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

REPORT
NO. 90-082

June 8, 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 Materiel Retention Policy and DoD Storage Capacity (Project No. 9LD-0060)

Introduction

This is our final report on the Survey of Materiel Retention Policy and DoD Storage Capacity for your information and use. Comments on a draft of this report were considered in preparing the final report. We made this survey from August through October 1989 at the request of the Assistant Secretary of Defense (Production and Logistics). The survey objectives were to determine if retention policies and practices for secondary items were resulting in significant warehousing and storage costs or storage capacity problems and if the retention policies should be relaxed. DoD secondary item wholesale inventories totaled $103.1 billion at the end of fiscal year 1988, about one-third of which was not needed to meet current stock requirements or was excess to authorized retention levels.

Scope of Survey

A number of audits of the Military Departments' materiel retention policies were in-process, or had recently been completed, at the time of our survey. The audits are discussed under the Audit Coverage section of this report. After discussions with the audit agencies and logistics management officials involved, we limited our survey to an evaluation of the Military Departments' and Defense Logistics Agency's (DLA) initiatives to address inventory growth and a review of recent changes in secondary item retention programs. 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. Since our work was terminated before the audit phase, statistical sampling

techniques were not used and internal controls were not evaluated. A list of activities visited or contacted is in Enclosure 6. We did not visit Army and Air Force wholesale supply managers or storage depots because of extensive audit coverage by the General Accounting Office (GAO) and the Army and Air Force audit agencies. Data from the two storage sites visited are contained in Enclosure 1. This report claims no monetary benefits.

Background

The Office of the Assistant Secretary of Defense (Production and Logistics) expressed concerns with the implementation of materiel retention policies and the effect that these policies had on DoD storage capacity. As a result of these concerns, the Assistant Secretary requested that the Assistant Inspector General for Auditing determine whether the retention policies should be relaxed.

The DoD materiel retention policies are contained in DoD Directive 4100.37, "Retention and Transfer of Materiel Assets," May 24, 1988. Since an interim change adopting a more conservative retention policy was made in November 1985, the DoD retention policy has provided that serviceable or economically reparable assets with application to a weapon system in active use by U.S. Forces shall be retained and that the retention limits shall be subject to shelf life and storage limitation considerations. The intent of the policy change was to preclude the premature disposal of needed items. In 1984, the Air Force identified instances of concurrent disposals and procurements of the same items. As a result, in July 1984, the Assistant Secretary of Defense (Manpower, Installations and Logistics) imposed a temporary DoD-wide moratorium on the disposal of DoD assets. The Deputy Secretary of Defense issued a memorandum, "Retention and Disposal of DoD Assets," on August 17, 1984, that directed the DoD Components to review materiel retention, disposal, and utilization procedures and to certify that the procedures were in compliance with DoD policy. Subsequently, the Deputy Secretary of Defense lifted the moratorium on disposal actions, and the revised DoD retention policy was issued. The DoD Components interpreted this revised policy as mandating the retention of all weapons related secondary items as long as the applicable weapon system or related end item was in use, regardless of the quantity or essentiality of the materiel on hand, or the population or phase-out status of the supported end item.

Audit Coverage

At the time of our survey, four reports had recently been issued on the retention and inventory growth of secondary items. Air Force Audit Agency Report No. 8126124, "Inventory

Controls - Stock Retention Management of Recoverable Assets," June 15, 1989, evaluated the adequacy of inventory controls over excess centrally procured investment items stored at four of the five air logistics centers. The audit found that procedures did not always identify obsolete stocks for disposal; assets were unnecessarily retained because disposal freeze codes were assigned; and, in some instances, customer countries did not require items held for foreign military sales. GAO Report No. GAO/NSIAD-90-100 (OSD Case No. 8216), "Defense Inventory: Growth in Air Force and Navy Unrequired Aircraft Parts," March 6, 1990, addressed the growth in secondary item inventories of aircraft parts, especially growth in unrequired inventory not related to increased military capability. The GAO found that the major reasons for the growth in unneeded stocks were the reduction of demand due to system modifications, phase out of aircraft, overestimation of usage rates, reduction of war reserves and safety levels, improvement in reliability, and reclassification of consumable items as reparable. GAO Report No. GAO/NSIAD-90-111 (OSD Case No. 8114), "Defense Inventory: Growth in Ship and Submarine Parts," March 6, 1990, identified signficant unrequired inventory and inactive item candidates for deletion from the Navy inventory. Among the reasons cited for unrequired inventory were the replacement and phase out of equipment as part of the Navy's fleet modernization efforts and unanticipated changes in requirements. GAO Report No. GAO/NSIAD-90-68 (OSD Case No. 8219), "Army Inventory: Growth in Inventories that Exceed Requirements," March 22, 1990, identified the retention of inventory for equipment being phased out, major modernization efforts, price increases, and inaccurate requirements data as contributors to the recorded growth of unrequired inventory.

Three other reviews of materiel retention are in-process. GAO completed a survey, Project No. 393349, "Army Retention Level Stocks," at the Army Aviation Systems Command and has expanded this review to an audit phase. The objectives are to determine if the Army Aviation Systems Command is unnecessarily retaining materiel and the effect that this has on storage capacity and the related costs of holding and maintaining the materiel. GAO has also initiated Project No. 398021, "Utilization of Warehouse Space," to review the use of space at Navy and DLA storage depots, including a review of the inventory control systems. No decision has been made regarding any work under this project in the Army and Air Force. The Army Audit Agency completed a survey, Project No. N9302C, "Dormant Wholesale Stocks," and is proceeding with the audit phase. The survey phase included a selected Army depot and wholesale managers. This comprehensive audit is being done at the Army wholesale managers to determine if the Army retention policy has contributed to the growth of dormant stocks in the wholesale supply system.

Discussion

DoD Directive 4100.37 separates secondary inventories into six categories. Enclosure 2 defines the inventory categories and details the wholesale supply systems' stock levels for these categories for fiscal years 1984 through 1988. Two categories represent current stock requirements for war reserve and peacetime operating requirements. Three categories represent retention stocks that are not needed to meet current requirements, but are held to satisfy potential future requirements and possible contingencies. The remaining category represents stocks that are potentially excess. During the 5-year period ended 1988, total secondary item inventory increased from $70.5 billion to $103.1 billion. During this same period, stock requirements increased from $47.7 billion to $64.1 billion, retention stocks increased from $12.3 billion to $24.0 billion, and potential excess increased from $7.1 billion to $9.6 billion. The recorded value of wholesale supply systems' stocks categorized as retention and potential excess increased at twice the rate of stocks categorized as current requirements over this period.

Military Department studies have attributed major segments of the inventory growth to weapon systems' modernization and replacement programs and the accumulation of assets being held for contingency purposes and to support declining programs. Combined with the conservative retention policy, this has resulted in significant storage space problems at DoD depots. DoD Regulation 4145.19-R-1, "Storage and Materials Handling," September 15, 1979, sets the desirable level for operational flexibility for DoD depots at 85-percent occupancy of net storage space. Enclosure 3 shows the amount of total and occupied square feet of covered depot storage space available that was reported as of June 1987, June 1988, and June 1989. The square footage of occupied space at the reported storage depots has exceeded the optimum level of 85 percent and has shown a continuous rise during this time period. The Navy, Air Force, and DLA reported occupancy rates ranging from 92 to 98 percent. The Army reported an overall occupancy rate of 82 percent, but pending closures and consolidations are expected to cause an increase in this percentage.

Beginning in 1987, and based on management and congressional concerns on the growth of DoD secondary item inventories, including unrequired (long supply) stocks, the DoD Components initiated efforts to examine their implementation of the DoD retention policy. The focus of these efforts has been to apply more discrete retention criteria to different segments of the inventory, to reduce the extent of long supply stocks, and to ameliorate the existing storage capacity conditions. At the conclusion of our survey, each of the Components, except the

Army, had made, or was in the process of making, changes to its retention programs. An Army proposed study of materiel retention policies and procedures was being held in abeyance because of funding constraints.

The Naval Supply Systems Command had developed an inventory management improvement program to identify and address the factors contributing to the growth of secondary item stocks, with a specific focus on materiel held with no forecasted demand through the budget year. The objectives of the program were to reduce long supply stocks, to preclude the introduction of new levels of long supply stocks, and to address the underlying causes of past growth. Major causes of long supply stock growth identified by the Navy included assets held to support declining programs and assets made obsolete by equipment and end item modifications. In January 1990, the Navy issued revised retention policy in Naval Supply Instruction 4500.13, "Retention and Reutilization of Materiel Assets." The revised policy provided detailed retention and disposal criteria for wholesale, intermediate, and consumer supply levels. For wholesale inventories, separate retention criteria were established for high essentiality, weapons related items, and economic retention criteria were to be applied to other demand based items. The Assistant Secretary of Defense (Production and Logistics) authorized the Navy to implement the revised policy as a pilot program to evaluate its effectiveness on improved management of inventory.

In January 1989, the Navy wholesale supply managers began reviewing items that were identified by storage depots as having little or no demand and were taking up large amounts of storage space. The review had positive results. For example, at the Aviation Supply Office (ASO), a review of 2,525 items valued at $558 million resulted in disposal action involving 885 items (35 percent) valued at $135 million (24 percent). Also, the ASO review of the March 1989 asset stratification reports resulted in disposal actions for 3,033 items valued at $543 million. Management officials reviewed and approved these items before their disposal, and documentation supporting the disposal actions was maintained in ASO supply files. Overall, the value of materiel involved in disposal actions initiated at ASO increased from $249 million in fiscal year 1988 to over $744 million in fiscal year 1989.

The Air Force Logistics Command (AFLC) had adopted several initiatives to reduce the impact of inventory growth and storage capacity problems. Special teams were established to review storage space constraints at the Air Logistics Centers and to identify actions needed to relieve overcrowding. In addition, monthly warehouse surveillance reviews were established. During the first 6 months of 1989, these reviews resulted in disposals that freed over 600,000 cubic feet of covered space and

280,000 cubic feet of uncovered space. AFLC has directed the removal of freeze codes, which preclude the review of items for potential disposal, from items that support weapon systems that have been in the supply system for specified periods. Special analyses have been done to identify items held only to support foreign military sales systems and to justify retention decisions for this materiel.

In September 1988, AFLC issued "Air Force Retention and Transfer Policy Message Number 2," which contained a revised retention policy for secondary items. The policy provided specific wholesale and retail retention levels for all secondary items (consumables, reparables, and equipments). For the wholesale system, the revised policy required that retention and disposal decisions consider the quantity and estimated service life of the supported equipment or end item. The policy also provided criteria for materiel applicable to weapon systems used solely by foreign military sales customers, but without recent issue activity. Air Force officials advised us that they were updating guidance contained in Air Force Regulation 67-97, "Retention and Transfer Policy," June 7, 1985, to incorporate these policy changes.

In October 1987, DLA developed new criteria for retention and disposal decisions for items managed by the Defense Supply Centers. A major impetus in developing the new criteria was concern over storage space constraints in DLA's depots. Separate retention limits were established for demand based items related to designated weapon systems, for other demand based items, and for non-demand based insurance and numeric stockage objective items1/. Pending inclusion of the revised criteria in the DLA's automated systems, the Defense Supply Centers have concentrated their efforts on inactive item reviews. These reviews identify items with no demand history for the most recent 6 years for possible disposal action, subject to the retention criteria established for related weapon system items. For example, at the Defense Industrial Supply Center, inactive item reviews are performed semiannually. The February 1989 review included over 134,000 depot line items and identified 48,800 line items for disposal. A separate review of items deleted from the system, but still showing depot reported assets, resulted in disposal authorizations for over 21,000 depot line items. For the first 9 months of fiscal year 1989, the Defense Industrial Supply Center reported that the value of materiel involved in disposal actions totaled $42.7 million, more than double the fiscal year 1988 value.

1/ Insurance and numeric stockage objective items are required to be stocked, but do not have sufficient frequency of demand to be classified and managed as demand based items.

At the conclusion of our survey, and in conjunction with logistic initiatives contained in the Defense Management Review, the Office of the Assistant Secretary of Defense (Production and Logistics) was developing a revised DoD retention policy for secondary items. Because the existing policy resulted in high levels of inactive inventory and significant storage problems, the revised policy adds criteria to consider the population and projected remaining life of weapon systems being supported and the essentiality of the materiel relative to the supported weapon systems. The DoD Components are being tasked to ensure that effective management oversight is maintained so that items that are disposed of meet the established criteria.

Conclusion

Because of the recently concluded and ongoing audits by GAO and the Military Departments' audit agencies and because of the pending policy changes, additional audit work by the Office of Inspector General is not warranted at this time. We will include this subject in future audit plans to evaluate the changes in the DoD Components' retention policies and the economy and efficiency of materiel retention programs. This will include, where applicable, an evaluation of the management actions taken in response to the prior audit reports.

Management Comments

On February 6, 1990, a draft of this report was provided to the Assistant Secretary of Defense (Production and Logistics); the Assistant Secretary of the Army (Financial Management); the Assistant Secretary of the Navy (Financial Management); the Assistant Secretary of the Air Force (Financial Management and Comptroller); and the Director, Defense Logistics Agency. Since the draft report contained no findings or recommendations and claimed no monetary benefits, management comments were not required. However, comments were received from the Director of Supply and Maintenance, Office of the Army Deputy Chief of Staff for Logistics, on March 29, 1990, and from the Comptroller, Defense Logistics Agency, on April 16, 1990.

The Army stated that although the proposed study of materiel retention policies and procedures was not funded, it recently began making substantive changes in the retention program. In November 1989, the Office of the Army Deputy Chief of Staff for Logistics approved an Army Materiel Command plan to dispose of secondary item assets identified as numeric retention stocks that supported end items being phased out of the inventory. In December 1989, the Deputy Secretary of Defense approved an Army Defense Management Review proposal to reduce retention level stocks. The Defense Logistics Agency suggested some narrative

changes to the draft report and these have been incorporated into the report. The complete texts of managements' responses are provided in Enclosures 4 and 5.

The courtesies extended to the audit staff are appreciated. Enclosure 7 lists the audit team members. If you have any questions concerning this report, please contact Mr. Charles Hoeger or Mr. William King at our Philadelphia field office on (215) 737-3881 (AUTOVON 444-3881). Any comments to this report should be provided within 60 days of the date of this memorandum. Copies of the report are being provided to the activities listed in Enclosure 8.

E R Jones

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

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

SURVEY DATA AT STORAGE SITES VISITED

Naval Supply Center, Norfolk. Warehouses at the Naval Supply Center, Norfolk, were filled to capacity (98.1 percent occupancy). Based on available records, reported storage occupancy data were reasonably accurate. Additional commercial storage space was not being leased. Low and no demand items were being segregated from active items to provide for warehousing efficiencies. The Supply Center periodically reported large volume, slow moving Navy-managed items to the Aviation Supply Office (ASO) and the Ships Parts Control Center (SPCC) for possible disposal action. From February through July 1989, the Supply Center reported 600 items to ASO and 500 items to SPCC for review. ASO authorized disposal actions for 335 items and SPCC authorized disposal actions for 65 items. An additional 190 items with unserviceable assets were submitted to ASO and SPCC, and 182 of these items were authorized for disposal.

Defense Depot-Mechanicsburg. Warehouses at the Defense Depot-Mechanicsburg were filled to capacity (99.8 percent occupancy). Based on available records, reported storage occupancy data were reasonably accurate. Low and no demand items were segregated from active items, when practical, to provide for warehousing efficiencies. Commercial storage space was leased by the Depot in April 1988 for a 3-year period to store materiel because of rehabilitation and modernization projects involving six warehouses on the installation. Costs for the leased space were $500,000 in fiscal year 1989. An automated integrated materiel complex, using four of the six warehouses, is expected to be fully operational in the third quarter of fiscal year 1990. The complex will have approximately 550,000 bin and bulk storage locations.

DEPARTMENT OF DEFENSE SECONDARY ITEMS SUPPLY SYSTEM INVENTORIES

(Billions of Dollars)

Fiscal Year	Stratified Assets: Current Stock Requirements 1/ AFAO	AFRS	Total	Unrequired Retention Stock 2/ ERS	CRS	NRS	Total	Potential Excess 3/	Total Stratified Assets	Total Unstratified Assets 4/	Total Inventories
1984	$47.5	$0.2	$47.7	$5.4	$ 6.0	$0.9	$12.3	$7.1	$67.1	$3.4	$ 70.5
1985	60.3	0.3	60.6	6.6	10.8	2.0	19.4	5.6	85.6	7.2	92.8
1986	54.3	0.2	54.5	7.5	14.6	1.7	23.8	5.5	83.8	4.7	88.5
1987	59.0	0.3	59.3	7.7	12.9	3.3	23.9	5.0	88.2	5.8	94.0
1988	63.8	0.3	64.1	9.7	10.7	3.6	24.0	9.6	97.7	5.4	103.1

Source: Supply System Inventory Summary, Department of Defense, Directorate of Supply Management Policy, December 30, 1988

1/ Current Stock Requirements:

- AFAO - Approved Force Acquisition Objective - Materiel authorized for peacetime acquisition for U.S. Forces, foreign military sales, and other authorized requirements.
- AFRS - Approved Force Retention Stock - Materiel required to support Approved Forces from D-Day until production meets required support.

2/ Unrequired Retention Stock:

- ERS - Economic Retention Stock - Materiel retained based on true economic criteria.
- CRS - Contingency Retention Stock - Materiel retained for possible contingencies including military contingencies, foreign military demand, and other general contingencies.
- NRS - Numeric Retention Stock - Materiel retained because disposal is not feasible or economical.

3/ Potential Excess - Materiel that is excess to all authorized retention levels.

4/ Total Unstratified Assets - Materiel not included in automated supply records. These assets include in-transits from procurement, in-transits between storage locations, non-reporting shipboard supplies, contractor-held, temporarily in use or on loan, or other asset data.

ENCLOSURE 2

STORAGE SPACE UTILIZATION AND OCCUPANCY
TOTAL COVERED STORAGE

	TOTAL SQUARE FEET (000)				
Reporting Date	DoD	Army	Navy	Air Force	DLA 1/
June 30, 1987	125,576	80,985	21,298	8,146	15,147
June 30, 1988	121,073	76,343	21,968	8,056	14,706
June 30, 1989	121,775	74,957	21,632	7,269	17,917

	OCCUPIED SQUARE FEET (000)				
Reporting Date	DoD	Army	Navy	Air Force	DLA
June 30, 1987	103,850	63,072	19,631	7,803	13,344
June 30, 1988	103,364	61,964	20,307	7,813	13,280
June 30, 1989	105,704	61,710	20,014	7,117	16,863

	PERCENT OCCUPIED				
Reporting Date	DoD	Army	Navy	Air Force	DLA
June 30, 1987	82.70	77.88	92.17	95.79	88.10
June 30, 1988	85.37	81.17	92.44	96.98	90.30
June 30, 1989	86.80	82.33	92.52	97.91	94.12

	ACTIVITIES REPORTING				
Reporting Date	DoD	Army	Navy	Air Force	DLA
June 30, 1987	93	57	24	5	7
June 30, 1988	92	56	24	5	7
June 30, 1989	93	55	24	5	9

Source: Department of Defense Storage Space Utilization and Occupancy Report, U.S. Army Materiel Command Packaging, Storage, and Containerization Center, June 30, 1989

1/ Defense Logistics Agency

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

DALO-SMP-S 9050130L

COL MCCOY/EXECUTIVE/79039 for Robert D. Shadley, 04, 65

MEMORANDUM THRU DEPUTY ~~CHIEF OF STAFF FOR LOGISTICS~~ ~~DIRECTOR OF THE ARMY STAFF~~ 26 MAR 1990
JOYCE C. FULTON, MAJ, GS, ADAS
ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT) 3/28/90

FOR DIRECTOR OF LOGISTICS SUPPORT, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Eric A. Orsini
Deputy Assistant Secretary of the Army
(Logistics)

SUBJECT: Draft Report on the Survey of Materiel Retention Policy and DoD Storage Capacity (Project No. 9LD-0060)--INFORMATION MEMORANDUM

1. This memorandum provides comments and additional information related to subject draft report dated February 6, 1990 (Tab A). (See Audit Note Below)

2. Although the Army's proposed study of materiel retention policy and procedures was not funded, we recently began making substantive changes in our retention program. This reflects a commitment to improved efficiency by reducing the accumulation of inapplicable inventory taxing the supply system.

3. The following actions have been taken:

a. In November 1989, the ODCSLOG approved an AMC plan to dispose of secondary item assets stratifying to Numeric Retention Stock (NRS) for commodities/end items being phased out of the inventory (Tab B).

b. An initiative to reduce retention level stocks was included in the Army Defense Management Review (DMR) proposal (DMRD 927). The DEPSECDEF approved DMRD 927 in December 1989. ODCSLOG then recommended DoD retention policy (DoDI 4100.37) be changed to facilitate implementation (Tab C).

c. In January 1990, ODCSLOG requested AMC begin immediate disposal of NRS materiel within existing policy (considering storage limitations), as well as plan automated system changes eliminating stratification to NRS (Tab D).

4. In addition to the above actions, there are a number of DMR-related initiatives in this area. We are continuing to work with the OSD staff to improve our retention policies/practices. Our proactive approach recognizes changing conditions and seeks

Audit Note: Draft report not included in this final report.

to enhance the Army supply system without risking the gains we have made in avoiding premature disposal actions.

4 Encls

JACKSON E. ROZIER, JR.
Major General, GS
Director of Supply
and Maintenance

CF:
ASA(FM)
SAIG-PA
DALO-RMM
Cdr, AMC, AMCSM-MS/AMCIR-A

ASA(I,L&E) - Concur, Mr. Croom/X75727 (by phone)
AMC (AMCSM-MSR) - Concur, MAJ Hartsfield/274-9808 (by phone)

George Carlisle/X52209

DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON DC 20310-0500

DALO-SMP-S

30 NOV 1989

MEMORANDUM FOR COMMANDER, U.S. ARMY MATERIEL COMMAND, ATTN: AMCSM-MSM, 5001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333-0001

SUBJECT: Disposal of Assets Stratifying to the Numeric Retention Level

1. Reference your memorandum of 13 October 1989, SAB (Tab A).

2. Although we concur with the plan you have outlined, we feel the following concerns need to be addressed:

a. Items identified by generic category codes should have some type of End Article Applications check to ensure retention of enough materiel to support remaining "in-use" applications.

b. Procurement and repair program requirements must be projected though the entire supply control study period.

c. Release of unserviceable materiel as surplus/excess should precede and be separate from release of serviceables.

3. Request the revised procedures be documented at the HQ AMC level. Internal controls should be established at each MSC to ensure that this procedural change has cognizance at all command levels, and that all excess decisions are reviewed and documented in a manner consistent with AR 710-1 guidelines.

4. With current high visibility of budget and inventory issues, every effort to preclude inappropriate disposal must be made. This program should be closely monitored by HQ AMC, with quarterly status reports provided this office. In addition, please provide copies of your implementing guidance and internal controls. ODCSLOG point of contact is George Carlisle, 695-2209.

5. NCOs - Leadership for Logistics.

FOR THE DEPUTY CHIEF OF STAFF FOR LOGISTICS:

Boyd E. King

BOYD E. KING
Colonel, GS
Chief, Supply and Maintenance
Policy Division

CF:

TAB B

5001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333-0001

13 OCT 1989

AMCSM-MSM

MEMORANDUM FOR HQDA, ATTN: DALO-SMP-S, WASH DC 20310-0540

SUBJECT: Disposal of Assets Stratifying to the Numeric Retention Level

SMCS

1. References:

a. Message, AMCSM-MSM, 281300Z Aug 89, SAB.

b. Message, DALO-SMP-S, 071700Z Sep 89, SAB.

c. Meeting, between DALO-SMP and AMCSM personnel, 13 Sep 89, SAB.

2. Above references support efforts to initiate disposal of secondary items in all condition codes, stratifying to the Numeric Retention Level. During reference 1c, HQDA personnel requested development of parameters to ensure adequate procedural safeguards exist prior to implementation among the commodity commands.

3. Disposal actions will initially be executed against the M151 vehicles, Generic Category Code "NB", scheduled for time phased retirements through FY96 as per the Tactical Wheeled Vehicle Modernization Plan. A special study run against the identified items will recommend disposal for those items meeting all of the following conditions:

a. Any amount above $100,000 of assets (serviceable and unserviceable) held in Numeric Retention Level.

b. No projected procurements.

c. On-hand unserviceables in excess of projected repair programs.

d. Reduce dollar value in para 3a above any amount above to $50,000 and re-execute during the following month

e. Reduce dollar value to any amount held in Numeric Retention, and re-execute during the following month.

4. Keying on specific commodity/weapons families will protect against uncontrolled, automated disposals, while the phased dollar value reductions will minimize any surge of disposal release orders and resulting workload at the depots and DRMOs. Similar methodology will be applied to other systems nearing the end of service life, or otherwise identified for reduction in the force structure, such as the M60 and M48 series tanks, the M880 series truck, and the M551, Armored Reconnaissance Airborne Assault Vehicle (ARAAV).

5. Request notification of your consent to the above NLT 1 Nov 89.

AMCSM-MSM
SUBJECT: Disposal of Assets Stratifying to the Numeric Retention Level

6. Point of contact for this action is John Hacker, AMCSM-MSM, Commercial 274-9768, AUTOVON 284-9768.

FOR THE COMMANDER:

JAMES C. JENKINS
Colonel, GS
Chief, Supply Division
ODCS for Supply, Maintenance,
and Transportation

CF:
CDRS,
TACOM, ATTN: AMSTA-F, WARREN, MI 48397-5000
DESCOM, ATTN: AMSDS-SA, CHAMBERSBURG, PA 17201-4170

DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON, D.C. 20310-05

DALO-SMP 00500424

COL MCCOY/EXECUTIVE/7903

MEMORANDUM THRU ~~DEPUTY CHIEF OF STAFF FOR LOGISTICS~~ 30 JAN 1990
DIRECTOR OF THE ARMY STAFF
ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)

FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)

SUBJECT: Retention and Transfer of Materiel Assets--ACTION MEMORANDUM

1. Purpose. To request policy change to support Defense Management Review Decision (DMRD) 927.

2. Discussion.

a. Paragraphs D1a and D1f, DoD Directive 4100.37.

(1) Approval of DMRD 927 included the Army's initiative to eliminate Numeric Retention Stock (NRS) and retain only materiel which stratifies to either economic or contingency retention stock. This impacts the policy requirement to retain assets that are serviceable or economically repairable and have application to a weapon system in active use by U.S. forces.

(2) The Army will implement procedures at the wholesale level Commodity Command Standard System (CCSS) to eliminate stratification of materiel to NRS by Oct 90.

b. Paragraph D3a, DoD Directive 4100.37.

(1) Approval of DMRD 927 included the Army's initiative to eliminate reporting and return of not repairable, low dollar value excess stock returns when the extended price of the line is less than $50.00 within the Army.

(2) The Army will implement procedures to not report and return excess stocks with an extended line item value of $50.00 or below in Standard Army Information Management Systems (STAMIS) at the intermediate level. The Army will implement procedures at the wholesale level to not accept reported declarations of excess with an extended line item value of $50.00 or less. These procedures will become effective in Army STAMIS, effective Oct 90.

TAB C

c. These changes to DoD Directive 4100.37, Retention and Transfer of Materiel Assets, will be extremely effective cost avoidance measures and fully supportive of DMRD 927.

3. Recommendation. That DoD Directive 4100.37 be changed to reflect DMRD 927 decisions.

Signed

JACKSON E. ROZIER, JR.
Major General, GS
Director of Supply
and Maintenance

CF:
CDR, AMC (AMCSM-MSM)

OASA(I,L&E) - Concur, Mr. Croom/X75727 (Conference)
AMC (AMCSM-MSM) - Concur, Mr. Tiernan/274-9785 (by phone)

Earl Stinson/52795

WASHINGTON, D.C. 20310-05

19 JAN 1990

DALO-SMP-S

MEMORANDUM FOR COMMANDER, U.S. ARMY MATERIEL COMMAND, ATTN: AMCSM-MS, 5001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333-0001

SUBJECT: Defense Management Review Decision (DMRD)

1. One of the actions approved within DMRD 927 was an Army proposal to reduce repair parts inventory by elimination of Numeric Retention Stock (NRS). Additionally, AMC has initiated several other actions in recent months aimed at alleviating the buildup of long supply assets adversely impacting depot storage capability. These efforts should be accomplished synchronously.

2. DMRD 927 will not exempt the Army from the DoD requirement to retain serviceable and economically reparable material when the end item/weapon system remains in active use. As a result of the DMRD initiative, the Army will seek relief from this policy. However, stock supporting in-use systems and now stratified to NRS may be eliminated due to AMC-identified storage limitations.

3. Implementation of the DMRD initiative is in the best interest of the Army. Request you integrate the DMRD initiative with related actions to automate the disposal/excess recommendation process and reduce the size of the Army's inapplicable secondary item inventory.

4. Request AMC take action to reduce NRS stocks as provided for in DMRD 927. Justification for disposal of serviceable and economically reparable items for in-use end items/weapons systems is based on reported storage space limitations. Initiation of wholesale disposal release orders should be in a controlled manner to avoid disposal of assets which are not reprocurable, should be retained for contingency purposes, or may be economic to retain under established guidelines.

5. Suggest the following elements be considered:

a. Renewed emphasis, at all inventory manager levels, on proper identification of assets as excess.

b. Restratification to other retention categories of material retained to meet existing policy requirements.

TAB D

c. Plan for CCSS programming changes, to include eliminating automatic stratification of material to NRS.

d. Plan for changes to AR 710-1.

6. Request you provide, by 15 Feb 90, a plan for monitoring the effectiveness of this initiative which identifies and tracks associated budget savings.

7. To support the effort seeking relief from the DoD policy, additional cost and benefit data is needed. Please provide, by 15 Mar 90, the following dollar value stratification of serviceable and economically reparable secondary items in NRS:

a. Material which is being disposed of due to storage space limitations.

b. Material which will not be disposed of, but must be retained due to the requirement related to in-use end article applications.

8. ODCSLOG point of contact for this action is George Carlisle, DALO-SMP-S, 695-2209.

9. NCOs - Leadership for Logistics.

FOR THE DEPUTY CHIEF OF STAFF FOR LOGISTICS:

BOYD E. KING
Colonel, GS
Chief, Supply and Maintenance
Policy Division

CF:
OASD(P&L)
OASA(IL&E)

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DLA-CI

19 APR 1990

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE
ATTN: Director, Logistics Support Directorate

SUBJECT: Draft Report on the Survey of Materiel Retention Policy and DoD Storage Capacity (Project No. 9LD-0060)

This is in response to your memorandum dated 6 Feb 90. The following comments to the draft report are forwarded for consideration in preparing the final report:

a. Page 6, paragraph 2: In October 1987 (vice 1988), DLA developed new criteria for retention and disposal decisions. Fifth sentence in paragraph should be changed to read: "These reviews identify items with no demand history for the most recent 6 years for possible disposal action subject to weapons systems consideration."

b. Enclosure 1, Defense Depot Mechanicsburg: Commercial storage space was leased for the Depot in fiscal year 1988 (vice 1989) as an interim measure to alleviate storage space shortfalls until ongoing and proposed Military Construction (MILCON) and Procurement Defense Agencies (PDA) projects provide the additional space required to satisfy mission requirements. The automated integrated materiel complex will provide approximately 550,000 bin and package rack storage locations.

RICHARD J CONNELLY
Comptroller
Defense Logistics Agency

ENCLOSURE 5

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Headquarters, Deputy Chief of Staff for Logistics, Washington, DC
Headquarters, U.S. Army Materiel Command, Alexandria, VA
U.S. Army Materiel Command Packaging, Storage, and Containerization Center, Tobyhanna, PA

Department of the Navy

Headquarters, Naval Supply Systems Command, Washington, DC
Navy Fleet Materiel Support Office, Mechanicsburg, PA
Navy Aviation Supply Office, Philadelphia, PA
Naval Supply Center, Norfolk, VA
Headquarters, U.S. Marine Corps, Washington, DC

Department of the Air Force

Headquarters, U.S. Air Force, Washington, DC
Air Force Logistics Command, Dayton, OH

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Cameron Station, VA
Defense Industrial Supply Center, Philadelphia, PA
Defense Depot - Mechanicsburg, Mechanicsburg, PA

AUDIT TEAM MEMBERS

Donald E. Reed, Director, Logistics Support Directorate
Charles F. Hoeger, Program Director
William A. King, Project Manager
Bernard J. Siegel, Team Leader
Robert E. Schonewolf, Auditor
David R. Hasz, Auditor

FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense
Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Army Inspector General
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Air Force Audit Agency

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- Senate Ranking Minority Member, Committee on Armed Services
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Ranking Minority Member, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations