Audit Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT OF COMMON USE REPAIRABLE ITEMS IN THE DEPARTMENT OF DEFENSE

Report No. 95-303 September 1, 1995

Department of Defense

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Acronyms

ASO	Aviation Supply Office
ATCOM	Aviation and Troop Command
CECOM	Communications and Electronics Command
MCLB	Marine Corps Logistics Base
PICA	Primary Inventory Control Activity
SICA	Secondary Inventory Control Activity

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884

September 1, 1995

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)
ASSISTANT DEPUTY UNDER SECRETARY OF DEFENSE FOR MATERIEL AND DISTRIBUTION MANAGEMENT
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on the Management of Common Use Repairable Items in the Department of Defense (Report No. 95-303)

We are providing this report for review and comment. The Assistant Deputy Under Secretary of Defense for Materiel and Distribution Management provided a consolidated response from the Army, Navy, Air Force, and Marine Corps that was considered in preparing the final report.

In the consolidated response the Assistant Deputy Under Secretary nonconcurred with Recommendation 2.b. We revised Recommendation 2.b. to clarify the intent of our recommendation and request that the Assistant Deputy Under Secretary provide further comments on the final report. DoD Directive 7650.3 requires that all unresolved issues be resolved promptly. Therefore, comments to the final report should be received by November 2, 1995.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to either Mr. Charles Hoeger, Audit Program Director, or Mr. Pat Golden, Audit Project Manager, at (215) 737-3881 (DSN 444-3881). See Appendix H for the report distribution. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-303 **September 1, 1995**
(Project No. 4LD-5044)

Management of Common Use Repairable Items in the Department of Defense

Executive Summary

Introduction. This audit was requested by the Assistant Deputy Under Secretary of Defense for Materiel and Resources Management Policy. In 1974 the Nonconsumable Item Program was established with the goal to eliminate the duplicate wholesale management of common use repairable items in DoD. Under Phase I of the program, repairable items used by more than one Military Department were identified and management of the items assigned to a primary inventory control activity. The primary inventory control activity was responsible for procuring the items, initiating catalog changes, and approving disposal actions for all users in DoD. In Phase II of the program, the primary inventory control activity assumed additional responsibilities for depot maintenance, maintaining wholesale inventory, and budgeting for replacement and depot overhaul requirements. As of June 1994, about 69,700 items were included in the program; about 39,800 were managed under Phase I of the program, and about 29,900 were managed under Phase II of the program.

Audit Objective. The audit objective was to evaluate the policies and procedures used by the Military Departments to manage common use repairable items in DoD. Specifically, we reviewed procedures and controls used by DoD inventory managers to ensure that repairable item assets included in the Phase II management of the Nonconsumable Item Program were properly reported to the designated primary inventory control activities.

We did not evaluate the provision of the Nonconsumable Item Program that dealt with secondary inventory control activities communicating their requirements to primary inventory control activities. Also, because of recent actions taken by the Deputy Under Secretary of Defense (Logistics), we did not evaluate the process of converting Phase I items to Phase II items. The history and status of the Nonconsumable Item Program is discussed in Appendix C, Other Matters of Interest.

Audit Results. Common use repairable items in DoD were not being managed effectively to achieve the goal of the Nonconsumable Item Program.

The primary inventory control activities did not have asset visibility over $435.3 million in wholesale Phase II inventory. As a result, we estimated that about $141.2 million in unreported wholesale inventory could have been used to fill primary inventory control activities' requirements. Also, unnecessary procurements occurred, required inventory was disposed of, and excess inventory was not disposed of. Similar conditions were reported in 1992, and although management concurred with the findings and recommendations, corrective actions were not implemented.

Summary of Recommendations. We recommend that the Commanders, Army Materiel Command, Naval Supply Systems Command, Air Force Materiel Command, and the Marine Corps Deputy Chief of Staff for Logistics, establish formal procedures for periodic reporting of Phase II inventory to the primary inventory control activities. We also recommend that the Army establish procedures to prevent the disposal of serviceable assets and to review previously disposed serviceable assets for possible recall and use. We recommend that the Deputy Under Secretary of Defense (Logistics) determine the appropriateness of the Marine Corps retaining Phase II inventory that is classified as critical and noncritical low density.

Management Comments. In a consolidated response to the audit, the Assistant Deputy Under Secretary of Defense for Materiel and Distribution Management concurred with all recommendations, except the recommendation to review all Army directed disposals of serviceable assets that occurred since August 1993. The Assistant Deputy Under Secretary stated that it was not possible to recall disposal actions that occurred since August 1993 because materiel was not held at the disposal sites that long. A discussion of management comments is in Part I, and the complete text of those comments is in Part III of the report.

Audit Response. As a result of management comments, we revised our recommendation for the Army to identify the national stock numbers for which disposals of serviceable assets were directed since August 1993, and compare the identified stock numbers with serviceable inventories held at the Defense Reutilization and Marketing Office locations for their possible recall from disposal and use to fill requirements. Therefore, we request additional comments from the Assistant Deputy Under Secretary on the unresolved recommendation by November 2, 1995.

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Part I - Audit Results

Audit Background

This audit was requested by the Assistant Deputy Under Secretary of Defense for Materiel and Resources Management Policy. The Nonconsumable Item Program (the Program) was established in 1974 to eliminate duplication in wholesale materiel management in DoD for common use repairable items. Items included in the Program are classified by nonconsumable item materiel support codes to designate whether an item is in Phase I or Phase II of the Program and the support relationships between the primary inventory control activities (PICAs) and the secondary inventory control activities (SICAs). For Phase II repairable items, the designated PICA is responsible for managing the DoD wholesale inventory to include developing inventory requirements, budgeting for future procurements, and securing funding for obtaining the consolidated DoD wholesale stock inventory. SICAs are responsible for reporting wholesale inventory requirements to the PICAs and for maintaining retail inventory. A brief history and the status of the Program is provided in Appendix C, Other Matters of Interest.

The Joint Service Regulation, Army Materiel Command Regulation 700-99, Naval Supply Systems Command Instruction 4790.7, Air Force Logistics Command Regulation 400-21, and Marine Corps Order P4410.22C, "Wholesale Inventory Management and Logistics Support of Multiservice Used Nonconsumable Items," April 27, 1990, provides policy and procedures for reporting assets to the designated PICA. When items are initially designated for Phase II management the SICAs may retain retail inventory requirements. Retail inventory requirements are defined in the regulation to include protectable prepositioned war reserve requirements, and initial or follow-on provisioning and outfitting. Remaining available assets under SICA control and any wholesale stock identified up to 1 year after an item is designated as Phase II are to be transferred to the PICA without reimbursement. Wholesale stocks identified by SICAs after 1 year are to be reported to the PICA under DoD excess asset reporting procedures.

As of June 1994, the Military Departments managed about 581,000 repairable items of which about 69,700 items were included in the Program. Of the 69,700 items included in the Program, about 29,900 were designated as Phase II (see Appendix B). During our audit, the Deputy Under Secretary of Defense (Logistics) requested the Joint Logistics Commanders to develop a plan to move all common use repairable items to Phase II of the Program by the end of fiscal year 1995. See Appendix C for a further discussion on the Program and the most recent initiatives taken by the Deputy Under Secretary of Defense (Logistics).

Audit Objectives

The audit objective was to evaluate the policies and procedures used by the Military Departments to manage common use repairable items in DoD. Specifically, we reviewed procedures and controls used by DoD inventory managers to ensure that repairable item assets included in the Phase II management of the Program were properly reported to the designated PICAs. We also examined the Military Departments' management control programs as they applied to the audit objective. See Appendix A for a discussion of the scope and methodology and management control program, and for a summary of prior audit coverage.

Asset Visibility of Phase II Inventory

The PICAs did not have asset visibility over $435.3 million in wholesale Phase II inventory. The condition occurred because:

o SICAs could not comply with the established procedures for reporting asset visibility to the PICAs,

o the credit policy for materiel returns was not consistently applied, and

o the Marine Corps retained assets under categories not authorized by the Joint Service Regulation.

As a result, we estimated that $141.2 million in unreported wholesale inventory could have been used to fill the requirements of the PICAs. In addition, unnecessary procurements occurred, required inventory was disposed of, and excess inventory was not disposed of.

Asset Reporting Procedures

Assets under Phase II of the Program are reported through the decapitalization process or through the DoD Materiel Returns Program. Specific instructions for decapitalizing Phase II assets from the SICAs to the PICAs are contained in the Joint Service Regulation. Assets are normally decapitalized to PICAs when a repairable item is initially classified for Phase II management, or within 1 year after an item is designated as a Phase II item. When assets are decapitalized, SICAs do not receive credit for the value of inventory reported to PICAs. Any Phase II assets that are deemed excess to the retail requirements of SICAs after the decapitalization period are to be reported to PICAs under the DoD Materiel Returns Program. Procedures for reporting excess assets under the DoD Materiel Returns Program are contained in DoD 4140-1R, "DoD Materiel Management Regulation," January 1993. When serviceable assets are reported to the PICA, and the PICA asset level is below the approved acquisition objective, credit for the value of inventory reported is usually given to the SICA. If the assets reported to the PICA are unserviceable, the credit amount is reduced by the cost to repair the unserviceable asset.

Asset Visibility

The PICAs did not have asset visibility over $435.3 million in Phase II wholesale inventory. Our review of 180 Phase II items at six SICAs (Army Communications and Electronics Command [CECOM], Fort Monmouth, New

Jersey; the Navy Aviation Supply Office [ASO] Philadelphia, Pennsylvania, and Ships Parts Control Center, Mechanicsburg, Pennsylvania; Marine Corps Logistics Base [MCLB] Albany, Georgia; and the Sacramento Air Force Air Logistics Center, Sacramento, California and Warner Robins Air Logistics Center, Robins Air Force Base, Georgia) included in our audit disclosed that none of the assets were reported to the PICAs. Of the 180 items, the respective PICA inventory managers had requirements for 64. We estimated that $141.2 million of the $435.3 million in unauthorized and unreported inventory could have been used to fill the PICA requirements. (See Appendix A for our statistical projections and Appendix D for a breakdown of unreported Phase II inventory).

Retention of Phase II Inventory

The SICAs retained unauthorized inventory because SICAs could not comply with the established procedures for reporting asset visibility to the PICAs, the credit policy for materiel returns of Phase II assets was not consistently applied, and the Marine Corps retained assets under categories not authorized by the Joint Service Regulation.

Compliance With Asset Reporting Procedures. The SICAs could not comply with the established procedures for reporting asset visibility to the PICAs because the Military Departments' automated systems did not respond adequately to the requests from SICAs to return excess Phase II assets to the PICAs. The processes identified in the Joint Service Regulation that accomplish interservice asset reporting are the asset decapitalization process and the DoD Materiel Returns Program. Problems with the asset decapitalization process and the DoD Materiel Returns Program prevented the automatic return of excess Phase II assets to the respective PICAs and contributed to the accumulation of $435.3 million of Phase II inventory at the SICAs, for which the PICAs had no visibility.

Asset Decapitalization Process. None of the Military Departments' SICAs we visited had an effective program for returning Phase II assets to the PICAs under the asset decapitalization process. For example, the Navy experienced problems with the asset decapitalization process. In August 1992, an ASO audit response team, in an effort to comply with the recommendation of Inspector General, DoD, Report No. 92-071, "Management of Repairable Items Used By More Than One Service," April 7, 1992, (see Appendix A) to report Phase II assets to the PICAs, found serious problems in the asset decapitalization process, which precluded ASO from reporting Phase II assets to the PICAs. According to the audit response team, the initial decapitalization of Phase II assets did not occur and Navy stock points were unable to process the appropriate inventory transactions to report excess retail Phase II assets to ASO. It further determined that programming changes to the Navy Uniform Automated Data Processing System, made by the Navy Fleet Materiel Support Office to accommodate the Consumable Item Transfer Program in 1992,

contributed to the nonreporting problem. The Consumable Item Transfer Program was established to transfer management responsibility for most consumable items from the Military Departments to the Defense Logistics Agency.

DoD Materiel Returns Program. None of the SICAs visited had an effective process for reporting Phase II assets to the PICAs under the DoD Materiel Returns Program. Under the DoD Materiel Returns Program, excess or unserviceable assets are returned to the designated inventory manager through the use of computer-generated materiel return transactions. Upon receiving a materiel return transaction from a SICA, the inventory manager responds by giving advice on where to send the asset and whether credit will be granted for the returned asset. The inventory control points of the Military Departments, the activities that are designated to receive the materiel return transactions, were not receiving the transactions. Supply system programming problems were preventing inventory control points from receiving the materiel return transactions. Examples of problems in reporting and accepting materiel return transactions by the Military Departments are discussed below.

Army Return Transactions. Within the Army, the materiel return transactions were being rejected by the Defense Automatic Addressing System network. After being transmitted by CECOM, the materiel return transactions were automatically returned to CECOM with an advice code indicating that the designated receiver address in the materiel return transaction was erroneous. CECOM personnel verified the validity of the addresses and assumed that a programming problem existed between CECOM and the Defense Automatic Addressing System network. In March 1995, CECOM personnel were in the process of running test transactions to determine where the problem existed.

Navy Return Transactions. The ASO audit response team also found a problem with the follow-on process (DoD Materiel Returns Program) to decapitalize Phase II assets to PICAs. The problem centered around the inability of the Navy Uniform Inventory Control Point automated system to recognize certain supply system codes that would trigger the processing of an automatic asset turn-in transaction.

The ASO audit response team concluded that the Navy wholesale asset transfer and reporting of Phase II assets had come to a standstill, and that perhaps the transfer and reporting processes had never worked properly. In an August 1992 letter, the ASO Commanding Officer requested assistance from the Naval Supply Systems Command to resolve the deficiencies in the Navy's Uniform Automatic Data Processing System and the Uniform Inventory Control Point supply system. As of March 1995, the Navy had not corrected the deficiencies. Navy representatives at the Naval Supply Systems Command stated that the deficiencies could not be corrected because the Joint Logistics Services Center, Dayton, Ohio, had placed a restriction on programming changes for the Military Departments' legacy systems. The Joint Logistics Services Center is responsible for developing the standard materiel management system for DoD.

Air Force Return Transactions. Within the Air Force, field unit personnel entered the source of supply code in the materiel return transactions; however, the source of supply code was not retained in the materiel return transactions. The source of supply code tells the customer or sender where to ship the assets that are being returned. At the Sacramento Air Logistics Center, the source of supply code was deleted when the materiel return transaction was processed through the Air Force Repairable Item Movement and Control System. We could not determine the extent of the condition because statistics, showing the number of transactions in which the source of supply code was not retained in the materiel return transactions, were not available. However, as of March 1995, Sacramento Air Logistics Center personnel stated that the problems with the materiel return transactions had been brought to the attention of the Air Force Materiel Command to research the problem to determine the cause and the needed solution.

Consistent Application of the Credit Policy for the Return of Assets. Since at least November 1993, there has been no consistent application of the credit policy for the return of Phase II assets to the PICAs. The disagreement among the Military Departments concerned whether credit would be given to a SICA upon returning Phase II assets to the PICA, and how much credit would be given. The problem was mainly with the Army PICAs because the Army believed that due to the significant drawdown of troop strength, it would eventually accumulate an excess supply of many items. Therefore, the Army believed that no credit should be given to a SICA upon returning Phase II assets. However, in June 1994, the Army agreed to conform with the credit policies of the Joint Services Regulation, that is, to give SICAs credit for assets returned to Army PICAs when the PICAs stock position was below the approved acquisition objective.

Disposal of Serviceable Assets. During our review of the Army's credit return policy at Army Aviation and Troop Command (ATCOM), St. Louis, Missouri, in January 1995, we were informed by ATCOM personnel that a problem existed with the Army's credit return policy. In August 1993, the Army Deputy Chief of Staff for Logistics directed that a programming change be made to the Army's credit return policy logic. The programming change resulted in the Army PICAs inappropriately directing users to return unserviceable assets (condition code F) and to dispose of serviceable assets (condition code A) for the same national stock numbered items. The change in the Army credit return policy was done to delay and reduce investment in inventory by the Army PICAs. An unserviceable asset return required the PICA to grant a credit of 65 percent of the asset acquisition cost, but a return of a serviceable asset would require a credit of 100 percent of the asset acquisition cost. The cost to repair would not be incurred unless and until a subsequent repair requirement materialized. As a result of the credit return policy, from March 1994 to January 1995 ATCOM directed the disposal of $44 million of serviceable assets while directing the return, for credit, of $6 million of unserviceable assets. It also directed the return, without credit, of $2 million in unserviceable assets for the same national stock numbers. ATCOM did not determine the value of serviceable assets that were inappropriately disposed of before March 1994.

Partial Corrective Action. In January 1995, ATCOM instituted a manual process to grant credit for returned assets and to prevent the disposal of serviceable assets. Each month the item managers review individual materiel return requests and manually process credit response transactions. The process is not used for automatic computer generated credit return transactions. Also, ATCOM did not review the serviceable assets for their potential recall from disposal. The programming change affected the six Army inventory control points. Our visits to three Army PICAs (CECOM; Army Missile Command, Redstone Arsenal, Alabama; and Army Tank Automotive Command, Warren, Michigan) showed that information on the amount of serviceable assets that were disposed in lieu of unserviceable assets was not available; and no interim action was taken to prevent the automatic disposal of serviceable assets.

In January 1995, ATCOM prepared a system change request to correct the credit return policy logic. The change in credit return policy logic pertained to all repairable assets, not just to Phase II assets in the Program, and it will take considerable time to get the system change request approved and implemented. In the interim, the Army should take action to stop the automatic disposal of serviceable assets and review serviceable assets previously disposed for possible recall.

Marine Corps Asset Categories. The Marine Corps retained assets under categories not authorized by the Joint Service Regulation. Of the $136.2 million of Phase II inventory it retained, $124.2 million was retained in unauthorized categories, $50.2 million as critical low density and $74 million as noncritical low density. The remaining $12 million was retained in authorized categories.

Authorized Categories. Of the $12 million in assets retained under categories authorized by the Joint Service Regulation, $11.5 million was identified for provisioning and $0.5 million was identified for prepositioned war reserve stock. However, some of the inventory was in condition codes that did not fit the designated purpose and appeared to be misclassified. For example, about $29,000 of the inventory designated for provisioning was unserviceable and another $31,000 designated for prepositioned war reserves was also unserviceable.

Unauthorized Categories. Personnel from MCLB and Headquarters Marine Corps could not provide a formal description or the criteria for retaining $124.2 million in assets for critical or noncritical low density categories. About $28 million of assets were retained under purpose code M, a purpose code used to designate assets as potential DoD excess inventory. Personnel described critical low density items as items applicable to low population weapons systems designated as critical to Marine Corps operations. However, they could not provide lists of the critical low density weapons systems. Noncritical low density items were identified as retained items that did not meet the criteria for critical low density items. The classifications were established and assets retained without DoD management approval.

Of the 37 items in our sample that pertained to MCLB as the SICA, 17 had significant on-hand quantities that were excess to Marine Corps needs. For example, for national stock number 6110-01-175-7312, voltage regulator, MCLB had 1,265 serviceable assets on hand with an inventory value of $4 million. Personnel at CECOM, the PICA for this item, indicated that they had requirements for the item. We discussed the situation with Marine Corps officials and, as a result, MCLB reported 551 assets with a value of $2 million, that were excess to Marine Corps needs, to the PICA.

Effect of Limited Asset Visibility

The PICAs were buying and repairing assets to fill requirements for which ample stock existed. Also, SICAs disposed of required inventory and retained inventory that was excess to DoD needs. Total asset visibility of wholesale stock is needed to provide inventory managers an essential tool to make optimum decisions for procuring and repairing inventory and to fill customer requirements.

Need for Procurements and Repairs. From our sample of 180 items, in 14 cases PICAs planned to procure or repair items for which existing SICA stock could fill requirements. For example, at CECOM, a high demand existed for national stock number 5825-01-171-9893, receiver transmitter, and the item manager had a planned procurement, valued at $280,614, in process. We informed the item manager that MCLB, a SICA for the item, had 10 unserviceable assets on hand. As a result of communicating with MCLB, the 10 assets were provided to CECOM for repair, enabling the planned procurement to be canceled. For another one of our sampled items, national stock number 5985-01-026-9676, antenna, the item manager at the Navy Ships Parts Control Center, had anticipated the need to repair unserviceable assets to meet customer requirements. We informed the item manager that the SICA for the item, CECOM, had 21 serviceable assets, valued at $81,480, on hand. Upon receipt of the serviceable assets from CECOM, the Navy Ships Parts Control Center will reduce the planned repair action by 21. Overall, of the 180 items in our sample, procurement or repair actions for 14 items could be reduced by $7.9 million. Appendix E contains a summary of the 14 national stock numbers, the value of inventory available, and a list of PICAs at which the reduced procurement and repair actions could occur.

To permit prudent procurement decisions and because SICAs are authorized to maintain wholesale stock for Phase I items, the Joint Service Regulation requires that PICAs query SICAs for available wholesale stock, before initiating purchase actions of Phase I items. Because the Program criteria do not permit the SICAs to retain Phase II inventory, the PICA inventory managers assume that they have total asset visibility of all Phase II items, therefore, the same

requirement does not exist for the purchase of those items. To preclude unnecessary future procurements and repairs of Phase II items, and until asset visibility is achieved, the Joint Service Regulation should stipulate that PICAs query SICAs before procuring or repairing both Phase I and Phase II items.

Disposal of Required Inventory. At two of the SICAs visited, required inventory was disposed of without the approval of the PICA. For example, at MCLB, an inventory manager disposed of 16 unserviceable forward engine modules, national stock number 2835-01-222-7936, valued at $4 million. The assets were disposed of because the PICA did not respond to the MCLB excess stock return request. Our discussions with PICA personnel resulted in the inventory being recalled from disposal. In addition, we noted that ATCOM directed the disposal of $44 million in serviceable assets and directed the return of $6 million of unserviceable assets for the same national stock numbers. The condition occurred because of the previously discussed change in the Army credit return policy logic.

Excess Inventory. For 116 of the 180 items in our sample, the PICA inventory managers' analyses of requirements showed no need for the items. The SICA inventory was not needed because the assets for the items were either inapplicable or obsolete. The inventory managers at the PICAs stated that when the SICAs notified them of the availability of the inventory, they would direct the SICAs to dispose of the assets. For example, for national stock number 2840-00-404-9310, combustion chamber, the SICA, ASO, had 28 assets, valued at $1 million, on hand. The PICA item manager at Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma, confirmed that the item was obsolete, and that the 28 should be disposed of. Based on the results of our sample, we estimated that about $180.3 million of the $435.3 million in our sample universe represented potential excess inventory (see Appendix A). Action to dispose of the inventory could result in an inventory reduction of $180.3 million.

Interim Procedures for Reporting Inventory

The problems in reporting common use repairable items have been pervasive and the programming flaws in automated systems have been long standing. Prompt action is needed for PICAs to gain asset visibility of SICA inventories to preclude further unnecessary buys and repairs, and inappropriate disposal actions. Total asset visibility for those type items is planned to be incorporated within the Materiel Management Standard System that is being developed as part of the Corporate Information Management program. However, an operational date has not been established for the capability. The Military Departments should jointly formulate procedures for formal, periodic reporting of SICA Phase II inventories -- if necessary, off line to existing standard systems -- until total asset visibility is gained through the Materiel Management Standard System implementation.

Repeat Finding

Inspector General, DoD, Report No. 92-071, identified $272 million in Phase II items held by SICAs but not reported to the designated PICAs. Conditions reported at that time were attributed to adequate reporting procedures either not being established or not being followed. For a detailed discussion of Inspector General, DoD, Report No. 92-071, see Appendix A.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. As a result of management comments, we revised draft report Recommendation 2.b.

1. We recommend that the Commanders, Army Materiel Command, Naval Supply Systems Command, Air Force Materiel Command, and the Marine Corps Deputy Chief of Staff for Logistics:

a. Establish formal procedures for the periodic reporting of wholesale Phase II inventory by the secondary inventory control activities to the primary inventory control activities.

b. Establish procedures for the primary inventory control activities to query the secondary inventory control activities for available Phase II inventory before initiating procurement or repair actions.

Assistant Deputy Under Secretary of Defense for Materiel and Distribution Management Comments. The Assistant Deputy Under Secretary concurred and stated that action to correct the cited conditions would be implemented by October 1996.

2. We recommend that the Commander, Army Materiel Command:

a. Install procedures at all Army inventory control points to prevent the disposal of serviceable (condition code A) assets in lieu of unserviceable (condition code F) assets.

b. Review all Army directed disposals of serviceable assets, that occurred since August 1993, and compare the respective national stock numbers with serviceable materiel inventories held at the Defense Reutilization and Marketing Office locations for their possible recall from disposal and use to fill requirements.

Assistant Deputy Under Secretary of Defense for Materiel and Distribution Management Comments. The Assistant Deputy Under Secretary concurred with Recommendation 2.a., and stated that the Army is reviewing its policy and will develop a new credit and materiel return policy position by the second quarter of FY 1996. The Assistant Deputy Under Secretary nonconcurred with Recommendation 2.b., to review all Army directed disposals of serviceable assets, that occurred since August 1993, for their possible recall from disposal and use to fill requirements, and stated that it was not possible to recall disposal actions as far back as August 1993.

Audit Response. The Assistant Deputy Under Secretary's comments on Recommendation 2.b. are nonresponsive. We understand that materiel at the Defense Reutilization and Marketing Office locations is often reutilized within the government or sold to the public; however, misdirected serviceable assets, that may be needed to fill DoD materiel requirements, could be stored at Defense Reutilization and Marketing Office locations. Therefore, we have revised Recommendation 2.b. to review all Army directed disposals of serviceable assets and compare the respective national stock numbers with serviceable assets held at the Defense Reutilization and Marketing Office locations for their possible recall from disposal and use to fill requirements. Accordingly, we request additional comments from the Assistant Deputy Under Secretary.

3. We recommend that the Deputy Under Secretary of Defense (Logistics) review the Marine Corps policy on retaining Phase II inventory under the auspices of critical and noncritical low density and determine the appropriateness of retaining Phase II inventory.

Assistant Deputy Under Secretary of Defense for Materiel and Distribution Management Comments. The Assistant Deputy Under Secretary concurred and stated that the Marine Corps policy for retaining inventory under the Critical Low Density program would be reviewed for compliance with DoD policy by December 1995.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

Procedures Reviewed. As of June 1994, the DoD catalog files identified 69,648 repairable items that were used by more than one Military Department and managed under the Joint Service Regulation. We reviewed the procedures that inventory control points used to manage items included in the Program. Specifically, we determined whether the SICAs reported assets for Phase II items to the PICAs so the assets could be included in requirements determinations.

Related Documents Reviewed. We reviewed supply status reports, procurement history reports, transaction history reports, item stratification reports and cataloging reports that were obtained for the 180 national stock numbers included in our sample, to determine whether PICAs had procured or repaired Phase II items for which available assets existed at the SICAs. The reports reviewed covered the period from May through November 1994. We also interviewed the responsible inventory managers at the 13 Military Department inventory control points included in our audit.

Audit Period, Standards, and Locations. This economy and efficiency audit was made from May 1994 through March 1995. The audit 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. The organizations we visited or contacted are in Appendix G.

Methodology

Assigning PICAs and SICAs. The Defense Logistics Services Center, Battle Creek, Michigan, a field activity of the Defense Logistics Agency, Alexandria, Virginia, is designated as the DoD cataloging agent for all items in the DoD supply system. Items in the DoD supply system are cataloged on the Total Item Record. The Military Departments inventory control points, upon determining a need for an item to be in the supply system, request the Defense Logistics Service Center to catalog the item and assign a national stock number. The inventory control point that originates the request for cataloging is assigned as the PICA. When another Military Department identifies a need for an item, previously assigned to a PICA, the Military Department requests the PICA to

initiate cataloging action to have the Military Department entered on the Total Item Record as a registered user. Common use repairable items are coded in the Total Item Record to show the PICA and SICA assignments for the Military Departments.

Audit Site Selection. From a May 30, 1994, extract of the DoD Total Item Record, we determined that 581,360 stock numbered items were in the DoD supply system classified as repairable (nonconsumable) items. Of the 581,360 repairable items, 69,648 were classified as having multiple users. For the 69,648 items, there were 76,798 SICA assignments. The 76,798 SICA assignments were shared primarily by 13 inventory control activities of the Military Departments.

We limited our review to the six SICAs with the highest number of SICA assignments. Table A-1 shows activities with the highest number of SICA item assignments in each Military Department that accounted for 58,213 (75.8 percent) of the total 76,798 SICA assignments. Of the 58,213 SICA assignments, 27,361 involved Phase II type items.

Table A-1. Audit Sites and the Number of Phase II SICA Assignments

SICA	SICA Assignments	Phase II Assignments
ASO	15,314	6,140
CECOM	5,439	3,395
MCLB	9,783	5,434
SMALC[1]	6,912	4,835
SPCC[2]	15,313	6,340
WRALC[3]	5,452	1,217
Total	**58,213**	**27,361**

[1]Sacramento Air Logistics Center
[2]Ships Parts Control Center
[3]Warner Robins Air Logistics Center

Audit Tests. We requested data system extracts of inventory on hand from six SICAs with Phase II assignments. Of the 27,361 Phase II assignments, 10,101 had inventory on hand. The total number of Phase II item assignments and the value of inventory on hand for each SICA is in Table A-2.

Table A-2. Number of Phase II SICA Items and Inventory Value

SICA	Phase II Assignments	Inventory Value (million)
ASO	1,995	$130.1
CECOM	1,068	64.1
MCLB	2,540	136.2
SMALC*	1,715	24.3
SPCC*	2,275	49.2
WRALC*	508	31.4
Total	**10,101**	**$435.3**

*See acronyms at the end of Table A-1.

Statistical Sampling Methodology

Sampling Plan. We used a stratified sampling plan as the sampling design for the audit. We stratified the 10,101 items with an inventory value of $435.3 million in five strata based on the inventory value for each of the 10,101 national stock numbers in our universe of Phase II items with inventory on hand. Excluding items in our sample selection with inventory values below $25,001 and, based on the number of items in each stratum, we selected a statistical sample of 180 national stock numbers with a total inventory value of $101.8 million as shown in Table A-3. Items with inventories below $25,001 totaled 7,966 items with an inventory value of $50.5 million.

Table A-3. Sample Selection by Stratified Value

Dollar Value Strata	NSNs*	Inventory Value (million)	Sample Size	Sample Value (million)
25,001 - 50,000	894	$ 31.4	31	$ 1.8
50,001 - 100,000	583	40.7	30	2.0
100,001 - 500,000	528	111.3	75	13.6
500,001 - 1,000,000	73	50.6	14	8.5
> 1 Million	57	150.8	30	75.9
Total	**2,135**	**$384.8**	**180**	**$101.8**

* National stock numbers.

Sampling Design. Our sample consisted of 180 items, managed under Phase II of the Program, with an inventory value of $101.8 million. Of the $101.8 million, for 64 national stock numbers the PICAs had requirements for $42.3 million. That is, assets held by SICAs could have been used to satisfy requirements of PICAs. The total value of available wholesale inventory included in our sample for Phase II items reported on the records of the six SICAs included in our audit was $384.8 million.

Sampling Results. We calculated the statistical projections for PICA requirements over the universe specified in Table A-3. Additionally, we calculated the projections for the excess inventory values over the PICA requirements for the same universe. The statistical projections of the sample data are shown in Table A-4.

Table A-4. Statistical Projections With 90 Percent Confidence Intervals
(millions)

	Lower Bound	Point Estimate	Upper Bound
PICA Requirement	$ 89.8	$141.2	$192.6
Excess Inventory	$159.2	$180.3	$201.5

We are 90 percent confident that between $89.8 million and $192.6 million of Phase II inventory held by the SICAs could be used for PICA supply system requirements. The unbiased point estimate, $141.2 million, is the most likely single value for requirements in this population.

Likewise, we are 90 percent confident that between $159.2 million and $201.5 million, of Phase II inventory held by the SICAs, was the excess value over the PICA requirements. The unbiased point estimate, $180.3 million, is the most likely single value for the excess inventory in this population.

Management Control Program

Management Controls Assessed. We evaluated the adequacy of management controls used by the Military Departments' inventory control points to implement the Program. Specifically, we evaluated the SICAs management controls and compliance with the procedures of the Joint Service Regulation for reporting Phase II inventory to the PICAs.

Implementation of the Management Control Program. The audit evaluated the process by which the Military Departments implemented the management control program as it related to the Program at the six SICAs included in our audit: ASO, CECOM, MCLB, SPCC, SMALC, and WRALC. The implementation of the management control program was not effective because management at five of the six SICAs included in our audit did not identify the Program as an assessable unit under the Program and the Program was not included under another assessable unit.

The SPCC, the sixth SICA, identified the Program as a high risk assessable unit. A management control review report was issued on March 16, 1994. The review specifically addressed three event cycles in PICA/SICA relationships, Program Introduction; Budgeting for PICA/SICA Programs; and Budget

Execution. Materiel weaknesses were identified in the development of initial program support for intra-Military Department programs and the lack of guidance provided by the SPCC and the immediate superior in command, the Naval Supply Systems Command, about budgeting requirements specific to the Program. The management control review report did not, however, address the reporting of SICAs wholesale Phase II assets to the PICAs.

Management Control Weaknesses. The audit identified material management control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls were not adequate to ensure that SICAs followed Joint Service Regulation procedures to report wholesale Phase II inventory to the PICAs, that PICAs did not procure items when available inventory existed at the SICAs and that serviceable items were not prematurely disposed. All recommendations, if implemented, will correct the identified weaknesses. Appendix F summarizes the potential benefits associated with correcting the material management control weaknesses. A copy of the final report will be provided to senior officials responsible for internal controls within the Office of the Secretary of Defense, the Army, the Navy, and the Air Force.

Prior Audit

Inspector General, DoD Report No. 92-071, "Management of Repairable Items Used by More Than One Service," April 7, 1992, reported repairable secondary items used by more than one Service were not being effectively managed to achieve the goal of the Program.

As of June 30, 1991, unauthorized wholesale stock for Phase II items, valued at about $272 million, was being retained by SICAs and not reported to the PICAs. Also, there was a lack of controls over the submission and receipt of the SICAs requirements for Phase II items. The report estimated that $125 million in available stock could have been used to fill requirements if reporting procedures in the Joint Service Regulation had been followed.

The Program goal was not being accomplished effectively. Over 10,000 items had not been reviewed for inclusion into Phase II of the Program and known program deficiencies were not corrected.

Management concurred with the audit findings, and in their responses to the audit recommendations, agreed to implement procedures to correct the reported deficiencies. However, corrective action was not taken.

Appendix B. Scope of the Nonconsumable Item Program

The table shows that the number of items included in the Program as of June 1994 accounted for 12 percent of the 581,360 repairable items managed in DoD. Of the 581,360 repairable items managed in DoD, 69,648 were included in the Program. Of the 69,648 items included in the Program, only 29,854 were under Phase II management.

Items Included in the Program

Military Department	Total Items Managed	Program Items	Phase II Items
Army	86,022	26,641	10,056
Navy	198,421	12,371	5,462
Air Force	291,427	28,836	12,922
Marine Corps	4,641	946	643
Other	849	854	771
Total	**581,360**	**69,648**	**29,854**

Appendix C. Other Matters of Interest

In October 1973, at the Direction of the Deputy Secretary of Defense, the Joint Logistics Commanders tasked the Joint Policy Coordinating Group for Defense Integrated Materiel Management to identify a means to eliminate the duplication of the wholesale management functions (budget, catalog, disposal, maintenance, procurement, requirements computation, and wholesale stockage) for repairable (nonconsumable) items with more than one DoD user. In March 1974, the Deputy Secretary of Defense directed the Military Departments' representatives to develop a two-phased program. The objective during Phase I was to identify all repairable stock numbered items used by two or more Military Departments and to assign each item to a PICA. The PICA would be responsible for making procurements of the assigned item for all other users, initiating catalog changes, and authorizing disposal actions. Each Military Department was generally allowed to maintain a wholesale level of stock at a SICA to support its users' requirements. During Phase II of the program, the PICA was to assume the additional responsibilities for budgeting, depot maintenance, and DoD-wide wholesale stockage.

Phase I, completed in December 1976, identified about 33,800 stock numbered repairable items that had two or more users. Those repairable items were coded, by at least one of the users, in the DoD Total Item Record catalog files as depot repairable items or as end items. A PICA was designated for 26,300 of the 33,800 items, and the remaining 7,500 items, which had interchangeable and substitutable relationships, had no PICA assigned during Phase I. In April 1983, the interchangeable and substitutable items were reviewed and PICA assignments with appropriate cataloging entries were made in the Total Item Record.

In May 1976, the then Assistant Secretary of Defense (Production and Logistics) approved Phase II of the Program and directed that necessary resources be made available to ensure the implementation of Phase II by May 1978. The Phase II objective was to consolidate the wholesale logistics functions of computation of wholesale replacement and overhaul requirements, depot maintenance, and wholesale asset accountability and requirement levels, at the PICAs. In March 1978, the Military Departments issued a Joint Service Regulation, "Wholesale Inventory Management and Logistics Support of Multiservice Used Nonconsumable Items," that established the procedures to be followed in managing the items included in the Program. The Joint Service Regulation was revised and reissued in February 1982. As a result of Inspector General, DoD Report No. 86-067, "Procurement of Repairable Items Used by More Than One Service," February 18, 1986, the Joint Service Regulation was again revised and reissued in April 1990. Under those revised procedures the PICAs were responsible for contacting the SICAs for each item and negotiating an agreement to eliminate any remaining duplicate wholesale functions.

Inspector General, DoD, Report No. 92-071 reported that little progress was made to eliminate duplicate management on common use repairable items in DoD (see Prior Audit Report, Appendix A). In an August 2, 1994, memorandum to the Joint Logistics Chiefs, the Deputy Under Secretary of Defense (Logistics), stated that during a followup review on conditions reported in Inspector General, DoD, Report No. 92-071:

o fewer than half of the items included in the Program had moved to Phase II of the Program.

o even where items had moved to Phase II, the SICAs were holding large wholesale inventories that were not visible to the PICAs.

o the Joint Service Regulation that governed the Program contained many exceptions that allowed SICAs to retain wholesale management and maintenance functions.

o the need for SICAs was questionable in the current environment where repairable assets in DoD were funded by the stock fund.

In the interest of eliminating the duplication of repairables management in DoD, the Deputy Under Secretary of Defense (Logistics), in August 1994, asked the Joint Logistics Commanders to closely review the Joint Service Regulation and to develop a plan to move all items included in the Program to Phase II status by the end of FY 1995. The Deputy Under Secretary also recommended that the Joint Logistics Chiefs consider expanding the Program to include items on multi-used weapons systems that had similar functions but were catalogued as separate national stock numbers.

In a December 15, 1994, memorandum to the Assistant Secretary of the Army (Installations, Logistics, and Environment), the Assistant Secretary of the Navy (Research, Development, and Acquisition), and the Assistant Secretary of the Air Force (Acquisition), the Deputy Under Secretary established the DoD Nonconsumable Item Integrated Materiel Management Committee. The committee was to develop plans to eliminate the duplicate management of repairable and other nonconsumable items in the DoD, and to ensure that the related functional requirements were defined for inclusion in the Materiel Management Standard System implementation.

Appendix D. Wholesale Phase II Inventory at SICAs

Inventory Value of Phase II Items by Condition Code (millions)

SICA	Items	Inventory Value	Condition Code A[1]	Other Condition Codes
ASO	1,995	$130.1	$ 59.5	$ 70.6
CECOM	1,068	64.1	11.2	52.9
MCLB	2,540	136.2	87.4	48.8
SMALC[2]	1,715	24.3	15.8	8.5
SPCC[2]	2,275	49.2	43.4	5.8
WRALC[2]	508	31.4	11.0	20.4
Total	**10,101**	**$435.3**	**$228.3**	**$207.0**

[1]Condition code A assets are in a serviceable condition.
[2]See acronyms at the end of Table A-1.

Appendix E. Available Assets at SICAs

Assets Available at SICAs to Fill Proposed Procurements or Repair Actions at PICAs

NSN[1]	PICA	SICA	Assets[2]	Value
2835-01-083-9978	ATCOM	ASO	3F	$ 168,690
2835-01-166-9129	ATCOM	ASO	6A[3]	337,380
2835-01-166-9129	ATCOM	ASO	14F[4]	787,220
6115-00-368-8200	ATCOM	SMALC[5]	1A	3,499
6115-00-368-8200	ATCOM	SMALC	26F	90,974
5821-01-112-6049	CECOM	MCLB	4F	126,792
5821-01-112-6049	CECOM	MCLB	2A	63,396
5825-01-171-9893	CECOM	MCLB	10F	320,160
6110-01-175-7312	CECOM	MCLB	541A	1,848,579
6110-01-175-7312	CECOM	MCLB	2F	6,834
5805-01-120-2929	CECOM	SMALC	5F	47,605
5895-01-212-8501	CECOM	SPCC[5]	1F	9,640
5895-01-212-8501	CECOM	SPCC	3A	28,920
5820-01-096-9491	MCLB	SPCC	6A	21,872
1430-01-298-3538	MICOM[6]	MCLB	5A	69,600
1630-00-825-4794	OOALC[7]	ASO	8A	63,680
5985-01-026-9676	SPCC	CECOM	21A	81,480
5955-01-027-7350	SPCC	SMALC	26A	247,260
2835-01-222-7936	TACOM[8]	MCLB	16F	3,543,136
Total				**$7,866,717**

[1]National stock number.
[2]Assets show quantity of assets and condition code of the assets.
[3]Condition code A = serviceable assets.
[4]Condition code F = unserviceable, repairable assets.
[5]See acronyms at the end of Table A-1.
[6]MICOM Missile Command.
[7]OOALC Oklahoma City Air Logistics Center.
[8]TACOM Tank Automotive Command.

Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
1.a.	Management Control. Improve asset visibility.	Funds Put to Better Use. One-time savings are estimated at $141.2 million.
1.b.	Management Control. Prevent unnecessary procurements and repair actions.	Undeterminable. Benefits would be determined on a case-by-case basis.
2.a.	Economy and Efficiency and Management Control. Prevent the disposal of serviceable assets.	Undeterminable. Benefits would be determined on a case-by-case basis.
2.b	Management Control. Review disposals of serviceable assets for recall and use.	Nonmonetary.
3.	Management Control. Improve Marine Corps compliance with the Joint Service Regulation.	Nonmonetary.

Appendix G. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Under Secretary of Defense for Acquisition and Technology, Washington, DC

Department of the Army

Deputy Chief of Staff (Logistics), Supply and Maintenance Policy, Washington, DC
Army Materiel Command, Alexandria, VA
- U.S. Army Armament, Munitions, and Chemical Command, Rock Island, IL
- U.S. Army Aviation and Troop Command, St. Louis, MO
- U.S. Army Communications and Electronics Command, Fort Monmouth, NJ
- U.S. Army Missile Command, Redstone Arsenal, AL
- U.S. Army Tank Automotive Command, Warren, MI

Department of the Navy

Naval Supply Systems Command, Washington, DC
- Navy Aviation Supply Office, Philadelphia, PA
- Naval Ships Parts Control Center, Mechanicsburg, PA

Naval Air Systems Command, Washington, DC
U.S. Marine Corps (Logistics), Washington, DC
- Marine Corps Logistics Base, Albany, GA

Department of the Air Force

Deputy Chief of Staff (Logistics and Engineering), Supply Policy, Washington, DC
Air Force Materiel Command, Dayton, OH
- Ogden Air Logistics Center, Hill Air Force Base (AFB), UT
- Oklahoma City Air Logistics Center, Tinker AFB, OK
- Sacramento Air Logistics Center, McClellan AFB, CA
- San Antonio Air Logistics Center, Kelly AFB, TX
- Warner Robins Air Logistics Center, Robins AFB, GA

Defense Agency

Defense Logistics Agency, Cameron Station, VA
- Defense Logistics Services Center, Battle Creek, MI

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
- Deputy Under Secretary of Defense (Logistics)
  - Assistant Deputy Under Secretary of Defense for Materiel and Distribution Management
- Deputy Chief Financial Officer
- Deputy Comptroller (Program/Budget)
- Director, Defense Logistics Studies Information Exchange

Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Commander, Army Materiel Command
- Commander, Armament, Munitions, and Chemical Command
- Commander, Aviation and Troop Command
- Commander, Communications and Electronics Command
- Commander, Missile Command
- Commander, Tank Automotive Command

Department the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Commander, Naval Supply Systems Command
- Commanding Officer, Navy Aviation Supply Office
- Commanding Officer, Naval Ships Parts Control Center

Commandant of the Marine Corps, Deputy Chief of Staff for Logistics
- Commanding General, Marine Corps Logistics Base

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Headquarters, Deputy Chief of Staff (Logistics and Engineering) Supply Policy

Department of the Air Force (cont'd)

Commander, Air Force Materiel Command
  Commanding Officer, Ogden Air Logistics Center
  Commanding Officer, Oklahoma City Air Logistics Center
  Commanding Officer, San Antonio Air Logistics Center
  Commanding Officer, Sacramento Air Logistics Center
  Commanding Officer, Warner Robins Air Logistics Center

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
  National Security and International Affairs Division, Technical Information Center
  National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
  National Security and International Affairs Division, Military Operations and Capabilities Issues

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

  Senate Committee on Appropriations
  Senate Subcommittee on Defense, Committee on Appropriations
  Senate Committee on Armed Services
  Senate Committee on Governmental Affairs
  House Committee on Appropriations
  House Subcommittee on National Security, Committee on Appropriations
  House 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

Part III - Management Comments

Office of the Under Secretary of Defense (Acquisition and Technology) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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ACQUISITION AND TECHNOLOGY

(L/MDM)

08 AUG 1995

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: DODIG Draft Report: Management of Common Use Reparable Items in the Department of Defense (Report No. 4LD-5044 dated May 25, 1995)

Recognizing that this is the fourth DODIG report on this subject in 13 years, with little progress noted, the Office of the Secretary of Defense (OSD) is providing the attached consolidated response to the draft DODIG report.

As noted in the draft report, OSD has taken action to ensure improvements are affected in the management of multi-service use reparables. OSD has established the Nonconsumable Integrated Materiel Management Committee (NIMMC) to effect the appropriate policy changes. The Department has launched an aggressive effort to define and correct long overdue system problems related to asset visibility. Service funding for these system changes was approved in July 1995, and the changes are to be implemented by October 1996.

The Services have also been directed to move Phase I items to Phase II. As part of this effort, the Joint Logistics Commander's Joint Group on Inventory Management is reviewing the logistics transfer processes and procedures, and will review all Phase I items for appropriate transfer to Phase II.

The Department is paying particular attention to management of these common use reparables, and more importantly we are ensuring that systems to support these items are aggressively developed and implemented. We appreciate the opportunity to respond to the draft report.

James B. Emahiser
Assistant Deputy Under Secretary
(Materiel and Distribution Management)

Attachment

DoD Responses to Recommendations for Corrective Actions

1. We recommend that the Commanders, Army Materiel Command, Naval Supply Systems Command, Air Force Materiel Command, and the Marine Corps Deputy Chief of Staff for Logistics:

a. Establish formal procedures for the periodic reporting of wholesale Phase II inventory by the secondary inventory control activities to the primary inventory control activities.

DUSD(L) Response: Concur. The Department has assigned responsibility for establishing policy and procedures for common use reparables to the newly established Nonconsumable Integrated Materiel Management Committee (NIMMC). The NIMMC is in the process of rewriting the policy, and the new policy will require formal automated reporting procedures. In January 1995, the Department developed a long overdue requirements statement for asset visibility of reparables which will require asset reporting for all reparables. Funding for the requirements statements was approved by the Joint Logistics Systems Center on July 11, 1995. The completion and implementation of these requirements changes is expected by October 1996. The department is also in the process of reviewing the decapitalization programs to ensure that the logistics reassignment process works appropriately to allow proper decapitalization of assets from the SICA to the PICA.

b. Establish procedures for the primary inventory control activities to query the secondary inventory control activities for available Phase II inventory before initiating procurement or repair actions.

DUSD(L) Response: Concur. As in the response to recommendation 1a, the requirements statements for visibility of reparable assets also includes the PICA's visibility of reparable assets at SICA Service activities prior to the PICA initiating procurement or repair actions. The implementation of these requirements changes is expected by October 1996.

2. We recommend that the Commander, Army Materiel Command:

a. Install procedures at all Army inventory control points to prevent the disposal of serviceable (condition code A) assets in lieu of unserviceable (condition code F) assets.

DUSD(L) Response: Concur. The U. S. Army Materiel Command's action was predicated on the current Army credit and materiel return policies. The Army is reviewing this policy and will develop the Army position by 2QFY96.

ATTACHMENT

Final Report Reference

Recommendation amended

b. Review all Army directed disposals of serviceable assets, that occurred since August 1993, for their possible recall from disposal and use to fill requirements.

DUSD(L) Response: Nonconcur. It is not possible to recall disposal actions that have occurred since August 1993. The DLA Defense Reutilization and Marketing Offices (DRMOs) do not hold materiel that long. After a screening cycle of 42 days, the items are sold.

3. We recommend that the Deputy Under Secretary of Defense (Logistics) review the Marine Corps policy on retaining Phase II inventory under the auspices of critical and non-critical low density and determine the appropriateness of retaining Phase II inventory.

DUSD(L) Response. Concur. As a result of the audit, we have tasked the Marine Corps with a two part review process. First, the Marine Corps is to provide this office with a definition of Critical Low Density (CLD), and the policy and procedures governing the program. DUSD(L) will review the program for conformance to DoD policy. Second, the Marine Corps will conduct a review of all Principal End Items and End Items classified as CLD, validate the items against the approved policy, and provide a plan for the disposition of any Phase II nonconsumables no longer associated with the CLD program. This review process will be completed by December 1995.

Audit Team Members

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

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