide for the next scheduled F&AM activity review which includes inventory coverage.

Recommendation No. 3 - Require fire caches to follow established standards for inspecting MRE and medicines contained in first aid kits.

FS Response:

In its February 29, 2000, response, FS replied, "The NISC standard operating procedures already contain standards for these inspections. Through the Interagency Cache Management Plan, caches are required to follow standard operating procedures."

OIG Position:

We concur with FS' management decision for this recommendation.

Recommendation No. 4 - Establish controls to dispose and replace MRE's and medicines that have expired.

FS Response:

In its February 29, 2000, response, FS replied "The new Interagency Cache Business System (ICBS) allows the tracking of expirations dates on MRE's and medicines. This functionality was added to the program in July 1999."

OIG Position:

To reach management decision for this recommendation, FS needs to provide us with documentation to show that the ICBS is tracking expiration dates on MRE's and medicines. Also, FS needs to provide us with instructions that require FS cache personnel to dispose and/or replace expired MRE's and medicines based on the data from the ICBS.

Recommendation No. 5 - Require fire caches to treat individual components of kits as separate items when calculating fire loss/use rates.

Recommendation No. 6 - Require fire cache managers to review and evaluate fire loss/use followup reports prepared by forest supervisors.

FS Response:

In its February 29, 2000, response to the two recommendations, FS replied

The Forest Service has made significant progress in tracking fire loss/use rates. We are in the process of developing the closure which is recommended in number 6. A fire loss team is meeting in Tucson, AZ, the week of February 21, to develop the new process which will be incorporated into Forest Service Manual 5160 by June of 2000.

OIG Position:

To reach management decisions for these two recommendations, FS needs to provide us with the revised FS Manual 5160 which incorporates the new process for tracking fire loss/use rates.

Although we concur with your response for Recommendations Nos. 2, 4, 5, and 6, we can accept management decisions for these recommendations once you provide the additional information as outlined in the OIG Position.

Mike Dombeck

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In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation of the report's recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the cooperation and assistance your staff provided during our evaluation.

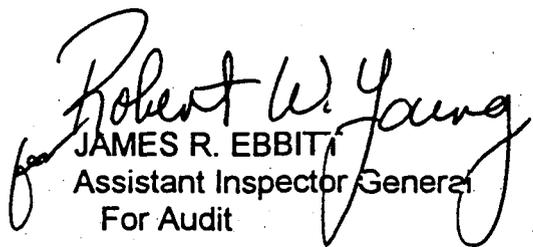

JAMES R. EBBITT
Assistant Inspector General
For Audit

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT



United States
Department
of Agriculture

Forest
Service

Washington Office

14th & Independence SW
P.O. Box 96090
Washington, DC 20090-6090

File Code: 1430

Route To: 5160

Date: FEB 29 2000

Subject: Forest Service National Fire Cache System, Office of Inspector General Report No. 08801-13-At, Actions Completed for Recommendation Nos. 1 through 6

To: James R. Ebbitt
Assistant Inspector General for Audit
Office of Inspector General

We have completed our review of your National Fire Cache System evaluation report issued on January 21, 2000. We agree with the report's summary and recommendations. Enclosed is the Forest Service response to the findings and recommendations for the above Office of Inspector General report.

We appreciate the cooperation extended to us by Scott Spencer and Larry Gene of your staff during the on-site visits. If you have any questions, please contact Linda Washington, Agency External Audit Liaison, at (202) 205-3761.


VINCETTE L. GOERL
Chief Financial Officer
Deputy Chief, Office of Finance

Enclosure

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

Enclosure 1

08801-13-At

United States Department of Agriculture
Forest Service

Office of Inspector General (OIG) Report
Forest Service National Fire Cache System
Report No. 08801-13-At, January 2000

OIG RECOMMENDATION NO. 1: "Establish guidance for conducting and documenting annual physical counts of Forest Service fire cache inventories, including reconciliation, documenting adjustments, and the use of count sheets."

Forest Service Response: The National Interagency Support Cache (NISC) adopted in 1999 a written inventory procedure which is included in the NISC standard operating procedures. This inventory process incorporates reconciliation, documenting adjustments, and the use of count sheets. This procedure was recently implemented for the 2000 NISC inventory. See Enclosure 2 for example.

OIG RECOMMENDATION NO. 2: "Ensure F&AM activity reviews include coverage of Forest Service fire cache operations and that emphasis is placed on separation of key duties concerning inventory custody and verification from inventory record keeping."

Forest Service Response: We will add this requirement to our next scheduled F&AM activity review.

OIG RECOMMENDATION NO. 3: "Require fire caches to follow established standards for inspecting MRE and medicines contained in first aid kits."

Forest Service Response: The NISC standard operating procedures already contain the standards for these inspections. Through the Interagency Cache Management Plan, caches are required to follow standard operating procedures.

OIG RECOMMENDATION NO. 4: "Establish controls to dispose and replace MRE and medicines that have expired."

Forest Service Response: The new Interagency Cache Business System (ICBS) allows the tracking of expiration dates on MRE's and medicines. This functionality was added to the program in July 1999.

OIG RECOMMENDATION NO. 5: "Require fire caches to treat individual components of kits as separate items when calculating fire loss/use rates."

Forest Service Response: The Forest Service has made significant progress in tracking fire loss/use rates. We are in the process of developing the closure which is recommended in number 6. A fire loss team is meeting in Tucson, AZ, the week of February 21, to develop the new process which will be incorporated into Forest Service Manual 5160 by June of 2000.

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

Enclosure 1

08801-13-At

OIG RECOMMENDATION NO. 6: "Require fire caches managers to review and evaluate fire loss/use follow-up reports prepared by forest supervisors."

Forest Service Response: See Recommendation No. 5.

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREST SERVICE

OFFICE OF THE INSPECTOR GENERAL
FOREST SERVICE NATIONAL FIRE CACHE SYSTEM
AUDIT REPORT NO. 08801-13-At
JANUARY, 2000

ENCLOSURE 2

National Interagency Support Cache
Inventory Procedure

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

National Interagency Support Cache Policy Inventory Management

Physical Inventory 1999

The National Interagency Support Cache is fully accountable to establish and maintain control of personal property under its custodianship for the purpose of supporting fire management activities. The Supply Management Officer is the position to which the line officer responsibility and authority is delegated by the Director of Fire, Aviation and Air.

Physical inventories will be conducted on a periodic basis for the purposes of internal control and reconciliation with official records. Periodic inventories will consist of a formal annual inventory (FSM 5161.41) and intermittent spot checks as needed. Inventory records will be adjusted in reconciliation with physical counts, but only if fully documented, justified and approved.

Inventories will adhere to procedural rules as established in this document. Full documentation will be produced, filed and retained for 6.5 years. The documentation will include information about the participants, resultant counts, discrepancies if any, documentary research, reconciliation, justification for adjustments and any subsequent action plans developed.

Objectives

1. Verify inventory records in the perpetual inventory database.
2. Identify losses or discrepancies if any.
3. Update inventory records to reflect true physical count.
4. The total cache inventory value will be within $\pm 1\%$ of the value calculated immediately prior to commencement of the physical inventory.
5. Zero tolerance in discrepancy for accountable property, sensitive property and operational equipment.

Time Frames

1. Formal inventory will be executed no later than January 31 of each year, prior to any update of standard costs.
2. Random spot checks may be ordered by the management team, for any reason at any time.
3. Standard cost changes will be applied after the annual inventory is completed and all required adjustments to inventory records made. The change will be preceded and followed by execution of stock status reports to identify/document the effect.

Discrepancy Tolerance

Tolerance is set at a level deemed by cache management as reasonable risk in the course of ordinary business. Causes of such discrepancy may include misplacement, minor miscounts, incorrect recording or procedural errors. Pilferage, theft or misconduct by employees or others are not included as ordinary risks.

The maximum discrepancy of the total cache inventory value between the physical count and database record is $\pm 1\%$. Accountable property and operational equipment will have zero discrepancy tolerance.

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

National Interagency Support Cache Policy Inventory Management

Physical Inventory 1999

By line item, the maximum acceptable discrepancy is $\pm 10\%$, not to exceed the average daily employee cost (\$151 for 1999).

Sampling

Inventory sampling is set at 100% for the annual inventory.

Spot checks will employ a 5% random sampling (based on the number of product lines). 100% sampling will be required if any unexplainable discrepancy is discovered.

Documentation

Physical inventories will be fully documented. The filed package will consist of all reports, checklists, adjustment records, discrepancy notes, approvals and action plans. Documentation will be signed and dated by the writer. Documentation will include, but not limited to:

1. Stock status reports before and after the inventory.
2. Written instructions for performing the inventory.
3. Checklists for the initial and final counts and all recounts between.
4. Discrepancy notes identifying probable cause and/or missing documentation.
5. Supply Management Officer's review and approval of adjustments.
6. Report of all adjustments transacted.
7. List of participants, tasks and roles performed.
8. Preventative or corrective action plans if required.

Accountability

The Supply Management Officer is the custodian of all cache property, and as such retains full accountability. Responsibility and accountability for accurate physical inventory and operational documentation is delegated to the Operations Team. Responsibility and accountability for accurate database management and recording of documentation is delegated to the Administrative Team.

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

National Interagency Support Cache Policy Inventory Management

Physical Inventory 1999

Organization

Supply Management Officer	
Cache Operations Manager	
Packaging/Shipping Leader	
Repair/Refurbishment Leader	
Returns/Recycling Leader	
Materials Handler - QA	
Materials Handler (Seasonal)	
Cache Administrative Manager	
Supply Clerk - General	
Supply Clerk - Transportation	
Supply Clerk - Receiving	

Roles and Responsibilities

Supply Management Officer

1. Ultimately accountable for the inventory.
2. Review the results of the inventory with management team.
4. Approve adjustments to inventory records.
5. Determine need for further action, and develop action plan(s) in collaboration with Cache Management Team.

Cache Operations Manager

1. Direct and supervise the physical count. Request recounts until satisfied that results are final.
2. Record the inventory results of all counts conducted.
3. Reconcile the physical count with database records via documentation explaining the source of discrepancies. Locate or identify missing documentation which support database entries or lack thereof. Engage the aid of the administrative team in any documentary research if needed.
4. Calculate required adjustments and document need.
5. Present inventory results, required adjustments and supporting documentation to Supply Management Officer for approval.

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

National Interagency Support Cache Policy Inventory Management

Physical Inventory 1999

Cache Operations Team

1. Execute the physical counts as assigned. Team members guarantee the accuracy of counts.
2. Assist documentation research if needed.

Cache Administration Manager

1. Assist documentation research if needed.
2. Direct the final adjustments to inventory records after the Supply Management Officer's approval.
3. Produce the post-inventory reports, which minimally consist of stock status, inventory valuation and correlated transaction reports.
4. Package and file all of the associated documentation.

Procedures

1. The Cache will be closed for business during the inventory. The one exception will be limited to emergency orders only.
2. The Administrative (AD) Team will:
 - a. Execute a stock status report to establish the pre-inventory count and ending inventory value for the previous accounting period.
 - b. Retrieve the starting inventory value for the same accounting period, adjusted for standard cost updates at the beginning of the period.
 - b. Produce a master list of items to be inventoried, describing the items and expected inventory and providing spaces for recording inventory results.
 - c. Produce inventory checklist(s) for operations employees to enter physical counts.
3. The Operations Manager will:
 - a. Write up instructions for conducting the physical count.
 - b. Make inventory assignments and review instructions with counters.
 - c. Enter inventory count on master list, calculates the discrepancy and compares with target figure.
 - 1) If line item discrepancies are found and exceed the tolerance:
 - a) The manager requests a recount, providing a recount checklist.
 - b) The recount is recorded on a checklist, signed and dated, then reported to the manager.
 - c) The operations manager will enter the recount figure on the master list and redetermine the discrepancy.
 - d) If the discrepancy persists, the manager compares the value against the value tolerance.

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

National Interagency Support Cache Policy Inventory Management

Physical Inventory 1999

- (1) If less than the tolerance level, the manager records the count as final, and determines a probable cause.
 - (2) Otherwise, the Operations manager must conduct research and/or other appropriate investigative procedures to determine the cause.
 - (3) When the cause(s) of a discrepancy is determined, the master list is notated and the final count recorded.
- 2) If line item discrepancies are found and do not exceed the tolerance, the manager will simply document the fact.
- d. The final count is recorded and validated as true and correct.
 - e. All documentation is gathered.
 - f. The inventory is declared completed. The final count and documentation package handed over to the Supply Management Officer.
4. **Stock Counters:**
- a. Study and understand the inventory instructions.
 - b. Conduct inventory in assigned areas, record counts on checklists, and report findings to the operations manager.
 - c. Sign and date each checklist completed.
5. **The Supply Management Officer:**
- a. Reviews the inventory documentation and recommended adjustments. Any missing or incomplete documents will be requested from the Operations Manager.
 - b. If any adjustment is not approved, the SMO will request additional recounts and/or documentation.
 - c. Approves adjustments to inventory records. (Requires signature.)
 - d. Turn inventory documentation package with approved adjustments to the Administrative Manager
6. **The Administrative (AD) Team:**
- a. Enters the approved adjustments.
 - b. Upon completion of the final adjustments, a post-inventory stock status report will be executed. An inventory value report will also be executed to document the starting inventory value for the current accounting period.
 - c. A transactions report will be executed to document the adjustments.
 - d. If, in the course of discrepancy research, any documents of previously unrecorded transactions were discovered then subsequently entered, a transaction report will be executed to capture those and include with the documentation package.
 - e. Create the final documentation package, clearly mark and file.
7. **The Cache Management Team** will review the inventory results and develop any action plans to mitigate future discrepancies, which may include policy or procedural changes.

EXHIBIT - FS RESPONSE TO THE DRAFT REPORT

National Interagency Support Cache Policy Inventory Management

Physical Inventory 1999

Note On Updating Standard Costs

Standard cost updates should be made after the annual physical inventory in order to discount the effect on inventory value for the previous accounting period. Stock status or inventory value reports will be produced immediately before and immediately after the update. The factor of change will be applied to the starting inventory value determined in Procedure 6b. This recalculated starting value will then be directly comparable to the ending inventory value calculated in Procedure 2a for the current accounting period.

Notes About Adapting This Policy

Organizational and position references should be modified to match with the specific organizational structure of the cache. For example, the Supply Management Officer may be titled Cache Manager.

Copies of this report have been distributed to:

Chief, FS

Attn: Agency Liaison Officer

(10)

Office of the Chief Financial Officer

(1)

Director, Planning and Accountability Division