REPORT
NO. 91-027 December 31, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Survey of the DoD Reclamation Program (Project No. 0LE-5010)

Introduction

This is our final report on the survey of the DoD Reclamation Program for your information and use. The survey was conducted from May through August 1990 at the request of the Assistant Secretary of Defense (Production and Logistics). The objectives were to determine if the DoD Reclamation Program was operating effectively and efficiently and to evaluate applicable internal controls established by each DoD Component.

Background

Reclamation is the process of removing required serviceable and economically repairable components and parts from potential DoD excess or surplus property and returning the materiel to the proper supply or user activity. It is DoD policy to use reclamation instead of procurement or repair to meet its requirements when it is timely and economical to do so. Reclamation is also used to satisfy critical requirements or to fill requirements when new procurement is not practical.

DoD policy is contained in DoD Directive 4160.26, "DoD Reclamation Program," March 11, 1985. A DoD Reclamation Work Group, comprised of representatives from the Military Departments and various DoD agencies and chaired by the Air Force, has been established to maintain and update reclamation policies and procedures and provide oversight for the program.

Scope of Survey

We reviewed ongoing reclamations of excess end items by each of the Military Departments. Our review included selected high

dollar value reclamations of Army, Navy, and Air Force aircraft; aircraft spare engines; and missiles at the Aerospace Maintenance and Regeneration Center, Davis-Monthan Air Force Base, Arizona. We also reviewed the reclamation of Navy ships and submarines and the reclamation of Army helicopter and fixed-wing aircraft. Because the Army does not have an established reclamation program for other than aviation-type items, we reviewed the potential for reclamation of parts from other types of excess end items, such as the M151 Jeep and M60 Tank, at the Army's Tank and Automotive Command. The activities visited or contacted are listed in Enclosure 1.

This economy and efficiency survey was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. This report contains no monetary benefits.

Internal Controls

We reviewed internal controls established to ensure that parts needed to satisfy inventory objective requirements were reclaimed from excess end items. We took selected samples of items designated for recovery on each of the Military Departments reclamation projects reviewed and determined the items' inventory requirements. Even though we found some instances where reclamation would cause an item's inventory position to exceed the Approved Force Acquisition Objective, generally, the reclamation would not result in the inventory position exceeding the maximum retention level. The internal controls applicable to the survey objectives were deemed to be effective in that no material deficiencies were disclosed by the survey.

Related Report Coverage

Office of the Assistant Inspector General for Special Programs, (currently Departmental Inquires) Case Number H89L45053003, "Waste of Government Resources in the Sinking of Surplus Navy Vessels," June 2, 1989, addressed improvements needed in the stripping of ships in the National Defense Reserve Fleet. The Navy disagreed with the conclusions presented in the report but established a pilot program for the commercial stripping of ships programmed for sinking.

Air Force Audit Agency's "Report on the Followup Audit on Inactive Aircraft Retention Factors Used in Spare Engine Computations (Project 0126122)," March 12, 1990, stated that spare engine requirements used to support inactive (stored) aircraft were overstated and engines installed on excess inactive aircraft were not considered as available resources in spare

engine computations. As a result, the engines were not considered available for reclamation of needed component parts.

The report recommended that the Air Force Logistics Command make excess spare and installed engines available for inter-Service use, Federal agencies, Foreign Military Sales, or Reclamation. The Air Force agreed to initiate corrective actions.

Discussion

Substantial amounts of assets were being reclaimed by the Military Departments. During FY 1989, the Military Departments obtained assets valued at over $300 million through the reclamation of excess aviation items.

The Navy and Air Force obtained significant quantities of assets through the reclamation of excess aerospace vehicles, and displayed inter-Service cooperation through the sharing of assets available from the reclamations of their excess end items. For example, the Air Force submitted requirements for and received assets to satisfy critical parts requirements from the reclamation of Navy A7E aircraft. In another instance, the Air Force coordinated with the Navy to determine what assets could be reclaimed and used by the Navy before the destruction of the Air Force's Ground Launched Cruise Missiles (GLCM's). As a result, the Navy satisfied Sea Launched Cruise Missile parts requirements valued at over $143 million by reclaiming components from GLCM's scheduled to be destroyed. The GLCM's are being destroyed in accordance with the terms of Intermediate Range Nuclear Force treaty on elimination of missiles.

The Navy established a program to strip (reclaim) assets from excess ships and submarines. We performed a limited review of one ongoing ship reclamation (Ex-U.S.S. Coral Sea) and one submarine reclamation (Ex-U.S.S. Monroe). It appeared that the Navy's process of identifying assets to satisfy requirements of a number of different Navy activities was generally effective in ensuring that needed assets were reclaimed and provided to the requesting activity. However, our review disclosed that one major Navy activity, the Ships Parts Control Center (the Center), did not participate in the advance strip [1] of the Ex-U.S.S. Coral Sea. As a result, even though the Center had prepared a listing of required assets valued at about $9 million, many of these assets were reclaimed and provided to other Navy

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[1] This was the initial strip of the ship. The Navy has planned another more complete reclamation of the craft before its disposal.

activities. We notified the Center and the Center informed us that it would initiate action to obtain the assets from the receiving activities.

Because of the Office of the Assistant Secretary of Defense's (Production and Logistics) concern on the potential for expanding and automating the Army's reclamation program, we concentrated our Army survey efforts on these issues. Based on the Materiel Readiness Support Activity's review entitled, "Study on the Feasibility of Expanding the Army Reclamation Program," March 1990, the Army concluded that the Army did not need to expand its reclamation program beyond Army aircraft and aircraft engines, and it was not economical to automate its reclamation program to accommodate the inter-Service data exchange on assets potentially reclaimable from excess Army end items.

We found no reason to doubt the conclusions of the Army's study. Our review of selected excess end items at the Tank and Automotive Command disclosed that Army procedures require the removal of major items, such as weapons and communications equipment, just before excessing an end item. We found no cases where items that had not been removed or reclaimed from an excess end item could have been used to satisfy a current requirement. Because the Army managed the end item and the major component parts of the end item, there was minimal potential for other Military Department or Defense agency inventory management activities to acquire parts from the reclamation of an Army end item.

The Office of the Assistant Secretary of Defense (Production and Logistics) was also concerned with the Defense Logistics Agency (DLA) increasing the reclamation of its managed spare and repair parts from excess Military Department end items. DLA manages a substantial number and value of parts for Military Department end items. However, we could not readily determine the potential for DLA to obtain parts from the DoD Reclamation Program because of condition coding practices of the Military Departments' reclaiming activities . Because the majority of DLA-managed items were classified as nonrepairable, consumable items, the DLA supply centers generally recover or accept returned parts into the inventory only if the items are in a serviceable (A) condition. The reclaiming activities frequently do not have the capability to evaluate the condition of a reclaimed part; therefore, they tend to assign condition codes showing material as unserviceable. For example, the Navy routinely condition codes all reclaimed items as unserviceable. Because of the unserviceable condition code, DLA supply centers would not accept such items. Our discussion with senior management personnel at the Office of the Assistant Secretary of Defense (Production and Logistics) disclosed that this issue had

been presented to the DoD Reclamation Work Group and was being studied. Accordingly, we have no recommendation concerning this issue, but we may include this subject in future audit plans.

Based on our positive observations of the DoD Reclamation Program (the Program) and our discussions with management personnel at the Office of the Assistant Secretary of Defense (Production and Logistics), we concluded that additional audit work by the DoD Office of the Inspector General to review the Program is not warranted at this time. Overall, the Program was being run in a generally effective and efficient manner.

We provided a draft of this report to the addressees on October 3, 1990. Because there were no recommendations, no comments were required of management, and none were received. Since there are no unresolved issues, written comments to this report are not required.

We appreciate the courtesies and cooperation extended to the audit staff. The audit team members are listed in Enclosure 2. Copies of the final report will be distributed to the activities listed in Enclosure 3. If you desire to discuss this final report, please contact Mr. James Helfrich, Program Director, or Mr. John Issel, Project Manager, at (614) 238-4141 (AUTOVON 850-4141).

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Washington, D.C.

Department of the Army

Deputy Chief of Staff for Logistics, Washington, DC
U.S. Army Materiel Command, Washington, DC
U.S. Army Armament, Munitions and Chemical Command, Rock Island, IL
U.S. Army Aviation Systems Command, St. Louis, MO
U.S. Army Communications-Electronics Command, Fort Monmouth, NJ
U.S. Army Tank and Automotive Command, Warren, MI
Materiel Readiness Support Activity, Lexington, KY
Mississippi Aviation Classification and Repair Activity Depot, Gulfport, MS
U.S. Property and Fiscal Office, Worthington, OH

Department of the Navy

Chief of Naval Operations, Washington, DC
Naval Air Systems Command, Washington, DC
Naval Sea Systems Command, Washington, DC
Naval Supply Systems Command, Washington, DC
Space and Naval Warfare Systems Command, Washington, DC
Naval Aviation Supply Office, Philadelphia, PA
Ships Parts Control Center, Mechanicsburg, PA
Commander in Chief, U.S. Atlantic Fleet Headquarters Norfolk, VA
Commander, Naval Air Forces, U.S. Atlantic Fleet Norfolk, VA
Director, Cruise Missiles Project and Unmanned Aerial Vehicles, Washington, DC
Naval Sea Systems Command Detachment, Portsmouth, VA
Naval Inactive Ship Maintenance Facility, Portsmouth, VA
Naval Aviation Depot, Operations Center, Southeast Facility, Solomons, MD
Naval Supply Center, Norfolk, VA
Planning and Engineering for Repairs and Alterations Warehouse, Chesapeake, VA
Ex-U.S.S. Albany (CG-10)
Ex-U.S.S. Coral Sea (CV-43)

Department of the Air Force

Deputy Chief of Staff, (Program and Resources), Washington, DC
Air Force Logistics Command, Wright-Patterson Air Force Base, OH
Air Force National Guard Bureau, Washington, DC
Ogden Air Logistics Center, Hill Air Force Base, UT
Oklahoma City Air Logistics Center, Tinker Air Force Base, OK
Sacramento Air Logistics Center, McClellan Air Force Base, CA

ACTIVITIES VISITED OR CONTACTED (Continued)

San Antonio Air Logistics Center, Kelly Air Force Base, TX
Warner Robins Air Logistics Center, Robins Air Force Base, GA
Aerospace Maintenance and Regeneration Center, Davis-Monthan Air Force Base, AZ

Department of the Marine Corps

Deputy Chief of Staff (Installations and Logistics), Washington, DC
Marine Corps Headquarters, Plans and Policy, Washington, DC
Marine Corps Logistics Base, Albany, GA

Defense Logistics Agency

Defense Reutilization and Marketing Service, Battle Creek, MI
Defense Reutilization and Marketing Region, Blacklick, OH
Defense Construction Supply Center, Columbus, OH
Defense Electronics Supply Center, Dayton, OH
Defense General Supply Center, Richmond, VA
Defense Industrial Supply Center, Philadelphia, PA

AUDIT TEAM MEMBERS

Shelton R. Young, Director, Logistics Support Directorate
James B. Helfrich, Program Director
John K. Issel, Project Manager
Walter J. Carney, Team Leader
David L. Luce, Team Leader
Brian L. Henry, Auditor
Suzette L. Luecke, Auditor
Ronald L. Meade, Auditor