

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

DISPOSAL OF SERVICEABLE REPARABLE ASSETS

Report No. 97-168

June 19, 1997

Department of Defense

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Acronyms

ATCOM
GAO

Aviation and Troop Command
General Accounting Office



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



June 19, 1997

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Evaluation Report on Disposal of Serviceable Repairable Assets
(Report No. 97-168)

We are providing this evaluation report for information and use.

We provided a draft of this report on April 15, 1997. Because the report contained no recommendations, no comments were required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the evaluation staff. Questions on the evaluation should be directed to Ms. Debra B.D. Murphy, Evaluation Program Director, at (703) 604-8788 (DSN 664-8788) or Lieutenant Colonel Martin J. Sierocki, United States Air Force, Evaluation Project Manager, at (703) 604-8766 (DSN 664-8766). See Appendix C for the report distribution. The evaluation team members are listed inside the back cover.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-168

(Project No. 7LH-0002)

June 19, 1997

Disposal of Serviceable Repairable Assets

Executive Summary

Introduction. This evaluation was a follow up on Inspector General, DoD, Report No. 95-303, "Management of Common Use Repairable Items in the Department of Defense," September 1, 1995. The report disclosed that in August 1993, the Army Deputy Chief of Staff for Logistics directed a programming change to the Army's credit return policy logic that resulted in the inappropriate disposal of serviceable assets (reparable, condition code A), and the return of unserviceable assets (reparable, condition code F) for the same national stock numbers.

As a result of the credit return policy, from March 1994 to January 1995, the Aviation and Troop Command directed the disposal of \$44 million of serviceable assets while directing the return, for credit, of \$8 million of unserviceable assets with the same national stock numbers.

The report recommended that the Army install procedures at all Army inventory control points to prevent the disposal of serviceable assets in lieu of unserviceable assets. The Army concurred with the recommendation, and stated it would review the credit return policy and develop the Army position by the second quarter of FY 1996.

Evaluation Objective. The evaluation objective was to determine whether the Army had implemented procedures at Army inventory control points to prevent the disposal of serviceable assets while retaining the same national stock numbered unserviceable assets. We did not review the management control program as it applied to this objective because it was evaluated in Inspector General, DoD, Report No. 95-303.

Evaluation Results. The Army had not implemented the procedures that would have prevented the automatic disposal of serviceable assets and the retention of the same national stock numbered unserviceable assets. As a result, at the Aviation and Troop Command alone, the dollar value of disposals of serviceable assets had grown from \$44 million to \$104 million from January 1995 through November 1996. In addition, the unserviceable asset returns for the same national stock numbered items had grown from \$8 million to \$191 million for the same period. On January 22, 1997, we brought this matter to the attention of the Deputy Chief of Staff for Logistics, Department of the Army, and suggested that prompt action was needed to correct the problem. The Army initiated the policy changes and procedural corrections

on February 28, 1997 (see Appendix B). While the Army has taken positive steps to correct the problems, we stress that not giving credit for serviceable turn-ins until fiscal year 1998, could cause a backlog of serviceable asset returns.

Management Comments. Because this report contained no recommendations, written comments were not required, and none were received.

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Part I - Evaluation Results

Evaluation Background

In August 1993, the Army Deputy Chief of Staff for Logistics directed a programming change to the Army's credit return program logic for reparable assets. The purpose of the change was to comply with Office of the Secretary of Defense policy to reduce investment in inventory by the primary inventory control activities. The programming change, however, had the undesired effect of establishing an automated decision to dispose of serviceable reparable assets and retain unserviceable reparable assets with the same national stock numbers. With the automated decision process, item managers were omitted from the disposal decision process. The programming change affected all five Army inventory control points and resulted in the inventory control points directing Army field units to inappropriately dispose of serviceable assets¹ and retain unserviceable assets² (same national stock numbers).

Prior Audit Reports. The Inspector General, DoD, issued Report No. 95-303, "Management of Common Use Repairable Items in the DoD," September 1, 1995. The report stated that because of the change in the credit return program, the Aviation and Troop Command (ATCOM) was directing Army field units to inappropriately dispose of serviceable assets valued at \$44 million and retain \$8 million in unserviceable assets (same national stock numbers). The report recommended that the Army Materiel Command install procedures at Army inventory control points to prevent the disposal of serviceable assets and retention of unserviceable assets. The Army concurred with the recommendation and indicated that the needed correction would be implemented by the second quarter of FY 1996.

The General Accounting Office (GAO) issued Report No. GAO/NSIAD-96-3 (OSD Case No. 1043), "ARMY INVENTORY - Budget Request for Spare and Repair Parts Are Not Reliable," December 1995. The report stated that the Army had systems change request processing problems and policy problems that affected its logistical systems. GAO stated, "The effect of these problems is that serviceable inventory can be sent to disposal while unserviceable inventory is being returned to the depots." GAO also stated that according to ATCOM records, from March through September 1994, ATCOM disposed of \$43.5 million of serviceable assets at the same time that \$8.5 million of

¹For the purposes of this report, serviceable assets refers to excess reparable condition code A assets.

²For the purposes of this report, unserviceable assets refers to excess reparable condition code F assets.

unserviceable assets, of the same kind, were returned to the depots. By September 1995, ATCOM had disposed of \$62 million of serviceable assets. Its officials said that a systems change request was initiated in November 1994 to correct the programming logic problem. However, the request did not receive funding approval because it violated Department of the Army policy, although the estimated cost to implement the systems change request would be less than \$20,000. GAO recommended that the Secretary of Defense direct the Secretary of the Army to proceed with the pending systems change request to correct the data problems. DoD agreed with the report findings and partially agreed with the recommendation. DoD stated that instead of the Secretary of Defense directing the Army to proceed with the systems change request, the Army would be requested to present a request for funding for the system changes to the Corporate Configuration Control Board at the Joint Logistics Systems Center. GAO considered the DoD reply responsive.

Evaluation Objectives

The evaluation objective was to determine whether the Army Materiel Command installed procedures at Army inventory control points to prevent the disposal of serviceable assets and the retention of the same national stock numbered unserviceable assets. Appendix A discusses the evaluation scope and methodology. We did not review the management control program as it applied to this objective because it was evaluated in Inspector General, DoD, Report No. 95-303.

Disposal of Serviceable Assets

The Army Materiel Command had not implemented the systems change request to correct its credit return program logic for reparable assets that would have prevented the automatic disposal of serviceable assets and the retention of unserviceable assets (same national stock numbers). The Army Logistics Systems Support Center, St. Louis, Missouri, had not programmed the systems change request because of other high priority work and personnel shortages. As a result of not programming the needed systems change request, at ATCOM alone, the dollar value of directed disposals of serviceable assets had increased from \$44 million to \$104 million from January 1995 through November 1996, while unserviceable asset returns (same national stock numbers) increased from \$8 million to \$191 million during the same period. We brought this to the attention of the Deputy Chief of Staff for Logistics, and action was taken to correct the problem.

Policy Requirements

Instructions on the transfer of DoD property to the Defense Reutilization and Marketing Office for reutilization, sale, or disposal are contained in Army Regulation 725-50, "Requisitioning, Receipt, and Issue System," November 1995, chapter 7-11. The instructions are designed to preclude needed materiel from being transferred to the Defense Reutilization and Marketing Office. The instructions require item managers and the next higher echelon of supervision to review transfers to prevent the disposal of needed materiel. When the Army reprogrammed its automated credit return logic for reparable assets to enable Army field level units to send excess serviceable assets directly to disposal, item managers were taken out of the decision process. Consequently, the Army inappropriately directed serviceable reparable assets to disposal, while returning the same national stock numbered unserviceable assets for repair.

Implementation Delays and Impediments to Systems Change

The Army Materiel Command had not implemented the systems change request to correct its credit return program logic for reparable assets. In response to Inspector General, DoD, Report No. 95-303, the Army stated that it would review its credit and materiel return policy and develop the Army position by the second quarter of FY 1996. However, the Army did not change its policy. The ATCOM and the Army Materiel Command made three requests to the Army Deputy Chief of Staff for Logistics to change the credit return policy to prevent the disposal of serviceable assets and the return of unserviceable assets (same national stock numbers) to no avail. Further, managers at the Army

Logistics Systems Support Center stated that the systems change request was not implemented because of staff reductions, competing higher priority programming requirements, and the lack of funds to contract out for a systems change request.

Dollar Value of Serviceable Asset Disposals and Unserviceable Asset Retention Grows

Because the Army did not fix its credit return logic, the dollar value of inappropriate serviceable asset disposals at ATCOM increased from \$44 million to \$104 million from January 1995 through November 1996 while unserviceable asset returns with the same national stock numbers had grown from \$8 million to \$191 million during the same period. As a result, unnecessary repairs and procurements occurred that could have been avoided by a timely fix to the credit return logic. We did not quantify the dollar value of unnecessary repairs and procurements because of the limited scope of the evaluation.

Management Actions

In a January 22, 1997, memorandum, we apprised the Army Deputy Chief of Staff for Logistics of the continuing condition identified in the prior audit, and that prompt corrective action was needed. In the February 21, 1997, response, the Army Deputy Chief of Staff for Logistics stated that the policy change and needed systems corrections implementation would occur by February 28, 1997 (see Appendix B). On March 21, 1997, we confirmed that the policy change and systems corrections were implemented; however, we stress that if the Army delays giving credit for serviceable turn-ins until fiscal year 1998, such action could cause a backlog of serviceable asset returns.

Part II - Additional Information

Appendix A. Evaluation Process

Scope

We followed up only on Recommendation 2.a. of Inspector General, DoD, Report No. 95-303 to determine whether the Army had implemented the procedures that would prevent the automatic disposal of serviceable assets and retention of the same national stock numbered unserviceable assets. To accomplish this, we reviewed correspondence and systems change requests dating from January 1995 through October 1996, which identified problems that resulted from the change in credit return policy logic as well as proposed systems change requests to fix the logic problem.

Methodology

Data Gathering. We interviewed and collected correspondence, reports, and policies from ATCOM managers, inventory managers, and supply systems analysts to determine whether the problem had been fixed, and to assess the financial impact on the Army's materiel management process. We collected status information on the systems change request from managers at the Army Logistics System Support Center.

Use of Computer-Processed Data. To determine the financial impact resulting from the Army not fixing its credit return program logic since the prior audit, we reviewed and analyzed national stock number document control file data that ATCOM generated from its Commodity Command Standard System. Those files contained disposal and materiel return transactions from March 1994 through November 1996. From that data, ATCOM personnel determined the dollar value of directed disposals of serviceable assets and unserviceable asset returns. To the extent that we reviewed the computer-processed data, we concluded that it was sufficiently reliable to be used in meeting our evaluation objective.

Evaluation Period and Standards. This program evaluation was performed from November 1996 through March 1997, in accordance with standards issued and implemented by the Inspector General, DoD.

Contacts During the Evaluation. We visited or contacted individuals and organizations within the DoD. Further details are available on request.

Appendix B. Army Actions

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 **DEPARTMENT OF THE ARMY**
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
500 ARMY PENTAGON
WASHINGTON, DC 20310-0500 

21 FEB 1997

DALO-SMP

MEMORANDUM THRU
DEPUTY CHIEF OF STAFF FOR LOGISTICS *Canary 24 Feb 97*
~~DIRECTOR OF THE ARMY STAFF~~ *3/12*
DIRECTOR OF THE ARMY STAFF *FEB 27 1997*
ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT) *Eric A. Orsini*
Deputy Assistant Secretary of the (Logistics) CAS (LOG)

FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Systems Fix Needed for the Army Reparable Asset Credit Return Program--INFORMATION MEMORANDUM

1. This is in response to IG, DOD memorandum of 22 Jan 97 (Tab A), which requested status of system change request to fix the Army reparable asset credit return logic. Tab A deleted
2. The U.S. Army Materiel Command (USAMC) has submitted the needed systems corrections, and implementation of the changes will occur by 28 February 1997. USAMC's response is at Tab B. The following Army policy applies in executing the return of serviceable items through the Army materiel returns program. Tab B deleted
 - a. Serviceable items will be returned to depots if they stratify into retention levels. Since items that stratify into potential excess are sent to the Defense Reutilization and Marketing Office (DRMO) from depots, items that fall into this category will be directed to local disposal. Units will be granted credit starting in FY 98. Until that time, they will be instructed to return item without credit.
 - b. Prior to directing a serviceable item to local disposal, depot assets will be checked for condition code of on-hand assets. If unserviceable reparable items are on hand, the serviceable item will be returned and a like number of unserviceable items sent to the DRMO from wholesale stocks.

DASA(L) # *0254*

Appendix B. Army Actions

DALO-SMP
SUBJECT: Systems Fix Needed for the Army Repairable Asset Credit
Return Program--INFORMATION MEMORANDUM

This "exchange" will maximize the return, credit, and use of our serviceable repairable items and eliminate unnecessary expenditure of repair dollars.



A. DAVID MILLS
Director of Supply
Management
Directorate for Supply
and Maintenance

2 Encls

CF:
VCSA
CDR, USAMC
SAAG-PMF-E
DALO-ZXA
DALO-RMI

USAMC - Concur, Ms. Karen Mangum/697-9030 (by Fax)
OASA(I,L&E) - Concur, Mr. Briggs/697-8003 (conference)

Ms. Tutor/697-7061

Enclosures
deleted

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Department of the Army

Commander, Army Materiel Command
Deputy Chief of Staff for Logistics
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

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Inspector General, Defense Intelligence Agency

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House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Evaluation Team Members

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

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