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

REPORT
NO. 92-007

October 18, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Quick-Reaction Report on Inaccurate Determination of Initial Spares Support List Requirements (Project No. 0LE-0078.01)

## Introduction

The San Antonio Air Logistics Center (SAALC) had excessive purchases of spares in process to support Initial Spares Support List (ISSL) requirements. Item managers did not compute those requirements in accordance with Air Force policy. We are issuing this quick-reaction report as part of the overall audit of Requirements for Current Procurements of Repairable Items for Wholesale Inventories (Project No. 0LE-0078). The objectives of the audit are to determine whether the repairable items being procured are warranted by anticipated requirements and whether internal controls for determining those requirements are effective.

## Background

The ISSL spares are assets required to support the activation of new or modified weapon systems and equipment at base level. They represent the quantities of spares needed during the time to either repair unserviceable assets at the base (Base Repair Cycle Time) or order and receive new assets from the wholesale supply system (Base Order and Ship Time).

Air Force Logistics Command Regulation 57-27, "Initial Requirements Determination," provides policy and implementing guidance for computing initial requirements for new and peculiar items during the demand development period. Air Force Logistics Command Regulation 57-4, "Recoverable Consumption Item Requirements System," provides guidance for computing ISSL requirements for existing items. The regulations permit stockage of one spare per base for mission essential items related to major weapon systems, even if provisioning estimates or actual usage would justify a lower quantity.

## Discussion

We reviewed ISSL requirements for eight items, three for the F-15 Tactical Electronics Warfare System Intermediate Support System (F-15 TISS) and five for the F-15 Avionics Intermediate Shop (F-15 AIS) System. For the eight items, the SAALC was procuring excessive spares primarily to satisfy forecasted ISSL requirements. Item managers did not comply with Air Force policy for computing ISSL requirements for the eight items. Instead, the item managers relied on estimates provided by equipment specialists. The item managers indicated that they relied on the estimates because they had not received training on the computation of ISSL requirements. In addition, supervisory review of item manager purchase decisions did not disclose the inappropriate estimates of spare requirements. We attributed the excessive purchases to inadequate training of item managers and ineffective supervisory oversight. For the eight items sampled, ISSL requirements were overstated by $9.5 million, ongoing purchases were overstated by $5.8 million, and assets on hand and due-in from previous purchases exceeded approved retention requirements by $3.9 million. The eight items sampled are identified in Enclosure 1 and summarized below.

F-15 Tactical Electronics Warfare System Intermediate Support System. Three of the sampled items involved active purchases valued at $6.5 million to support ISSL requirements (ISSL Number 13PC0194) for the F-15 TISS. We evaluated the ISSL requirements using the criteria in Air Force Logistics Command Regulation 57-27 because the sampled items were new to the supply system and peculiar to the F-15 TISS.

For each sampled item, the equipment specialist estimated an ISSL requirement of 32 assets. That estimate represented one spare for each F-15 TISS system, even though as many as three systems would be activated at a single base. Fielding plans provided for activation of the F-15 TISS at 18 bases during the requirements forecast period. Based on criteria in Air Force Logistics Command Regulation 57-27, forecast requirements for the three items equated to less than one per base; however, the forecast could have been rounded up to permit stockage of at least one of each essential item per base. Therefore, the maximum ISSL requirement should have been 18 spares rather than 32. For the three sampled items, we estimated that the ISSL requirements were overstated by $4.3 million and that the active purchases were excessive by $4.3 million.

F-15 Avionics Intermediate Shop. Five of the sampled items involved active purchases valued at $1.7 million to support ISSL requirements (ISSL Number 13PC230M) for the F-15 AIS and prepositioned war reserve materiel requirements. Contracts were awarded in FY 1989 to support a portion of the F-15 AIS ISSL requirement based on the fielding schedule at that time. Assets are continuing to be delivered under those contracts.

For each of the sampled items, the item manager used the equipment specialist's estimated ISSL requirement of 63 assets. We evaluated the ISSL requirements using the criteria in Air Force Logistics Command Regulation 57-4 because experiential data were available for the sampled item or older item configurations. Forecast requirements equated to less than one per base, but Air Force Logistics Command policy permits stockage of at least one essential item per base. Accordingly, we concluded that the maximum ISSL quantity should be 20 (1 per base). For the sampled items, we concluded that the ISSL requirements were overstated by $5.2 million and that the active purchases, as adjusted by SAALC */ were excessive by $1.5 million. In addition, we concluded that assets on hand and due-in from prior contracts exceeded Air Force retention requirements by $3.8 million.

Other Purchases Related to ISSLs. The SAALC initiated purchases of other ISSL items to support the F-15 TISS and F-15 AIS systems. For the F-15 TISS, the item manager identified purchases of 61 other repairable items valued at approximately $22.9 million, based on standard price. At the time we selected our audit sample, SAALC was purchasing spares for six other ISSL items to support the F-15 AIS.

*/ On November 20, 1990, we issued a memorandum advising the SAALC to reduce the computed requirement for quantities of existing spares that could be upgraded to current configurations. As a result, the item manager cancelled or reduced purchases for three of the sample items by $5.2 million.

## Recommendations

We recommend that the Commander, San Antonio Air Logistics Center:

1. Suspend active purchase requests related to the cited Initial Spares Support Lists until the requirements are recomputed.

2. Initiate purchase request amendments to cancel or reduce active purchases and determine the appropriateness of contract terminations based on the recomputations in 1., above.

3. Identify and review purchases related to other active Initial Spares Support Lists to ensure that their requirements were computed in accordance with Air Force policy, and appropriately adjust active purchases and contracts.

4. Provide specific training to item managers on the computation of Initial Spares Support List requirements and emphasize to supervisors who review item managers' purchase decisions the need for scrutinizing those requirements.

## Management Comments

The Air Force concurred with the finding and recommendations and identified actions that have been initiated or completed to implement the recommendations.

The Air Force concurred with the monetary benefits of $11 million resulting from cancellation of purchases for the sampled items; however, it did not provide information concerning purchase reductions related to other items on the F-15 TISS and F-15 AIS ISSLs or reductions related to other active ISSLs. The complete text of the Air Force's response is in Enclosure 2.

## Audit Response

The actions taken by the Air Force satisfy the intent of the recommendations. We request that the Air Force identify the savings regarding Recommendations 2. and 3. resulting from its review of requirements for items (other than the eight sampled items) for the F-15 AIS and F-15 TISS ISSLs, and the savings resulting from its review of other active ISSLs. Our summary of potential monetary benefits is in Enclosure 3.

DoD Directive 7650.3 requires that monetary benefits be resolved promptly. Therefore, the Assistant Secretary of the Air Force (Financial Management and Comptroller) is requested to provide final comments on the monetary benefits associated with Recommendations 2. and 3. within 60 days of the date of this report.

Potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3, in the event of nonconcurrence or failure to comment.

The courtesies and cooperation extended to the audit staff are appreciated. If you have any questions regarding this quick-reaction report, please contact Mr. James Helfrich, Program Director, or Mr. Joel Chaney, Project Manager, at (614) 238-4141 (DSN 850-4141). Activities visited or contacted during the audit are listed in Enclosure 4. Audit team members are listed in Enclosure 5. This quick-reaction report will be distributed to the activities listed in Enclosure 6.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Air Force

Office of the Inspector General, DoD

**REPORT NO.** 92-007 October 18, 1991
(Project No. 0LE-0078.01)

# QUICK-REACTION REPORT ON INACCURATE DETERMINATION OF INITIAL SPARES SUPPORT LIST REQUIREMENTS

## EXECUTIVE SUMMARY


**Introduction.** This report is being issued as part of our audit of Requirements for Current Procurements of Repairable Items for Wholesale Inventories (Project No. 0LE-0078). The report addresses deficiencies in the determination of Initial Spares Support List (ISSL) requirements for the F-15 Tactical Electronic Warfare Systems Intermediate Support System (F-15 TISS) and the F-15 Avionics Intermediate Shop (F-15 AIS).

**Objective.** The audit objectives are to determine whether the repairable items being procured are warranted by anticipated requirements and whether internal controls for determining those requirements are effective.

**Audit Results.** Our review of ISSL requirements for eight items related to the F-15 TISS and F-15 AIS Systems indicated that $5.8 million of excessive purchases were being made. We found that item managers did not comply with Air Force guidance for computing the ISSL requirements. Our review of internal controls over the requirements determination indicated that supervisory personnel did not identify that item managers had not complied with Air Force policies and did not identify that the purchases were excessive.

**Internal Controls.** Internal controls did not provide reasonable assurance that purchases were necessary. The details of the deficiency are discussed in the finding.

**Potential Benefits of Audit.** We estimate a one-time savings of $11.0 million related to the eight items reviewed; $5.8 million discussed in detail in the report and $5.2 million reviewed previously and footnoted in the report. We recommended that the San Antonio Air Logistics Center review ISSL requirements valued at over $23 million for 68 other items on the related ISSL lists. Monetary benefits will be claimed based on the Air Force's review of the other ISSL items in response to Recommendations 2. and 3.

**Summary of Recommendations.** We recommended that active purchases of spares for the F-15 TISS and F-15 AIS systems be suspended until ISSL requirements are recomputed; that purchase requests be reduced and, when appropriate, contracts be terminated based on recomputation; that specific training be provided to item

managers and supervisory personnel; and that requirements for other ISSLs be reviewed to ensure that the requirements determination complies with Air Force policy.

**Management Comments.** The Commander, San Antonio Air Logistics Center, provided the Air Force's response to the draft report on September 26, 1991. The Air Force concurred with the finding and recommendations and initiated actions to implement the recommendations. The Air Force concurred with the monetary benefits of $11.0 million in the draft report. The $11.0 million included $5.8 million specifically discussed in the report and $5.2 million related to items we brought to San Antonio's attention in a memo earlier in the audit and footnoted in the quick-reaction report.

## SUMMARY OF ITEMS REVIEWED

| NSN 3/ | Excessive ISSL 1/ Requirements Quantity | Excessive ISSL 1/ Requirements Value | Excessive Purchases Quantity | Excessive Purchases Value | Assets in Excess of Retention Levels 2/ Quantity | Assets in Excess of Retention Levels 2/ Value |
|---|---|---|---|---|---|---|
| F-15 TISS 4/ | | | | | | |
| 4920-01-298-4021 | 14 | $1,896,017 | 14 | $1,896,017 | | |
| 4920-01-273-3105 | 14 | 1,330,235 | 14 | 1,330,235 | | |
| 6625-01-311-3586 | 14 | 1,053,297 | 14 | 1,053,297 | | |
| F-15 AIS 5/ | | | | | | |
| 5999-01-234-8798 | 43 | 2,425,895 | 6 6/ | 338,497 | 37 | $2,087,398 |
| 5998-01-204-1675 | 43 | 1,751,137 | 11 6/ | 447,965 | 31 | 1,262,448 |
| 5998-01-171-3074 | 43 | 711,760 | 29 | 480,024 | 21 | 347,604 |
| 4920-01-200-2495 | 43 | 103,991 | 0 6/ | 0 | 68 | 164,451 |
| 4920-01-171-3070 | 43 | 265,616 | 41 | 240,907 | | 0 |
| Total | | $9,537,948 | | $5,786,942 | | $3,861,901 |

1/ Initial Spares Support List

2/ Quantity represents assets on hand and due-in from prior contracts that exceed Air Force retention levels.

3/ National Stock Number

4/ Tactical Electronics Warfare System Intermediate Support System

5/ Avionics Intermediate Shop System

6/ Purchase quantities were reduced or canceled in response to our memorandum of November 20, 1990, to SAALC. The savings from those reductions were $5.2 million.

## COMMENTS ON THE DEPARTMENT OF THE AIR FORCE

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS SAN ANTONIO AIR LOGISTICS CENTER (AFLC)
KELLY AIR FORCE BASE, TEXAS 78241-5000

REPLY TO ATTN OF: IG

26 SEP 1991

SUBJECT: Draft of Proposed DOD/IG Quick-Reaction Audit Report on Inaccurate Determination of Initial Spares Support List Requirements (Project No. 0LE-0078.01)

TO:

DOD/IG
400 Army Navy Drive
Arlington VA 22202-2884

1. The SA-ALC management comments addressing the findings, recommendations and $5.8 million potential monetary benefits in subject draft report are forwarded for your consideration. Also, comments addressing the $5.2 million potential monetary benefit related to your 20 November 1990 memorandum are included.

2. Please call Mrs Villarreal, DSN 945-1008, if you require additional information.

FOR THE COMMANDER

E A Harrell

E. A. HARRELL, Lt Col, USAF
Inspector General

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Management Comments

AFLC COMBAT STRENGTH THROUGH LOGISTICS

DOD/IG DRAFT QUICK-REACTION REPORT ON INACCURATE DETERMINATION OF INITIAL SPARES SUPPORT LIST REQUIREMENTS - Project No. OLE-0078.01

Finding No. 1 — Concur

Potential Monetary Benefits: $5,786,942 — Concur

F-15 Tactical Electronics Warfare System Intermediate Support System

| Excessive ISSL Requirements | Excessive Purchases | Assets in Excess of Retention Levels |
|---|---|---|
| $4,279,549 | $4,279,549 | 0 |

F-15 Avionics Intermediate Shop

| Excessive ISSL Requirements | Excessive Purchases | Assets in Excess of Retention Levels |
|---|---|---|
| $5,258,399 | $1,507,393 | $3,861,901 |

Purchase quantities were reduced or cancelled in response to the memorandum of November 20, 1990. The savings from those reductions were $5.2 million.

Recommendation No. 1 — Concur

1. Suspend active purchase requests related to the cited Initial Spares Support Lists until the requirements are recomputed.

Recommendation No. 2 — Concur

2. Initiate purchase request amendments to cancel or reduce active purchases and determine the appropriateness of contract terminations based on the recomputations in 1., above.

Recommendation No. 3 — Concur

3. Identify and review purchases related to other active Initial Spares Support Lists to ensure that their requirements were computed in accordance with Air Force policy, and appropriately adjust to active purchases and contracts.

Recommendation No. 4 — Concur

4. Provide specific training to item managers on the computation of Initial Spares Support List requirements and emphasize to supervisors who review item managers' purchase decisions the need for scrutinizing those requirements.

Management Action

Our review of requirements for the cited ISSL's and the other active ISSL's for which we are procuring spares resulted in compliance with your recommendations. Action was taken in January 1991 for F-15 AIS and August 1991 for F-15 TISS to cancel or reduce active purchase requests. Initial Spares Support List requirements have been reviewed. We confirm monetary benefits of $5.2 million related to your memorandum of November 20, 1990. We recognize that specific training is needed for all inventory management specialists on the computation of Initial Spares Support List requirements. Training to support this effort was requested August 1991 of Directorate of Financial Management to establish formal Initial Spares Support List training for all inventory management specialists at the earliest possible date. For your information on page 3 of the Quick-Reaction Report on other Purchases Related to ISSL's instead of 61 other repairable items valued at approximately $22.9 million for the F-15 TISS, this needs to be corrected to 16.

ACTUAL MONETARY BENEFITS REALIZED: TOTAL $11,000,000 Concur

RECOMMEND THIS ITEM BE CLOSED

## SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

| Recommendation Reference | Description of Benefits | Amount and/or Type of Benefit |
|---|---|---|
| 1. and 2. | Economy and Efficiency. Avoid unnecessary or premature purchases of spare support items. | Funds Put to Better Use. $11.0 million one-time savings by avoiding purchase of sampled items on two Initial Spares Support Lists. Additional unquantified savings are anticipated from the review of other items on the two sampled lists. |
| 3. | Economy and Efficiency. Avoid unnecessary or premature purchase of spare support items. | Not quantified. Additional one-time savings are expected from San Antonio Air Logistics Center's review of requirements for items on other Spares Support Lists. |
| 4. | Internal Control. Provide better assurance that item managers and supervisors make appropriate procurement decisions. | Nonmonetary. |

## ACTIVITIES VISITED OR CONTACTED

Headquarters, Air Force Logistics Command, Wright-Patterson Air Force Base, OH
San Antonio Air Logistics Center, Kelly Air Force Base, TX
Headquarters, Tactical Air Command, Langley Air Force Base, VA

## AUDIT TEAM MEMBERS

Shelton R. Young, Director, Logistics Support Directorate
James B. Helfrich, Program Director
Joel K. Chaney, Project Manager
Curt W. Malthouse, Team Leader
Ted R. Paulson, Team Leader
Amy J. Frontz, Auditor
John R. Williams, Auditor

## REPORT DISTRIBUTION

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Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, Air Force Logistics Command
Commander, San Antonio Air Logistics Command
Air Force Audit Agency

Defense Agencies

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

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
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House Subcommittee on Legislation and National Security, Committee on Government Operations