

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**INVENTORY ACCURACY AT THE DEFENSE DEPOT,
SUSQUEHANNA, PENNSYLVANIA**

Report No. 97-159

June 12, 1997

Department of Defense

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Acronyms

DBOF	Defense Business Operations Fund
DLA	Defense Logistics Agency
DDSP-W	Defense Distribution Depot West, Susquehanna, Pennsylvania
GAO	General Accounting Office
ICP	Inventory Control Point
NAVICP	Naval Inventory Control Point



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



June 12, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDER, DEFENSE DEPOT, SUSQUEHANNA,
PENNSYLVANIA

SUBJECT: Audit Report on Inventory Accuracy at the Defense Depot, Susquehanna,
Pennsylvania (Report No. 97-159)

We are providing this audit report for information and use. This report is the second in a series of reports dealing with inventory accounts contained in the FY 1996 Defense Business Operations Fund financial statements. We considered management comments on a draft of this report when preparing the final report.

Comments from the Director, Defense Logistics Agency, conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to either Mr. James Kornides, Audit Program Director, or Mr. Tim Soltis, Audit Project Manager, at (614) 751-1400. See Appendix F for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-159
(Project No. 5FJ-2018.01)

June 12, 1997

Inventory Accuracy at the Defense Depot, Susquehanna, Pennsylvania

Executive Summary

Introduction. We identified issues pertaining to the accuracy of the Defense Depot, Susquehanna, Pennsylvania, inventory records during our work on the "Audit of Inventory Accounts in the FY 1996 Financial Statements of the Defense Business Operations Fund." We initiated the inventory audit to support the Chief Financial Officers Act of 1990 (Public Law 101-576, November 15, 1990) as amended by the Federal Financial Management Act of 1994 (Public Law 103-356, October 13, 1994). This report is the second in a series of reports pertaining to the inventory accounts of the Defense Business Operations Fund.* The previous report, "Inventory Accuracy at the Defense Depot, Columbus, Ohio," (Report No. 97-102) dealt with excess chemical suits and was issued February 28, 1997. (See Appendix B for details.)

DoD storage depots, such as the Defense Depot, Susquehanna, Pennsylvania, are responsible for maintaining accurate inventory records. Depot inventory records, which are maintained in the Defense Logistics Agency Distribution Standard System, constitute part of the financial information used by the Defense Finance and Accounting Service to prepare financial statements required by the Chief Financial Officers Act. Accurate inventory records are critical to readiness, sustainability, financial integrity, and cost-effective operations. More efficient materiel management is a principal DoD management improvement tool.

Audit Objective. The overall audit objective was to determine whether the inventory accounts of the FY 1996 Defense Business Operations Fund financial statements are presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this part of the audit, we determined whether inventory balances of items managed by the Defense Logistics Agency and located in Mechanicsburg, Pennsylvania, were reflected in the Defense Depot, Susquehanna, Pennsylvania, inventory records. The review of the management control program applicable to the overall audit objective will be discussed in a subsequent report.

*In December 1996, the Under Secretary of Defense (Comptroller) announced that the Defense Business Operations Fund would be realigned into several separate working capital funds. This realignment does not affect the matters discussed in this report.

Audit Results. The Defense Depot, Susquehanna, Pennsylvania, inventory records did not reflect correct balances for 1,969 consumable items for which management responsibility had been transferred from the Navy to the Defense Logistics Agency under the Consumable Item Transfer Program. Consequently, the Defense Logistics Agency financial statements were misstated by \$16 million. As a result of the audit, Defense Logistics Agency personnel removed the misstated balances from the accountable records. Additionally, all remaining items managed by the Defense Logistics Agency and stored at the Navy-owned warehouses in Mechanicsburg, Pennsylvania, were being relocated to the Defense Depot, Susquehanna, Pennsylvania, warehouses. Therefore, we made no recommendation for additional corrective action (Finding A).

The Defense Depot, Susquehanna, Pennsylvania, retained \$1 million in obsolete inventory, up to 50 years old, that was transferred from the Navy. As a result, the financial statements were misstated and unnecessary storage costs of about \$4,805 annually were incurred (Finding B).

The Defense Depot, Susquehanna, Pennsylvania, did not assign storage locations to materiel located in a warehouse it shared with the Naval Inventory Control Point. As a result, the Depot lost accountability over the items stored in that warehouse (Finding C).

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency, identify and dispose of obsolete items transferred from the Navy to the Defense Depot, Susquehanna, Pennsylvania. We recommend that the Commander, Defense Depot, Susquehanna, Pennsylvania, Defense Logistics Agency, perform a wall-to-wall inventory of items in the warehouse it shares with the Naval Inventory Control Point and assign storage locations to materiel stored there.

Management Comments. The Defense Logistics Agency partially concurred with portions of the findings but concurred with all of the recommendations. The Defense Logistics Agency agreed to work with the Navy to obtain the correct information regarding the 12 obsolete items, to review the remaining 819 items for disposal eligibility, and to conduct a wall-to-wall inventory of the warehouse it shares with the Naval Inventory Control Point. The estimated completion date for the actions is July 31, 1997. See Part I for a summary of the management comments and Part III for the complete text of the management comments.

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Part I - Audit Results

Audit Background

The Chief Financial Officers Act of 1990, as amended, requires that Defense Business Operations Fund (DBOF) financial statements be audited annually. The inventory accounts comprise some of the largest DBOF accounts. The DoD FY 1996 ending balance for DBOF inventory accounts was \$57.1 billion. This report is the second in a series of reports dealing with DBOF inventory issues. The first report dealt with inventory accuracy at the Defense Depot, Columbus, Ohio.

In December 1996, the Under Secretary of Defense (Comptroller) announced that the Defense Business Operations Fund would be realigned into several separate working capital funds. This realignment does not affect the matters discussed in this report.

Defense inventory management was cited as a high-risk area by the General Accounting Office and improving materiel management is a principal DoD management improvement goal. Two long-standing problems are inadequate visibility over inventory and retention of excess stock.

Inventory Control Point Responsibilities. Inventory Control Points (ICPs) have primary responsibility for managing secondary items (such as consumable items and weapon system repair parts). Materiel management involves determining the types and amounts of items needed for daily military operations, purchasing materiel, positioning items at storage activities such as Defense distribution depots, and promptly disposing of all excess and obsolete items. The depot where assets are physically located is designated by a three-digit routing identifier code. Materiel stored at the depots is reported in the financial statements as "Inventory, Net."

Defense Management Report Decision 926, "Consolidation of Inventory Control Points," November 1989, recommended that the Military Departments (Air Force, Army, and Navy) transfer management responsibility for all consumable items to the Defense Logistics Agency (DLA). In July 1990, DoD established the Consumable Item Transfer Program to transfer management responsibilities for consumable items from the Military Departments to DLA. The first phase of the program involved about 756,000 consumable items and was completed in FY 1994. The second phase of the transfer, which is expected to include approximately 171,000 additional items, should be completed during FY 1998.

Defense Depot Responsibilities. The DBOF inventory is stored primarily at distribution depots managed by the DLA. The depots are responsible for maintaining accurate records for all materiel stored regardless of ownership. The depots use the Distribution Standard System to maintain property accountability. The Distribution Standard System records are used to update the Standard Automated Materiel Management System, which is used by the Defense Finance and Accounting Service to prepare the DLA financial statements.

For inventory records to be reliable, each physical warehouse storage location must be in the system and the on-hand balances, ownership, and other attributes of the items stored accurately reflected.

The Defense Distribution Depot, Susquehanna, Pennsylvania, is one of 23 Defense depots managed by DLA. The depot has two geographic sites designated as East and West. The West site, Defense Depot, Susquehanna, Pennsylvania (DDSP-W), is physically located on the Naval ICP compound in Mechanicsburg, Pennsylvania. As of September 30, 1996, the DDSP-W stored 301,535 items, valued at about \$1.2 billion, for Military Component owners.

Audit Objective

The overall audit objective was to determine whether the inventory accounts of the FY 1996 DBOF financial statements are presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this part of the audit, we determined whether inventory balances of DLA-managed items located in Mechanicsburg, Pennsylvania, were reflected in the Defense Depot, Susquehanna, Pennsylvania, inventory records. The review of the management control program applicable to the overall audit objective will be discussed in a subsequent report. See Appendix A for a complete discussion of the scope and methodology. See Appendix B for a discussion of prior audit coverage.

Finding A. Accounting for Transferred Materiel

The DDSP-W inventory records did not reflect correct balances for 1,969 consumable items for which management responsibility had been transferred from the Navy to the DLA under the Consumable Item Transfer Program. At the time item management responsibilities were transferred, the DLA ICPs did not direct the physical relocation of items from Navy-owned warehouses to DDSP-W warehouses located in Mechanicsburg, Pennsylvania. As a result, the financial statements were misstated by \$16 million. During the audit, however, DLA personnel corrected their accountable records. Additionally, all remaining items managed by DLA and stored at the Navy-owned warehouses in Mechanicsburg, Pennsylvania, were being relocated to the Defense Depot, Susquehanna, Pennsylvania, warehouses. Therefore, we made no further recommendations.

Consumable Item Transfer Requirements

Overall procedures for transferring consumable items from the Military Departments to DLA are contained in DoD 4140.26-M, "Defense Integrated Materiel Management Manual for Consumable Items," January 1992. The transfer procedures require the losing Military Department ICP, the gaining DLA ICP, and the DoD storage activity with custodial responsibility to coordinate the transfer of assets. Coordination includes updating ICP records to accurately reflect the new ownership of the transferred assets and to ensure that recorded quantities agree with the balance in the inventory records maintained by the storage activity.

Inventory Accuracy

The DDSP-W custodial records did not reflect balances of materiel for which management responsibility had been transferred from the Naval ICP (formerly the Navy Ships Parts Control Center) to DLA ICPs. Between FYs 1991 and 1996, the Naval Inventory Control Point (NAVICP) transferred management responsibility for approximately 160,000 consumable items to 4 DLA ICPs. Of the 160,000 items transferred, 1,969 items were stored at Navy-owned warehouses in Mechanicsburg, Pennsylvania.

Moving the inventory from the Navy warehouses to DDSP-W warehouses at the time item management responsibilities were transferred from the Navy to DLA would have been easy because the DDSP-W warehouses are also located on the NAVICP compound in Mechanicsburg, Pennsylvania. However, the inventory was not relocated at that time.

Physical Location of Transferred Inventory

Personnel at the DLA ICPs could not explain why the 1,969 items were not transferred to DDSP-W at the time DLA assumed responsibility for their management. However, because the items were not relocated from the Navy-owned facilities, the following problems occurred.

- o DLA ICP records were duplicated.
- o DLA records did not reflect materiel disposed of by the NAVICP.

Duplication of Asset Balances. DLA ICP records contained duplicate asset balances because items were not relocated to the Defense Depot, Susquehanna, Pennsylvania, at the time management responsibilities transferred. We judgmentally selected 42 of the 1,969 items for review. (See Appendix A for complete discussion of audit scope and methodology.) For 17 of these items, which were valued at \$1.6 million, duplicate asset balances existed in DLA accountable records. (See Appendix C for details.) This occurred when the NAVICP transferred the items to DLA. At that time, DLA picked up the book balances recorded by the NAVICP and noted that the items were physically located at Navy-owned warehouses in Mechanicsburg, Pennsylvania, using routing identifier code "NMZ." Subsequent to the transfer of the 17 items, up to 4 years later, Navy personnel identified the materiel as excess during physical inventory counts at their warehouses and offered it to DLA.

The DLA managers accepted the materiel and, not realizing that the items were already on their records under routing identifier code "NMZ," picked up the items a second time under routing identifier code "SAC." The "SAC" code denotes items located at DDSP-W warehouses. As a result, the items were recorded in the DLA accountable records twice.

Materiel Disposals. Because transferred materiel was not relocated to DDSP-W warehouses, the NAVICP disposed of 23 items, valued at about \$2.5 million, without notifying DLA. (See Appendix D for details.) The DDSP-W uses the Distribution Standard System, which interfaces with the DLA Standard Automated Materiel Management System, to control its inventory. In contrast, the custodial records maintained for items stored at the Navy-owned warehouses were kept on a personal computer program that did not interface with the DLA Standard Automated Materiel Management System. The Standard Automated Materiel Management System is the DLA accountable record and provides DLA inventory managers with visibility over assets under their control. NAVICP personnel told us that they had sent the 23 items to the Defense Reutilization and Marketing Service for disposal.

Documentation to support disposal actions was available at the NAVICP for only 4 of the 23 items. DLA item managers did not have documentation on the disposals because the personal computer program used by the NAVICP to control its inventory did not update the Standard Automated Materiel Management System. Also, the DLA still retained, in the accountable records, the original quantities and dollar value of the 23 items transferred, although the

Finding A. Accounting for Transferred Materiel

assets were no longer at the Navy-owned warehouses. As a result, DLA inventory balances were overstated by \$2.5 million, because the assets were no longer in DoD inventory.

Corrective Actions Taken

During the audit, we discussed the results of our judgmental sample with NAVICP and DLA personnel. After reviewing our audit results, DLA personnel decided to remove all of the 1,969 items designated by routing identifier code "NMZ" from their accountable records. In addition, NAVICP and the DDSP-W personnel met in December 1996 and agreed that NAVICP would physically relocate all remaining consumable items in Navy-owned warehouses in Mechanicsburg, Pennsylvania, to DDSP-W warehouses. These actions corrected the \$16 million misstatement in the DLA accountable records and reduced the likelihood of the problems. As a result, we have no further recommendations.

Finding B. Retention of Obsolete Inventory

The DDSP-W retained \$1 million in obsolete inventory that was transferred from the NAVICP under the Consumable Item Transfer Program. This condition occurred because the NAVICP transferred obsolete materiel to DLA instead of disposing of it as required by DoD 4140.2-M. As a result, DLA financial statements were overstated by about \$.9 million, and DDSP-W incurred unnecessary storage costs of about \$4,805 annually.

Obsolete Materiel

Consumable Item Transfer Program. DoD 4140.26-M requires that the losing ICP (NAVICP in this case) identify weapon system application and essentiality codes for items transferred to DLA. That information is needed by DLA to properly manage weapon system items and to ensure that obsolete items are not retained. DoD 4140.26-M also states that items without a valid weapon system application are obsolete. Such items should not be transferred to DLA but disposed of promptly by the losing Military Department ICP.

Accounting for Obsolete Materiel. Statement of Federal Financial Accounting Standard No. 3, "Accounting For Inventory and Related Property," October 27, 1993, defines obsolete inventory as inventory that is no longer needed because of changes in technology, laws, customs, or operations. The policy requires obsolete inventory to be reported on the financial statements at its net realizable sales value. For FY 1996, the net realizable value established by DoD was 2.5 percent of the item's cost. The 97.5-percent reduction should be recorded as a loss in the current period and separately disclosed. The remaining 2.5 percent is reflected in the Statement of Financial Position.

Transferred Materiel

The DDSP-W retained obsolete inventory transferred from the NAVICP under the Consumable Item Transfer Program. At the time of our audit, 17 of 42 items transferred by the NAVICP to DLA were still on hand. The 17 items had a book value of about \$1.5 million and packing dates between 1947 and 1974. Examples are as follows.

- o A centrifugal pump unit costing \$74,980. The pump occupied about 8,255 square feet of storage space, equating to about \$295 in annual storage costs. The pump was still in the original box in which it was shipped when the item was received in September 1948.

Finding B. Retention of Obsolete Inventory

o Two rotor blades costing \$107,780 that had been packed in October 1947. The Navy had assigned a generic Weapons System Application Code to the blades. However, when we attempted to determine the specific weapon system that the blades supported, Navy managers said that the blades were not needed for any current inventory item.

Weapon System Application

The NAVICP transferred materiel with no weapon system application to DLA instead of disposing of the materiel as required by DoD 4140.26-M. Weapon system applications for individual stock numbers are recorded in the NAVICP Weapons Systems Configuration Files. When the configuration of a particular weapon system is changed, the configuration must be updated.

Of the 1,969 items transferred by the NAVICP to DLA, DDSP-W records (identified by routing identifier code "SAC") showed that 836 items, valued at \$7.4 million, were still on hand. We asked program managers at the NAVICP to review 17 of the items to determine whether they had current applications to active weapons systems. The program managers said that 12 of the 17 items, valued at about \$1 million, did not have a valid weapon system application. According to DoD 4140.26-M, all obsolete items should be processed promptly for disposal.

Effect of Retaining Obsolete Materiel

Retaining obsolete materiel at a DoD storage activity overstates the inventory value reported on the financial statements and results in unnecessary holding costs. The net realizable value of the 12 items was about \$24,000 (based on 2.5 percent of cost). As a result, the DLA financial statements were overstated by about \$958,000. (See Appendix E for details.) Because the NAVICP did not properly designate the items as obsolete before they were transferred to DLA, Navy financial statements did not reflect the loss. In addition, the DDSP-W estimated that the annual cost to maintain the 12 obsolete items was about \$4,805.

Recommendations, Management Comments, Audit Response

B. We recommend that the Director, Defense Logistics Agency:

1. Dispose of the 12 obsolete items identified in Appendix E.

Management Comments. The Defense Logistics Agency concurred, stating that they would work with the Navy to obtain correct information regarding the 12 obsolete items and take disposal action, if appropriate. The estimated completion date is July 31, 1997.

2. Screen the remaining 819 items (836 on hand at DDSP-W less the 17 already screened) and dispose of those without valid weapons system applications.

Management Comments. The Defense Logistics Agency concurred, stating that they would review the remaining 819 items for disposal eligibility. The estimated completion date is July 31, 1997.

Finding C. Identification of Unmarked Storage Locations

The DDSP-W did not assign storage locations to materiel stored in a warehouse shared with the NAVICP. This happened because DDSP-W did not take physical inventories or verify the locations assigned by NAVICP personnel when the warehouse space was transferred. As a result, DDSP-W lost accountability over the items stored in that warehouse.

Storage Policies

Overall procedures for receipt, storage, and issue of DoD inventories are contained in DoD Directive 4140.1, "Materiel Management Policy," January 4, 1993, and DoD 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)," May 1987. All materiel must be stored in either a permanent or a temporary warehouse location, and the locations posted to an appropriate stock locator system.

Warehouse Observations

While walking through warehouse building 216 on the NAVICP compound, we noticed that the materiel stored by DDSP-W were not marked with either temporary or permanent location numbers as required by DoD 4000.25-2-M. The location listed in the Distribution Standard System indicated that items designated by routing identifier code "SAC" were located in building 216.

The materiel stored in building 216 could not be readily traced to Distribution Standard System locations. In addition, other consumable items not in our sample were commingled with equipment owned by the Mechanicsburg Plant and Equipment Repair facility at some locations.

NAVICP and DDSP-W shared storage space in building 216. Previously, the NAVIP had used building 216 exclusively. During FY 1995, NAVICP turned over to DDSP-W the consumable items located in the warehouse along with the space the items occupied. The materiel was transferred in-place and picked up by DDSP-W in the Distribution Standard System at the locations that had originally been assigned by the NAVICP.

Inventory accountability problems occurred because DDSP-W personnel did not take physical inventories or verify the locations assigned by NAVICP personnel when the warehouse space was transferred. Consequently, DDSP-W lost accountability over the items stored in that warehouse.

Recommendations, Management Comments, Audit Response

C. We recommend that the Commander, Defense Depot, Susquehanna, Pennsylvania, Defense Logistics Agency, perform a wall-to-wall inventory of building 216, assign locations to the materiel on hand, and update the Distribution Standard System locator records.

Management Comments. The Defense Logistics Agency concurred, stating that Defense Depot, Susquehanna, Pennsylvania, will conduct location surveys in building 216 to clearly identify all items. Once the location surveys are done, a wall-to-wall inventory will be conducted and completed by July 31, 1997.

Part II - Additional Information

Appendix A. Audit Process

Scope

Work Performed. As part of our DoD-wide statistical sample of the DBOF inventory, we reviewed 39 items identified in the Military Component (Air Force, Army, Navy, and DLA) Inventory Control Point records as being stored at Navy-owned warehouses in Mechanicsburg, Pennsylvania (designated by routing identifier code "NMZ"). The overall sample measured the accuracy of the total DoD-wide DBOF inventory. The 39 items consisted of 24 items managed by the NAVICP and 15 items managed by the DLA.

Because of problems we found with the 15 DLA-managed items and the fact that DDSP-W (a subordinate activity of DLA) also owns warehouses in Mechanicsburg, Pennsylvania, we expanded the scope of our review. Our scope included all items managed by DLA and shown on DLA accountable records as being physically located in Navy-owned warehouses in Mechanicsburg, Pennsylvania.

Limitations to Audit Scope. Our scope was limited in that we did not include tests of management controls. In addition, we did not evaluate the reliability of or controls over computer-processed data from the Distribution Standard System because our audit focused on a small portion of the entire system.

Methodology

We researched the DLA National Inventory Record for storage locations designated by routing identifier code "NMZ." This research revealed that 1,969 items, valued at about \$16 million, were managed by DLA, but stored at Navy-owned warehouses in Mechanicsburg, Pennsylvania. We judgmentally selected 42 of the 1,969 items valued at about \$4.1 million. The items selected were valued at \$50,000 or more.

The results of our review of the 39 items selected as part of our statistical sample will be considered in our overall assessment of the FY 1996 DBOF account balance. Our audit results for the 42 items selected judgmentally are not projectable to the DBOF inventory as a whole.

Audit Type, Dates, and Standards. We performed this financial-related audit from August 1996 through February 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

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

Appendix B. Summary of Prior Coverage

During the last 5 years, the General Accounting Office (GAO) and the Office of the Inspector General, DoD, issued reports related to inventory accuracy at Defense Depots and the transfer of consumable items from Navy Inventory Control Points to DLA.

General Accounting Office

Report No. HR-97-5, "Defense Inventory Management," February 1997, provides status on Defense Managers' efforts to improve problems in the area of Inventory Management that were identified in prior GAO reviews. Defense Inventory Management was designated as a high-risk area by GAO because of its vulnerability to fraud, waste, abuse, and mismanagement. The report states that large amounts of unneeded inventories exist in DoD. In addition, DoD lacks oversight of its inventory, financial accountability remains weak, and requirements are overstated. The report concludes that DoD needs to emphasize efficient operations of existing inventory systems by focusing on record accuracy and reducing the amount of excess inventory.

Inspector General, DoD

Report No. 97-102, "Inventory Accuracy at the Defense Depot, Columbus, Ohio," February 28, 1997, states the Defense Depot, Columbus, Ohio, did not include 696,380 chemical suits, valued at \$51 million, in its inventory records. Additionally, the depot records were misstated by 1.04 million suits, valued at \$71 million. The report recommended that the DLA research the causes of discrepancies, process materiel from remote locations using a redistribution order, mark storage locations in the warehouses, and use proper stock issue procedures. The DLA generally agreed with the recommendations and stated that actions to correct the problems would be completed by September 30, 1997.

Report No. 94-071, "Transfer of the Management of Consumable Items to the Defense Logistics Agency," March 31, 1994, states that items involved in the transfer from the Military Departments to DLA had not been coded with weapons systems management codes. Other items had been assigned incorrect weapons systems management codes. Specifically, at the Ships Parts Control Center (now the Naval Inventory Control Point), 22 of the 99 items reviewed that had been transferred to DLA should have been deleted from the supply system because either no recorded weapons system application existed or the weapon system application recorded was invalid. According to the Navy, this problem was corrected in December 1993.

Appendix C. Duplicate Inventory Balances

<u>Stock Number</u>	<u>DLA ICP¹</u> <u>Balance</u>		<u>On-Hand</u> <u>Balance</u>		<u>Variance</u>		<u>Value</u>
	<u>SAC²</u>	<u>NMZ³</u>	<u>SAC</u>	<u>NMZ</u>	<u>SAC</u>	<u>NMZ</u>	
4620002690171	5	5	5	0	0	5	\$ 207,750
4320004278649	2	4	2	0	0	4	160,440
4320002674382	1	3	1	0	0	3	154,200
4320003730497	2	1	2	0	0	1	107,780
4320000727094	1	1	0	0	1	1	107,200
4320008053852	1	2	1	0	0	2	97,140
2825007119430	2	2	2	0	0	2	85,720
4320002123178	3	3	3	0	0	3	83,310
2825006592377	2	2	2	0	0	2	76,240
4320002674263	1	1	1	0	0	1	74,980
2825006270461	1	1	1	0	0	1	71,600
2825007954883	1	1	1	0	0	1	65,430
2825007119423	1	2	1	0	0	2	64,620
2825007954852	1	1	1	0	0	1	54,940
4320004287984	2	4	2	0	0	4	52,880
4320004377946	1	1	1	0	0	1	51,380
2825006592374	1	1	1	0	0	1	<u>50,245</u>
Total (17 Items)							\$1,565,855

¹Inventory Control Point.

²Routing Identifier Code denoting items located at DDSP-W Warehouses.

³Routing Identifier Code denoting items located at Navy-owned warehouses in Mechanicsburg, Pennsylvania.

Appendix D. Materiel Disposals

Stock Number	DLA ICP Balance		On-Hand Balance		Variance		Value
	SAC	NMZ	SAC	NMZ	SAC	NMZ	
4320008547252	0	12	0	0	0	12	\$ 298,200
4320002442330	0	5	0	0	0	5	263,500
4320002673287	0	3	0	0	0	3	183,300
4320008419738	0	2	0	0	0	2	176,220
4320002442333	0	2	0	0	0	2	128,880
5930009386170	0	90	0	0	0	90	112,296
4320003683091	0	3	0	0	0	3	112,230
4320008644062	0	2	0	0	0	2	110,660
4420003684257	0	2	0	0	0	2	110,340
3010006228883	0	1	0	0	0	1	96,990
4320004831368	0	2	0	0	0	2	88,660
4140002559250	0	3	0	0	0	3	86,490
5950010035745	0	27	0	0	0	27	84,954
4140005547273	0	1	0	0	0	1	80,510
3020002181782	0	3	0	0	0	3	80,070
3020005130576	0	2	0	0	0	2	73,040
2825006270460	0	1	0	0	0	1	71,600
4320002673286	0	1	0	0	0	1	58,320
4320004956787	0	2	0	0	0	2	57,780
4320004910909	0	2	0	0	0	2	55,540
4320002301073	0	1	0	0	0	1	54,980
2825006793540	0	2	0	0	0	2	51,600
2825003793261	0	1	0	0	0	1	<u>51,290</u>
Total (23 Items)							\$2,487,450

Appendix E. Materiel On-Hand Without a Valid Weapon System Application

<u>Stock Number</u>	<u>Acquisition Cost</u>	<u>Net Realizable Value*</u>
4320-00-267-4382	\$154,200	\$ 3,855
4320-00-373-0497	107,780	2,695
4320-00-805-3852	97,140	2,429
2825-00-711-9430	85,720	2,143
2825-00-659-2377	76,240	1,906
4320-00-267-4263	74,980	1,875
2825-00-627-0461	71,600	1,790
2825-00-795-4883	65,430	1,636
2825-00-711-9423	64,620	1,616
2825-00-795-4852	54,940	1,374
4320-00-725-7094	53,600	1,340
4320-00-437-7946	<u>51,380</u>	<u>1,285</u>
Total	\$957,630	\$23,941

*Computed at 2.5 percent of acquisition cost using salvage rates established by the Office of the Assistant Secretary of Defense (Production and Logistics) based upon information obtained from the Defense Reutilization and Marketing Office for FY 1996.

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Accounting Policy
Assistant Secretary of Defense (Public Affairs)
Deputy Under Secretary of Defense (Logistics)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

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

Department of the Air Force

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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Commander, Defense Depot, Susquehanna, Pennsylvania
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

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

Part III - Management Comments

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

REPLY
REFER TO

DDAI

MAY 27 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Inventory Accuracy at the Defense
Depot, Susquehanna, Pennsylvania
(Project No. SFJ-2018.01)

Enclosed is our response to your request of March 21, 1997. The
DLA action officer is Lavaeda Coulter, 767-6261.

Encl


JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

**SUBJECT: DRAFT REPORT: Inventory Accuracy at the Defense Depot, Susquehanna, PA
(Project No. 5FJ-2018.01)**

Finding B: Retention of Obsolete Inventory. The DDSP-W retained \$1 million in obsolete inventory that was transferred from the NAVICP under the Consumable Item Transfer (CIT) Program. This condition occurred because the NAVICP transferred obsolete material to DLA instead of disposing of it as required by DOD 4140.26-M. As a result, DLA financial statements were overstated by about \$.9 million and DDSP-W incurred unnecessary storage costs of about \$4,805 annually.

DLA COMMENTS: Partially Concur. In order to ensure effective management of items within the Department, the Navy (or any Losing Item Manager (LIM)) must forward information regarding their method of management and any future requirements to the Gaining Item Manager (GIM) as part of the normal CIT process described in DOD 4140.26-M, Defense Integrated Materiel Management Manual for Consumable Items. It would appear from the writeup, that the auditors have obtained information from the Navy regarding these items, which conflicts with the systemic data the Navy passed to DLA as part of the CIT process. That issue is a discipline issue and should be directed to the Navy.

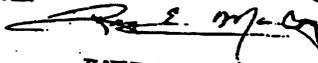
Since the Navy apparently failed to provide information to the contrary, the items in question are managed as active items at DLA and *NOT* coded as "obsolete" and therefore do not qualify for disposal review. However, if the Navy provides information regarding their obsolescence, DLA will review the items and take immediate disposal action, if appropriate.

Action Officer: Brenda Meadows, MMLSI, (703) 767-1606

Review: Jeffrey A. Jones, Executive Director, Supply Management (MML), May 20, 1997

Coordination: LaVaeda Coulter, DDAL, 767-6261 *LA* 5/25

DLA Approval:



RAND. HODDY
Major General USA
Strategic Supply Director

Defense Logistics Agency Comments

SUBJECT: DRAFT REPORT: Inventory Accuracy at the Defense Depot, Susquehanna, PA
(Project No. 5FJ-2018.01)

Recommendation #1: We recommend that the Director, Defense Logistics Agency dispose of the 12 obsolete items identified in Appendix D.

DLA Comments: Partially Concur. Research of the Defense Supply Center - Columbus files has revealed that none of the 12 items in question is coded as obsolete nor do these 12 items meet any of DLA's disposal criteria. Assuming the information auditors were able to glean from their Navy contacts during this audit is correct, DLA's apparent "inaccurate" method of management is due to inaccurate information being passed by the Navy to DLA through the CIT process. For instance, 8 of these 12 items have an active weapon system designation (34N, Combat System Support Equipment) which was assigned by the Navy. If this is no longer an active weapon system for the Navy, the Navy should delete it in accordance with existing business practice.

Among other criteria, DLA's disposal policy allows for the immediate disposal review of items which are determined to be obsolete. DLA will work with the Navy to obtain the correct information regarding these items and take disposal action, if appropriate.

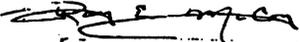
Disposition: Action is ongoing. Estimated Completion Date: July 31, 1997

Action Officer: Brenda Meadows, MMLSI, (703) 767-1606

Review: Jeffrey A. Jones, Executive Director, Supply Management (MML), May 20, 1997

Coordination: LaVæda Coulter, DDAI, 767-6261

DLA Approval:


RAY E. MCCOY
Major General, USA
Principal Deputy Director

**SUBJECT: DRAFT REPORT: Inventory Accuracy at the Defense Depot, Susquehanna, PA
(Project No. 5FJ-2018.01)**

Recommendation B. 2: We recommend that the Director, Defense Logistics Agency screen the remaining 819 items (836 on hand at DDSP-W less the 17 already screened) and dispose of those without valid weapons system applications.

DLA Comments: Partially concur. There are no criteria within the Department to dispose of items "without valid weapons system applications." We believe that you may have misinterpreted the guidance in DOD 4140.26-M.

Thousands of items managed by DLA have multiple weapon system applications. It is possible that some of those items may have inactive weapons coding because the applicable Service has not yet provided delete actions. Additionally, many thousands of items managed by DLA have NO weapons system applications. DLA does not consider those items disposal candidates unless they are truly excess to requirements.

However, we believe the auditors "intended" recommendation was for DLA to review these remaining items for disposal eligibility and we concur with the "intent" of this recommendation and will certainly do so.

Disposition: Action is ongoing. Estimated Completion Date: July 31, 1997

Action Officer: Brenda Meadows, MMLSI, (703) 767-1606

Review: Jeffrey A. Jones, Executive Director, Supply Management (MML), May 20, 1997

Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:


R. E. MACEY
Major General, USA
Principal Deputy Director

Defense Logistics Agency Comments

SUBJECT: DRAFT REPORT: Inventory Accuracy at the Defense Depot, Susquehanna, PA
(Project No. 5FJ-2018.01)

Finding C: Identification of Unmarked Storage Locations. The DDSP-W did not assign storage locations to materiel stored in a warehouse shared with the NAVICP. This happened because DDSP-W did not take physical inventories or verify the locations assigned by NAVICP personnel when the warehouse space was transferred. As a result, DDSP-W lost accountability over the items stored in that warehouse.

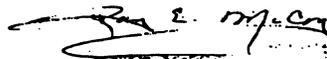
DLA COMMENTS: Partially Concur. Since the time of warehousing responsibility transfer, DDSP-W has updated their records to reflect the materiel in location. To ensure complete accuracy, DDSP-W is conducting a complete location survey followed by a wall-to-wall physical inventory in Building 216. This case is soon to be fully corrected and closed thus does not warrant reporting as a materiel weakness.

Action Officer: Linda Pavlik, MMLSI, (703) 767-2536

Review: Jeffrey A. Jones, Executive Director, Supply Management (MML), May 20, 1997

Coordination: LaVaeda Coulter, DDAI, 767-6761

DLA Approval:


R. E. FRAZIER
Director General, USA
Defense Logistics Agency Director

SUBJECT: DRAFT REPORT: Inventory Accuracy at the Defense Depot, Susquehanna, PA
(Project No. 5FI-2018.01)

Recommendation C.1: We recommend that the Commander, Defense Depot Susquehanna, PA, Defense Logistics Agency, perform a wall-to-wall inventory of Building 216, assign locations to the materiel on hand, and update the Distribution Standard System locator records.

DLA Comment: Concur. DDSP will conduct location surveys in Bldg 216 to clearly identify physically and systematically all items. Once the location surveys are completed, a wall-to-wall inventory will be conducted to be completed by July 31, 1997.

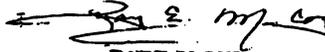
Disposition: Action is on-going. ECD: July 31, 1997

Action Officer: Linda Pavlik, MMLSI, (703) 767-2536

Review: Jeffrey A. Jones, Executive Director, Supply Management (MML) May 20, 1997

Coordination: LaVaeda Coulter, DDAL, 767-6261-3000

DLA Approval:



RAY E. MCCOY
Major General, USA
Principal Deputy Director

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane
James L. Kornides
Timothy F. Soltis
Anthony C. Hans
Deborah Curry