

*E*valuation



*R*eport

PROPERTY DISPOSAL MANAGEMENT CONTROLS

Report No. 99-029

November 3, 1998

Office of the Inspector General
Department of Defense

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Acronyms

CONUS	Continental United States
DAISY	Defense Reutilization and Marketing Service Automated Information System
DLA	Defense Logistics Agency
DRMO	Defense Reutilization and Marketing Office
DRMS	Defense Reutilization and Marketing Service
GSA	General Services Administration
LESO	Law Enforcement Support Office
MOA	Memorandum of Agreement



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November 3, 1998

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE
(LOGISTICS)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Evaluation Report on Property Disposal Management Controls
(Report No. 99-029)

We are providing this report for review and comment. This evaluation was performed in response to a congressional request. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we revised Recommendations 1. and 3. to reflect comments on the draft report from the Deputy Under Secretary of Defense (Logistics). Additional comments on the final report are requested by January 4, 1999.

We appreciate the courtesies extended to the evaluation staff. Questions on the evaluation should be directed to Mr. Raymond D. Kidd at (703) 604-8828 (DSN 664-8828), e-mail rkidd@dodig.osd.mil or Mr. Timothy E. Moore at (703) 604-8778 (DSN 664-8778), e-mail tmoore@dodig.osd.mil. See Appendix H for the report distribution. The evaluation team members are listed inside the back cover.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-029
(Project No. 7LH-3012)

November 3, 1998

Property Disposal Management Controls

Executive Summary

Introduction. This evaluation was performed as a result of a congressional request. The Defense Reutilization and Marketing Service (DRMS), a Defense Logistics Agency component, is the primary DoD organization involved in disposal of excess and surplus DoD personal property. Therefore, our evaluation focused on DRMS and Defense Reutilization and Marketing Offices (DRMOs), the field offices for DRMS. In FY 1997, DRMS processed for disposal an estimated 6.8 million line items with an approximate acquisition value of \$21 billion. Of the \$21 billion in property, about \$2.7 billion was reutilized, primarily within DoD; about \$523 million was transferred to other Federal agencies; and about \$493 million was donated to authorized recipients outside the Government. The remainder of the property was either sold or sent to a landfill or other appropriate disposal site for final disposition.

Evaluation Objective. The overall evaluation objective was to determine whether adequate management controls existed over the turn-in, transfer and donation of excess and surplus personal property. The specific objective was to assess the safeguards in place to ensure that excess and surplus personal property was appropriately disposed of and received by authorized recipients. We did not evaluate the reutilization and sale of excess and surplus property.

Evaluation Results. DoD management controls over the transfer and donation of DoD excess and surplus personal property were adequate; however, management controls over the shipment to DRMOs and receipt of excess DoD personal property needed improvement. Of the 332 line items delivered to eight DRMOs, with an acquisition value of approximately \$2.7 million, that we reviewed, 232 line items delivered to DRMOs in the continental United States were not properly controlled on the accountable records of either the DoD organizations generating the excess property or the DRMOs. As a result, prompt accountability was not achieved by the DRMOs for excess property in their possession, including potentially dangerous property that required demilitarization. See Part I for a discussion of the evaluation results. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the Deputy Under Secretary of Defense (Logistics) lead an integrated process review of the in-transit-to-disposal process to identify cost-effective improvements. We recommend that the Director, Defense Logistics Agency, require DRMOs that receive property requiring demilitarization to

receipt and accept accountability for the property at the time of delivery. We also recommend that the Director, Defense Logistics Agency, continue reporting the in transit accountability material weakness in the management control assurance package for FY 1998.

Management Comments. The Deputy Under Secretary of Defense (Logistics) partially concurred with our draft recommendations on revising the DoD manual for disposition of property to establish procedures for maintaining accountability of property. The Deputy Under Secretary of Defense (Logistics) suggested instead a revised recommendation that he lead an integrated process review of the in-transit-to-disposal process to identify cost-effective improvements, not limited to revising the disposition manual.

The Deputy Director, Defense Logistics Agency nonconcurred with the recommendation to require DRMOs to receipt and accept accountability for property requiring demilitarization at the time of delivery. The Deputy Director stated that forcing DRMOs to accept accountability of excess property immediately upon receipt has numerous drawbacks including the difficulty of obtaining generators' assistance in identifying property, documenting discrepancies, and noting other problem areas. The Deputy Director also nonconcurred with the initial recommendation to reassess the planned corrections to the in transit accountability material control weakness. The Deputy Director stated that complete correction of in transit accountability problems was out of the control of the Defense Logistics Agency. The Defense Logistics Agency was, however, developing additional guidance and new management practices and has several pilot projects underway on timely receipt and accountability for property.

Management comments are discussed in Part I and the full text of the comments is in Part III.

Evaluation Response. Comments from the Deputy Under Secretary of Defense (Logistics) were responsive, while comments from the Defense Logistics Agency were partially responsive. We agree with the proposed alternative solution from the Deputy Under Secretary of Defense (Logistics) to lead an integrated process review of the in-transit-to-disposal process to identify cost-effective improvements, provided the review is carried out expeditiously. In addition, although the Deputy Director, Defense Logistics Agency, nonconcurred with the report recommendations, the ongoing and proposed Defense Logistics Agency actions partially satisfy their intent. Based on management comments, we revised the first and third draft recommendations. We request that the Deputy Under Secretary of Defense (Logistics) and the Director, Defense Logistics Agency provide additional comments by January 4, 1999.

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Part I - Evaluation Results

Evaluation Background

This evaluation was performed in response to a September 1996 request received from Senator John McCain of Arizona. An individual in the Arizona corrections system was alleged to have illegally diverted tens of millions of dollars in excess or surplus military equipment for personal gain over several years. Senator McCain requested that the Inspector General, DoD, investigate whether adequate controls exist for the management and disposal of DoD personal property, and provide a description of the process and safeguards in place to ensure that surplus military equipment is disposed of legally and is received by the appropriate designated recipient

As shown in Appendix B, there has been extensive audit coverage related to financial management and disposal of DoD personal property. Therefore, in response to Senator McCain's request, the Assistant Inspector General for Auditing, DoD, requested the Deputy Under Secretary of Defense (Logistics) to establish and chair a working group to examine the DoD property disposal process with a view towards reengineering where appropriate. Accordingly, the working group, which consisted of representatives from the Office of the Deputy Under Secretary of Defense (Logistics), the Office of the Inspector General, General Services Administration (GSA), and the Office of the Inspector General, DoD, conducted a study into the disposal of DoD property. The Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management) issued a draft report June 25, 1997, however, as of October 20, 1998, a final report had not been completed. The draft report stated that sufficient legislation and policies were in place to ensure accountability of property being distributed from the Defense Reutilization and Marketing Offices (DRMOs) to recipients. The diversion of property for personal gain or property that was otherwise lost or stolen resulted from noncompliance with policy by those in the disposal process. Because the working group did not test management controls, the Assistant Inspector General for Auditing, DoD, decided to conduct an evaluation of the disposal of DoD property that included management control tests of DoD property disposal.

Defense Reutilization and Marketing Service. For DoD, the Defense Reutilization and Marketing Service (DRMS), a Defense Logistics Agency (DLA) organization, is the primary organization involved in the disposal of excess and surplus DoD personal property. Therefore, our evaluation focused on DRMS and DRMOs, the field offices for DRMS. In FY 1997, DRMS processed for disposal an estimated 6.8 million line items with an approximate acquisition value of \$21 billion. Of the \$21 billion in property, about \$2.7 billion was reutilized, primarily within DoD; about \$523 million was transferred to other Federal agencies; and about \$493 million was donated to authorized recipients outside the Government. The remainder of the property was either sold or sent to a landfill or

other appropriate disposal site for final disposition. Appendix D contains a glossary of disposal process terms used throughout this report. Appendix E contains the results of management control tests of turn-in documents, inventory adjustments, and downgrades-to-scrap. Appendix F contains the responsibilities for organizations involved in the disposal of excess and surplus DoD personal property and Appendix G contains a background discussion of the disposal process.

Property Disposal Guidance. DoD policy and uniform procedures for the disposition of DoD personal property are set forth in DoD Manual 4160.21-M, "Defense Material Disposition Manual," August 1997 (the Disposition Manual). The Disposition Manual is applicable to all elements of DoD and its subordinate commands, installations, and activities.

Procedures for property accountability for the DRMS and DRMOs are contained in DRMS Instruction 4160.14, volume II, "Warehousing for DRMS and DRMOs," March 1996, and volume IV, "Policy and Procedures in Disposal Operations for Property Accounting," June 1996 (the DRMS Instruction Manual).

Evaluation Objective

The overall evaluation objective was to determine whether adequate management controls existed over the turn-in, transfer, and donation of excess and surplus personal property. The specific objective was to assess the safeguards in place to ensure that excess and surplus personal property was appropriately disposed of and received by authorized recipients. We did not evaluate the reutilization and sale of excess and surplus property. See Appendix A for a discussion of the scope, methodology, and management control program and Appendix C for a discussion of other matters of interest.

Controls Over the Transfer, Donation, and Turn-In of Personal Property

DoD management controls over the transfer and donation of its excess and surplus personal property were adequate because a viable audit trail existed for transferred and donated property. However, management controls over the turn-in of excess personal property needed improvement. Of the 332 line items delivered to eight DRMOs with an acquisition value of approximately \$2.7 million reviewed, 232 delivered to DRMOs in the continental United States (CONUS) were not properly controlled on the accountable records of either the DoD organizations generating the excess property or the DRMOs. Specifically, the management controls over turn-in of excess property were inadequate because previously identified DRMS management control weaknesses had not been addressed effectively in 13 years. As a result, DRMS had reasonable assurance that transferred and donated property were being received by authorized recipients. However, on the turn-in of property to the DRMOs, DRMOs did not achieve prompt accountability for excess property in their physical possession, including potentially dangerous property that required demilitarization.

Transfer of DoD Excess Property

The management controls associated with the DRMS transfer of excess personal property to other Federal agencies provided reasonable assurance that transferred property reached intended destinations because a viable audit trail existed. Specific management controls related to the transfer of property to law enforcement agencies are discussed in Appendix C.

Control Procedures. The DRMS Manual 4160.14, "Property Disposal Procedures for the DRMOs," March 1992, and the DRMS Instruction 4160.14, volume III, "Instructions for Reutilization, Transfer, and Donation for DRMS," March 1996, provided uniform standard operating procedures for processing transfers. Within those standard operating procedures were the following management controls.

- o Verify authority to pick up property. If the GSA-approved transfer order-excess personal property (transfer order) specified the name of an individual to perform pick up, the individual must present a current employee identification card and a letter of authorization on agency letterhead or other positive means of identification. If doubt existed about the individual authorized to perform pick up, the GSA regional office is to be contacted to resolve the issue.

Controls over the Transfer, Donation, and Turn-In of Personal Property

o Recipients must sign DRMS Form 147, the visitor register.

o The transfer order brought in by the customer must be matched to the copy of the transfer order contained in the customer pick up file. If the transfer order is not in the customer pick up file, the requisition denial and cancellation folder should be checked. If the transfer order is in the requisition denial and cancellation folder, the customer should be advised to contact the regional GSA office for further information and assistance. If an approved transfer order has not been received, GSA should be contacted for further instructions.

o The transfer order must be signed by the property recipient and annotated by DRMO property management personnel to show the quantity outloaded.

Test of Controls. For the six DRMOs reviewed, property was transferred to the National Aeronautics and Space Administration, U.S. Customs Service, U.S. Courts, U.S. Department of Agriculture Forest Service, and the Department of Labor. To assess the controls for transferred property, we judgmentally selected from FY 1998 transactions a total of 63 transfer orders from six DRMOs as shown in Table 1. The transferred property included items such as arc welders, dump trucks, and riot helmets. We verified by telephone that the property had reached the designated recipient as listed in block 6 of the transfer order.

Table 1 shows the number of transfer orders selected at each DRMO and the acquisition value of the property transferred on the selected documents.

Table 1. Verified Transfers

<u>DRMO</u>	<u>Number of Transfer Orders Selected</u>	<u>Acquisition Value (\$000)</u>
Columbus, Ohio	10	\$ 360
Huntsville, Alabama	11	65
Jacksonville, Florida	10	649
Luke Air Force Base, Arizona	12	185
San Diego, California	10	1,152
Vandenberg, California	<u>10</u>	<u>144</u>
Total	63	\$2,555

Test Results. Adequate controls for personal property transfers were in place and followed at the reviewed DRMOs. Management control tests showed that authorized, designated recipients were receiving transferred property. We contacted recipients to verify receipts. In 63 of 63 transactions tested, the designated recipient verified receipt of the property or could explain any variations. We did not review the recipients' property books to verify that recipients were recording receipts because they are non-DoD operations and their records and management requirements are not under the purview of DoD regulations.

Controls Over the Transfer, Donation, and Turn-In of Personal Property

Although we used a small sample of transactions, we concluded that DRMS had reasonable assurance that authorized recipients were receiving transferred property.

Donation of DoD Surplus Property

The management controls associated with the DRMS donation of surplus property to authorized organizations outside the Government provided reasonable assurance that donated property reached intended destinations because a viable audit trail existed.

Control Procedures. The DRMS Manual 4160.14, provided uniform standard operating procedures for processing donations. Within those standard operating procedures were the following management controls.

- o Verify authority to pick up property. If the GSA-approved transfer orders-surplus personal property (donation order) specified the name of an individual to perform pick up, the individual must present a current employee identification card and a letter of authorization on agency letterhead or other positive means of identification. If doubt existed about the individual being authorized to perform pick up, the GSA regional office must be contacted to resolve the issue
- o Recipients must sign DRMS Form 147, the visitor register.
- o The donation order brought in by the customer must be matched to the copy of the donation order contained in the customer pick up file. If the donation order is not in the customer pick up file, the requisition denial and cancellation folder should be checked. If the donation order is in the requisition denial and cancellation folder, the customer should be advised to contact the regional GSA office for further information and assistance. If an approved donation order has not been received, the GSA should be contacted for further instructions.
- o The donation order must be signed by the property recipient and annotated by DRMO property management personnel to show the quantity outloaded.

Test of Controls. In our sample, DRMS donated property to the U.S. Naval Cadet Corps; various Junior Reserve Officer Training Corps; various state organizations, such as Forestry Services; Surplus Property agencies; and various Boy Scout Councils. To assess the controls for donated property, we judgmentally selected from FY 1998 transactions a total of 60 donation orders from six DRMOs as listed in Table 2. The donated property included items such

Controls over the Transfer, Donation, and Turn-In of Personal Property

as fireman boots, submarine batteries, and trucks,. We verified by telephone that the property had reached the designated recipient as listed in block 7 of the donation order.

Table 2 shows the number of donation orders selected at each DRMO and the acquisition value of the property donated on the selected documents.

Table 2. Verified Donations

<u>DRMO</u>	<u>Number of Transfer Orders Selected</u>	<u>Acquisition Value (\$000)</u>
Columbus, Ohio	10	\$ 322
Huntsville, Alabama	11	457
Jacksonville, Florida	10	2,491
Luke Air Force Base, Arizona	9	96
San Diego, California	10	24,406
Vandenberg, California	<u>10</u>	<u>113</u>
Total	60	\$27,885

Test Results. Adequate controls for personal property donations were in place and followed at the reviewed DRMOs. Management control tests showed that authorized, designated recipients were receiving donated property. We contacted recipients to verify receipts. In 59 of 60 transactions tested, the recipient verified receipt of the property or could explain any variation. In one instance, the requester canceled the order after the requester determined that the transportation costs to pick up the item were too expensive. We did not review the recipients' property books to verify that recipients were recording receipts because they are non-DoD operations and their records and management requirements are not under the purview of DoD regulations. Although we used a small sample of transactions, we concluded that DRMS had reasonable assurance that authorized recipients were receiving donated property.

Turn In of Excess DoD Personal Property

DoD management controls over the disposal of excess DoD personal property needed improvement. Of the 332 line items delivered to eight DRMOs, 232 items with an acquisition value of approximately \$2.7 million were not properly controlled on the accountable records of either the DoD organizations generating the excess property or the DRMOs. The 232 line items represented all the FY 1997 and FY 1998 turn-in transactions reviewed in CONUS. The difference of 100 line items related to overseas turn-in transactions that remained on the accountable records of the theater command until acknowledgment and receipt by

Controls Over the Transfer, Donation, and Turn-In of Personal Property

the DRMO was received. Previously identified management control weaknesses over the turn-in of excess property in CONUS had not been addressed effectively in 13 years. As a result, prompt accountability was not achieved for excess property in the physical possession of the DRMOs, including potentially dangerous property that required demilitarization. While tests of turn-in documents showed that 98 percent of the excess property turned in was subsequently accounted for, the break in the chain of custody increases the likelihood of non-detection of loss or theft. The tests of the turn-in documents, and controls over inventory adjustments, and property received that was subsequently downgraded to scrap are discussed in Appendix E. Further, we evaluated remote site disposal controls, a disposal process in which excess property is managed by DRMOs, but remains at the site of the property generator (see Appendix C).

Table 3 shows the DRMOs we visited, the generators of the property, the number of transactions reviewed, and the estimated acquisition values of the transactions.

Table 3. Turn-In Transactions

<u>DRMO</u>	<u>Generators of Property</u>	<u>Number of Transactions Reviewed</u>	<u>Acquisition Value (\$000)</u>
Columbus, Ohio	Columbus Defense Distribution Depot	25	\$ 140,871
Huntsville, Alabama	Redstone Arsenal	29	351,789
Jacksonville, Florida	Jacksonville Defense Distribution Depot	25	320,304
Kaiserslautern, Germany	Kaiserslautern Industrial Center	50	498,325
Kaiserslautern, Germany	Ramstein Air Force Base	50	284,124
Luke Air Force Base, Arizona	Luke Air Force Base	25	154,107
San Diego, California	San Diego Defense Distribution Depot	25	1,441,718
San Diego, California	Ship Intermediate Maintenance Activity	27	56,200
Tucson, Arizona	Davis Monthan Air Force Base	50	182,530
Vandenberg, California	Vandenberg Air Force Base	<u>26</u>	<u>103,598</u>
Total		332	\$3,533,566

Controls over the Transfer, Donation, and Turn-In of Personal Property

DRMS Disposal Procedures and Controls. Delivery and receipt of excess DoD property are regulated by the Disposition Manual and the DRMS Instruction Manual. Excess DoD property was delivered to DRMOs either through depots (wholesale property) or from operational units (retail property). The organizations disposing of the property prepared four copies of DD Form 1348-1, "Single Line Item Release/Receipt Document" (turn-in document), and attached the signed turn-in documents to the property before delivering the property to the DRMO for final disposition. Before the property was receipted, the DRMOs verified to the best of their abilities, the information on the turn-in documents including the property's nomenclature; stock number; quantity; and special handling codes, including demilitarization codes. Most DRMOs had informal arrangements with property generators on how to proceed if there were disagreements on nomenclature, quantity, or special handling codes.

Turn-in procedures would be adequate if property that generators turned in was retained on generators' accountable records until acknowledgment and receipt by the DRMO. Concurrently, the excess property must be promptly recorded on the Defense Reutilization and Marketing Service Automated Information System (DAISY), the automated property accounting data system. Any delay or variance from this chain of custody and accountability increases the likelihood of nondetection of loss or theft of items, not on accountable records.

Removal of Excess Property from Records of Generators. Excess personal property was removed from the generators' accountable records either upon shipment of property to DRMOs or upon the return of a turn-in document from the DRMO. Specifically, all eight generators in CONUS that we interviewed removed excess property delivered to DRMOs from their accountability records either when the property was initially shipped or when the turn-in document was returned by the person transporting the property. That condition existed because procedures were not in place to delay removal of property from generators' records until receipt of an electronic acknowledgment from DAISY.

Removing Property From Accountable Records Upon Shipment. Four generators that we interviewed removed property from their accountable records upon shipment of the property to the DRMO. Those generators included the three wholesale organizations. Removing records upon shipment destroys the chain of custody for the property. If property were lost or stolen between the time of shipment and the time of receipt, the loss may not be detected. Further, it is difficult to determine whether the property loss happened while in the custody of the generator, the transporter, or the receiver.

Removing Property From Accountable Records Upon Receipt of Turn-In Documents. Four generators we interviewed, including those delivering property to the Huntsville and Jacksonville DRMOs, had instructed their delivery personnel to stay with the property until they received copies of the turn-in

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documents signed by DRMO personnel. In those instances, the DRMO warehouse workers signed the second copies of turn-in documents, which were referred to as proof of delivery documents. However, proof of delivery documents were preliminary measures that merely acknowledged property arrival at DRMOs, not official receipts documenting the nomenclature, quantity, and special handling codes, if any, of the property delivered. Additionally, proof of delivery documents did not represent the transfer of accountability for the property delivered.

DRMO Processing of Receipted Material. Property could remain at the DRMO holding area for up to 5 weeks before being entered into the accountable records. Specifically, property delivered to DRMOs was not listed on any accountable record until DRMOs processed receipt of it. At the eight DRMOs we reviewed, delivered property was unloaded and left in designated property receiving areas to await processing, which was sometimes delayed because the property had been rejected by the DRMO. The effect of property generators removing excess property prematurely from their accountable records was that property in the DRMOs receiving areas was no longer accounted for on any organization's accountable records. Therefore, if the property in the receiving areas was lost or stolen, there was no clear custody trail that identified who was responsible and accountable for the property. Additionally, few, if any investigations were conducted on shipping discrepancies, such as shortages in shipment, after excess property was delivered to DRMOs.

DRMOs Rejection of Excess Property. Rejected property sometimes remained in DRMO receiving areas for up to 2 weeks before DRMOs processed it. The Disposition Manual states that discrepancies in item identification, quantity, condition, or price data that are discovered before acceptance shall be corrected and resolved during the receipt process. When the DRMOs questioned the correctness of data on turn-in documents at the time of receipt, they sometimes rejected the property and did not process it. When DRMOs rejected property, they completed DRMS Form 917 specifying the reasons for the rejections and sent the form to the generators. Usually, property that was unloaded from the transport vehicles and rejected by the DRMOs remained in the DRMOs receiving areas until the generators either returned the corrected turn-in documents or retrieved the property.

DRMOs Receipt of Excess Property. Using standard receipt procedures, DRMOs retained excess DoD property in receiving areas for approximately 3 weeks before receipting it. The 3-week time frame was based on our analysis of 94 transactions at five DRMOs. We calculated that an average of 20 days existed between the day the turn-in document was completed and the day DRMO receipted the property. DRMS Instruction Manual allows receiving DRMOs 10 working days after physical receipt of property to process property into the accountable records. DRMOs physically receipted property after the property was moved from receipt areas to designated warehouses or yard locations. Warehouse

Controls over the Transfer, Donation, and Turn-In of Personal Property

workers annotated one of the turn-in documents with the location of where the property was stored. Annotated turn-in documents were used as input source documents for DAISY.

As discussed earlier, controls were not adequate for the turn-in of excess personal property. The lack of controls is especially important for items of property that are hazardous and require demilitarization before disposal.

Disposal of Property Requiring Demilitarization. For property requiring demilitarization, there were periods when no accountability or defined custodial responsibility existed. Property requiring demilitarization may pose a potentially deadly hazard as it has, by definition in the Disposition Manual, a military and possibly lethal purpose. As we reported in Inspector General, DoD, Report No. 97-213, "Evaluation of the Disposal of Munitions Items," September 5, 1997, the DRMOs sometimes received ammunition, explosives, and other dangerous articles requiring demilitarization that were incorrectly certified as inert. To ensure proper handling and disposal, property requiring demilitarization requires accurate special coding. Incorrect or missing demilitarization codes was the second most common reason, after missing or incorrect stock numbers, cited by DRMOs for rejecting property. As previously stated, the rejected property could remain in the receiving areas for up to 2 weeks before being processed. Special requirements already exist for other types of excess property. For instance, the Disposition Manual requires that generators of excess environmentally hazardous property identify the hazardous property; segregate it; and plan, schedule, and coordinate the turn in of the hazardous property with the receiving DRMO. Controls for property requiring demilitarization should be equally stringent.

Although not sufficient, DLA had taken or planned measures to correct the material management control weakness caused by the nonaccountability of property from the time it left or leaves the generator until the time the DRMO officially receipted or receipts it. DLA referred to the problem as the in transit accountability material weakness and reported the weakness in annual statements of assurance in fiscal years 1992 through 1997.

In Transit Accountability Material Weakness

The DRMS material management control weaknesses had not been effectively addressed and no feasible corrections were planned. DLA had not taken timely and effective action to correct the in transit accountability material weakness that was identified in 1985, more than 13 years ago. DLA addressed the in transit accountability material weakness in its memorandum, "Annual Statement Under the Federal Managers' Financial Integrity Act of 1982" (The FY 1997 DLA Statement of Assurance), November 17, 1997, but did not provide an adequate

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corrective action plan. The in transit accountability material weakness was first identified in Inspector General, DoD, Report No. 85-INS-03, "Inspection of the Defense Reutilization and Marketing Services," May 24, 1985. Recycling control points and the In Transit Accountability System are two solutions to the material weakness that have not worked; they are discussed below.

The FY 1997 DLA Statement of Assurance. The FY 1997 DLA Statement of Assurance listed the in transit accountability deficiency as a material weakness with a target correction date of FY 1999. DLA defined the weakness as a lack of adequate control over property during the accountability "gap" between the generator's decision to turn in property to a DRMO and the DRMO acceptance of accountability. The FY 1997 DLA Statement of Assurance regarded recycling control points as the solution to the in transit accountability material weakness.

Recycling Control Points. The recycling control point initiative is a process DLA developed to make the disposal process more efficient and to correct the in transit accountability material weakness. Recycling control points do not transport property to DRMOs for disposal; instead, customers requisition available property from detailed computer listings, and the property is shipped directly from the recycling control point to the customer. However, the program only applies to wholesale property stored at DLA depots. Recycling control points have been implemented at seven locations and were not planned for expansion until several customer issues were resolved. Customer issues included lack of physical access to property before requisitioning, lack of adequate descriptions of property, and lack of data on property status when multiple requisitions or requisitioners exist. Regardless of the customer support issues, recycling control points were, at best, a solution for accountability of excess wholesale property because the program existed only at DLA depots that handled wholesale property. Recycling control points will not correct the problem for retail property. Therefore, DLA needs to provide another corrective action plan with new milestone targets for the in transit accountability material weakness.

In Transit Accountability System. DLA stated in its FY 1997 DLA Statement of Assurance that use of the In Transit Accountability System would preclude the lack of control caused by the in transit accountability material weakness; but, that there has been little enforcement of the system. The In Transit Accountability System is another proposed solution to the in transit accountability material weakness. It is a mechanism to track property from the generator to the disposal activity through advance shipment notifications sent to the disposal activity via the automated digital network. The excess property generator assigns the planned shipment an AS3 transaction type code. The property remains in an AS3 status, which means the property has been transported to a DRMO, until the DRMO officially receipts it. The process is designed to eliminate the period of nonaccountability on the accountable records of the generators and the DRMOs. There was no evidence of the use of the In Transit Accountability System on the

332 transactions we reviewed. Further, we believe that short of rejecting excess property, DRMOs could not enforce the property generators' use of the In Transit Accountability System. We interviewed a property generator who had attempted the use of the In Transit Accountability System. The property generator stated that the system did not work correctly, which caused property to remain on accountable records long after delivery to DRMOs. The inability of DRMOs to enforce the use of the In Transit Accountability System, combined with the perception by some of the property generators that the system did not work correctly, resulted in the In Transit Accountability System not being an effective solution to the in transit accountability material weakness

Conclusion

Management controls for the transfer and donation of excess and surplus DoD property provided reasonable assurance that authorized recipients received excess and surplus DoD property. However, controls were inadequate for the turn-in and accountability of excess property. Further, when potentially dangerous property that requires demilitarization is processed for disposal, DLA must demand that strict accountability controls be maintained through final disposition. Immediate revisions of regulations can be made that will provide adequate disposal controls for potentially dangerous property. Additionally, DLA needs to reassess its plan to correct the in transit accountability material weakness for all property and provide realistic target correction dates, even if final corrections are part of long-range planning.

Management Comments on the Finding and Management Control Weaknesses and Audit Response

Defense Logistics Agency Comments. DLA provided the following comments on the finding and the management control weaknesses.

Comments on Controls Over the Transfer, Donation, and Turn-In of Personal Property. DLA partially concurred with the finding. It stated that it is aware that DoD generators sometimes remove property from accountable records either upon shipment to the DRMO or upon return of the disposal turn-in document. DLA informed the Deputy Under Secretary of Defense (Logistics) of the problem in April 1996. The Deputy Under Secretary of Defense (Logistics), DLA, and the Services ultimately agreed on the current turn-in policy as described

Controls Over the Transfer, Donation, and Turn-In of Personal Property

in the Disposition Manual. DRMS is employing new management practices that strengthen the disposal process. Specifically, in transit accountability is improved through the following arrangements.

- Excess property is transported only when the generator has not provided a staging area for receipt-in-place processing.
- Property with low value that is not transport worthy (that is, scrap, bulk, rolling stock, and hazardous) is processed as receipt-in-place or at the staging area.
- DRMS provides disposal expertise to direct property correctly and makes decisions if property should be transported.
- DRMS directs for transportation; provides funds for; and controls high value, munitions list, or commerce controlled list items. In the majority of service arrangements, DRMS provides the truck and transports the property, which provides for more control of the property.
- DRMS provides on-site customer service liaisons who pre-coordinate and inspect property before turn-in, thereby increasing the accuracy of information on turn-in documents.

Comments on Management Control Weakness. DLA nonconcurred with the statement, "The DRMS material management control weakness had not been effectively addressed and remained inadequate with no feasible corrections planned. DLA had not taken timely and effective action to correct the in transit accountability material weakness that was identified in 1985, more than 13 years ago." DLA reiterated that the In-Transit Accountability System relies on shipment notifications from each DoD generator, most of which are not under DLA control. DLA stated that it is inaccurate to assign systemic shortcomings solely on DLA. It further stated that it requested the Deputy Under Secretary of Defense (Logistics) to take action to effect full compliance with in transit accountability.

Evaluation Response. The DLA disposal process improvements are commendable. However, most of the improvements listed were not evidenced as of March 1998. Regarding the In Transit Accountability System, the inability of the DRMOs to enforce its use, combined with the perception by some of the property generators that the system did not work correctly, resulted in the In Transit Accountability System not being an effective solution to the in transit accountability material weakness.

Recommendations, Management Comments, and Evaluation Response

1. We recommend that the Deputy Under Secretary of Defense (Logistics) lead an integrated process review of the in-transit-to-disposal process to identify cost effective improvements to ensure accountability of property at all times. The review should include policy documents for wholesale, retail, asset visibility, and disposal in the Office of the Secretary of Defense, the Services, and the Defense Logistics Agency.

Deputy Under Secretary of Defense (Logistics) Comments. The Deputy Under Secretary partially concurred with the draft recommendation to require excess property generators to coordinate the turn in of property requiring demilitarization with the receiving DRMOs. The Deputy Under Secretary agreed that aspects of the in-transit-to-disposal process need to be improved and requiring removal from the accountable record of the generators only after a receipt is provided may result in improved control. However, the Deputy Under Secretary stated that, because of the wide variety of material received by DRMOs and because DRMOs do not have sufficient manpower to perform the sorting and verification processes at the time of property turn in that would be necessary to allow the preparation of a final receipt by the DRMO, a cost-effective method for accountable turn-ins has not yet been found. Additional identification and segregation of property requiring demilitarization would be duplicative of existing controls and any benefit is not evident. Further, the process used by generators before turn-in to the DRMO involves policies and procedures of the Services. According to the Deputy Under Secretary, comments from the Services are essential to the formulation of successful recommendations for improvement to this process. Finally, the Deputy Under Secretary suggested that the recommendation be modified to provide for an integrated process review.

Evaluation Response. The Deputy Under Secretary's proposed alternative action for resolving the inadequate control related to the in-transit-to-disposal process is reasonable, provided the review is carried out expeditiously. The recommendation was changed accordingly. We believe requiring generators to identify and segregate property requiring demilitarization is necessary before the DRMOs can be expected to receive and timely accept accountability for property requiring demilitarization. Because we were aware of the wide variety of property handled by DRMOs with minimum manpower, we confined our initial recommendations only to potentially dangerous property, although we believe that the in transit accountability problem is a serious management control weakness that renders the entire disposal process suspect. We request that the Deputy Under Secretary provide the planned initiation and completion dates in comments on this final report.

2. We recommend that the Director, Defense Logistics Agency, revise Defense Reutilization and Marketing Service Instruction 4160.14 to require that Defense Reutilization and Marketing Offices receiving property that requires demilitarization to:

a. Receipt the property at the time of delivery and

b. Timely assign accountability for the property to the Defense Reutilization and Marketing Office accountable property officer.

Management Comments. DLA nonconcurred, stating that forcing DRMOs to accept accountability of excess property immediately upon receipt has numerous drawbacks. Included are the difficulty of obtaining generators' assistance in identifying property, documenting discrepancies, and noting other problem areas. DLA stated that this would clearly create a perverse and unintended incentive for generators to avoid following proper turn-in procedures, and all disposal problems would become the "DRMO problem." Ultimately, this approach could create an additional cost burden to DRMS customers. DLA emphasized that DoD generators must take some responsibility on these matters, at least to make sure their personnel are properly trained.

DLA also stated that DRMS is developing additional guidance and is continuing to work with generators to ensure proper identification and segregation of property requiring special handling before turn in to the DRMO. DRMS is evaluating a radio frequency receiving project designed to receive property faster. This project is being tested at DRMOs Jacksonville, Florida and Hill Air Force Base, Utah. Additionally, DRMS is working on a "one day receiving" project that will enable DRMOs to prioritize receipts using radio frequency technology and software edits that speed the receiving process. The results of those projects are pending.

Evaluation Response. DLA comments are partially responsive. The comments on the numerous drawbacks and perverse incentives relate to all property turn-ins and do not address property requiring demilitarization, which is a much smaller universe. DLA needs to work with the Deputy Under Secretary of Defense (Logistics) and the Services to devise a solution to the in transit accountability material weakness for property requiring demilitarization. The additional guidance, other initiatives, and the results of DLA pilot projects are responsive actions and should be provided to the integrated process review team as possible solutions for timely receipt and process of property requiring demilitarization. We request that DLA reconsider its position and provide additional comments on the final report.

3. We recommend that the Director, Defense Logistics Agency, continue to report the in transit accountability material control weakness in the DLA annual assurance package.

Management Comments. DLA nonconcurred with the draft recommendation to develop feasible solutions for both retail and wholesale excess property and to provide realistic target correction dates. It stated that the correction of in transit accountability problems with retail level turn-ins is not within its control and, given the limited span of DLA control, its current schedule for resolving the material weakness is appropriate, correct, and realistic.

Evaluation Response. We have revised Recommendation 3. based on comments from the Deputy Under Secretary of Defense (Logistics) and DLA. Although the Deputy Under Secretary will lead the integrated process review of the disposal system, the in transit accountability material weakness should remain acknowledged in the DLA management control self-evaluation report for FY 1998. It would be highly appropriate to make it clear in the narrative description of the weakness that other DoD components, principally the Services, share responsibility for addressing the weakness. We request that DLA provide comments on this revised recommendation in response to the final report.

Part II - Additional Information

Appendix A. Evaluation Process

Scope and Methodology

We reviewed DoD, DLA, and DRMS regulations and instructions on property disposal. We also reviewed turn-in documents, transfer and donation documents, inventory adjustments, rejection documents, and management reports. Further, we reviewed the DRMO property receiving and issuing process.

We focused our evaluation on property management and disposal controls at eight judgmentally selected DRMOs. We traced property and associated turn-in documents from the generating origin through DRMO functions (receipt, processing, accounting for, and issue) to the gaining activities via transfer, donation, or disposal transactions. The dates of those documents varied from October 1996 through February 1998.

The evaluation involved on-site and generator interviews, walk throughs of DRMO operations, review of documentation and management reports, and control tests of sample data. We judgmentally selected for review documentation of at least 10 transactions from operational files of the different DRMO functions. Specifically, we:

- o collected recent turn-in documents from the largest generators, queried the DRMO database as to property locations and counts, and performed physical inventory checks;
- o determined the reasons for DRMO rejections of property and frequency of rejections,
- o analyzed inventory adjustments for reasonableness and authority and reviewed major categories of property with emphasis on high dollar sensitive items,
- o spoke with transfer and donation recipients and confirmed receipt of property,
- o confirmed the reason for downgrades to scrap (after receipt) and the time frames involved; and

o based on discussions with both parties, determined the adequacy of memorandums of agreement between DRMOs and property generators that outlined the conditions under which remote site disposal processes would take place.

Limitation of Scope. We did not include transfer and donation data from two DRMO locations in our analysis (Kaiserslautern, Germany, and Tucson, Arizona). The Kaiserslautern data were not included because it involved overseas excess personal property that had different governing criteria than GSA surplus personal property in CONUS. The visit to DRMO Tucson was solely to verify the receipt of excess property shipped by generators to the DRMO.

We did not evaluate the DRMO reutilization and sales functions. We did not consider reutilization of excess property and sale of surplus property the primary concerns of Senator McCain's request. In addition, we did not test a sufficient number of transactions or DRMOs to project a statistical estimate of existing discrepancies in turn-in of excess property.

DoD-wide Corporate Level Goals. In response to the Government Performance and Results Act, DoD has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

Objective: Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce cost while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

Logistics Functional Area. Objective: Streamline logistics infrastructure **Goal:** Implement most successful business practices (resulting in reductions of minimally required inventory levels). **(LOG-3.1)**

High Risk Area. The General Accounting Office has identified several high risk areas in the DoD. This report provides coverage of the Defense Inventory Management high risk area.

Use of Computer-Processed Data. We relied on computer-processed data from DAISY to verify receipt of property by each DRMO, and verified other data contained in the DAISY records as steps in the management control tests conducted as part of this evaluation. We also used the Federal Logistics Automated Information System to verify special handling codes on property. The DAISY records were generally accurate. Although we did not perform a formal

reliability assessment of the computer-processed data, we determined that receipt information and special handling codes on the transactions reviewed generally agreed with the information in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the objectives of the evaluation or that would change the conclusions in the report.

Evaluation Type, Dates, and Standards. This program evaluation was performed from November 1997 through May 1998 in accordance with standards issued and implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Evaluation. We visited or contacted individuals and organizations within and outside the DoD. Details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD managers to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

Scope of Review of the Management Control Program. We reviewed the management controls established for the disposition of excess and surplus personal property by eight judgmentally selected DRMOs. Specifically, we reviewed management controls over receipts, rejections of property, inventory adjustments, donations and transfers, downgrades to scrap (after receipt), and the remote site disposal process.

Adequacy of Management Controls. Continuing material weaknesses as defined by DoD Directive 5010.38, were identified in the in transit accountability process. A 1985 Inspector General, DoD, investigation identified the in transit accountability material weakness. The material weakness is a recurring problem that has not been resolved and was included in the DLA 1997 Annual Statement of Assurance as a continuing material weakness. The first two recommendations in this report, if implemented, will help correct the in transit accountability material weakness for potentially dangerous property requiring demilitarization. A copy of the final report will be provided to the senior official in charge of management controls for the Deputy Under Secretary of Defense (Logistics) and DLA.

Adequacy of Management's Self-Evaluation. The DRMS self-evaluation was adequate.

Appendix B. Summary of Prior Coverage

In the last 5 years, the Inspector General, DoD, and the General Accounting Office issued the following reports related to the DoD property disposal process.

General Accounting Office

General Accounting Office Report No. NSIAD-97-1555BR (OSD Case No. 1354), "Federal Property Disposal Information on the DoD Personal Property Disposal Process," July 1997.

Inspector General, DoD

Inspector General, DoD, Report No. 98-190, "Property Management Controls at Defense Reutilization and Marketing Office, Vandenberg, California," August 19, 1998.

Inspector General, DoD, Report No. 97-213, "Evaluation of the Disposal of Munitions Items," September 5, 1997.

Inspector General, DoD, Report No. 97-130, "Coding of Munitions List Items," April 16, 1997.

Inspector General, DoD, Report No. 96-229, "Distribution of Excess Army Helicopters and Flight-Safety-Critical Helicopters Parts," September 24, 1996.

Inspector General, DoD, Report No. 96-216, "Evaluation of FY 1995 Defense Reutilization and Marketing Service Financial Data," September 4, 1996.

Inspector General, DoD, Report No. 96-095, "Evaluation Report on the Defense Reutilization and Marketing Service," April 17, 1996.

Inspector General, DoD, Report No. 95-220, "Financial Statements of the Defense Logistics Agency Reutilization and Marketing Service Business Area of the Defense Business Operating Fund for FY 1994," June 5, 1995.

Inspector General, DoD, Report No. 95-025, "Distribution of Proceeds From the Sale of Reimbursable Scrap Material," November 8, 1994.

Inspector General, DoD, Report No. 94-158, "Cash Management Within the Defense Reutilization and Marketing Service," June 30, 1994.

Appendix C. Summary of Prior Coverage

Inspector General, DoD, Report No. 94-164, "Financial Statements of the Defense Reutilization and Marketing Service for FY 1993," June 30, 1994.

Inspector General, DoD, Report No. 93-132, "Condition and Economic Recoverability of Materiel in the Disposal Process," June 30, 1993.

Appendix C. Other Matters of Interest

This appendix provides additional information on management controls over the transfer of property to law enforcement agencies through the law enforcement support office and remote site disposal procedures.

Transfer of Property to Law Enforcement Agencies. To assess the adequacy of controls in the DoD Law Enforcement Support Office (LESO) program, we visited DLA Headquarters, Fort Belvoir, Virginia, and the two regional LESO offices at Fort Belvoir, Virginia, and El Segundo, California. We reviewed existing management controls.

LESO Program Management Controls. Management controls employed by DLA and the regional law enforcement support offices provided reasonable assurance that property transferred under the Section 1033 program reached intended destinations. The following management controls were in effect.

- o As of November 1996, memorandums of agreement (MOA) establishing conditions, responsibilities, and expectations for the safe handling and processing of excess DoD personal property existed between DLA and state coordinators.
- o Plans of operations between DLA and state coordinators had been signed as of November 1996
- o LESO excess property screeners are identified.
- o Special processing procedures are required for law enforcement agencies to receive weapons from DoD. The requester must provide in writing the number of full-time sworn officers; number of counter-drug officers, the number of tactical team officers, and the size of the requesting agency's jurisdiction by population and area
- o Written documentation is required from law enforcement agencies that are requesting aircraft. All requesters must provide information that will help DLA determine whether aircraft can be transferred safely and properly to the requesting agency
- o DLA furnishes a monthly detailed report to each state coordinator that shows every item transferred from DoD to a state law enforcement agency under the Section 1033 program.

Use of the Remote Site Disposal Process by DRMOs. With the increased use of remote site disposals, we met with some users to determine the controls in place and what improvements are needed in the program. Three areas of concern were

Appendix C. Other Matters of Interest

identified DRMS policies for the remote site disposal process are scattered between different manuals, volumes, and supplements, and have not been sufficiently updated to meet current property disposal requirements. Additionally, the amount of time required to fulfill the entire reutilization, transfer, and disposal process before excess property can be sold is another major reason why generators do not participate in remote site disposal. Further, past problems encountered between DRMOs and excess property generators when receipting property in place have created a lack of trust that hinders increased use of remote site disposal.

For purposes of this report, we are using the term remote site disposal process to refer to the process used by DRMOs when excess property remains at the site of an excess property generator, but final disposition of the property is managed by a DRMO. MOAs between the DRMOs and the excess property generators are used to detail the responsibilities and required actions of each party. Management of the excess property usually involves advertising the property as available for reutilization, transfer, or donation, and handling the sale of the property if it is not successfully reutilized, transferred, or donated. The remote site disposal process includes all instances where excess property is received in place.

DRMS Guidance for Remote Site Disposal. The DLA customers do not have easy access to guidance on the remote site disposal process. The guidance for remote site disposal is located throughout various sections of the DRMS Instruction Manual, the Disposition Manual, and the DRMS Manual. There are at least three separate updates or supplements for remote site disposal in three different sections of two manuals.

Time Required for Compliance With the Disposal Process. The primary reason that generators gave for not participating in the remote site disposal process was that it took too long for the property to be disposed of in that manner. The disposal process can routinely take over 174 days to complete including time for accumulation, screening, referral for sale, cataloging for sale, customer inspections, sales contracts, and removal of the property. Property that is receipted in place at the generator's location takes up space that the generator prefers to use for other purposes. As a result, many generators stated that it is worth the labor and transportation cost incurred to move the property to the DRMO.

Relationship Between Generators and DRMOs. There were several instances where a generator and DRMO attempted remote site disposal; however, problems occurred that made the process undesirable by one or both parties. For example, one generator in Ohio receipted in place three vehicles that were to be disposed of through remote site disposal. However, the DRMO required more time to dispose of the vehicles than the generator was willing to accept. As a result, the generator subsequently turned the vehicles in to the DRMO without notifying the DRMO that the vehicles were already receipted in place. This

created accountability problems for the DRMO because it was not notified that the same vehicles already had been receipt processed as a result of their receipt in place for remote site disposal. The two parties have not agreed to perform any remote site disposal since this occurrence.

Effects of Not Using Remote Site Disposal. Not using remote site disposal increases both the transportation costs for excess property generators and the DRMO work load necessary to receive property using adequate management controls. A 42 percent reduction in the number of DRMOs is planned to occur over the next 2 years. Therefore, excess property generators will incur still higher transportation costs when turning in property to DRMOs because greater distances will have to be traveled. Also, existing initiatives to reduce DoD inventories at all levels by the year 2000, combined with the continual implementation of planned military force reductions, may result in higher work load requirements than currently estimated for the remaining DRMOs. Remote site disposal is an existing, feasible process that reduces generators' transportation costs and DRMO work load. The remote site disposal process should be streamlined so that its use becomes common and widespread in the disposal of excess DoD property.

Appendix D. Glossary

Defense Reutilization and Marketing Service Automated Information System (DAISY). An automated property-accounting management system designed to process property through the necessary disposal steps and account for excess and surplus personal property from receipt to final disposition.

Disposal. The process of reutilizing, transferring, donating, selling, destroying, or other ultimate disposition of personal property.

Donations. Property that can be given away and is under the control of a Service or Defense agency authorized by statute to an authorized donee. GSA approves most donations of DoD surplus property.

Excess property. Excess property is defined as follows.

Service/Defense agency excess property. Service/Defense agency owned property that is not required for its needs and the discharge of its responsibilities as determined by the head of the Service/Defense agency (this property will be screened by a DoD organization for DoD reutilization).

DoD excess property. Property that has completed screening within DoD and is not required for the needs and the discharge of the responsibilities of any DoD organization. (This screening may be accomplished by DRMS, the Defense Information Systems Agency, and other designated DoD agencies. This property is subject to Federal civil agency screening by the GSA.)

Law enforcement agencies. Government agencies whose primary function is the enforcement of applicable Federal, state, and local laws and whose compensated law enforcement officers have powers of arrest and apprehension.

Law Enforcement Support Office (LESO). Formerly the Counter-Drug Support Office, this is a DLA office located at Fort Belvoir, Virginia, with a subordinate office at El Segundo, California, that manages the law enforcement support program. The law enforcement program allows all law enforcement agencies to acquire excess property for any bona fide law enforcement purpose.

Line item. A single line entry on a reporting form or sale document that indicates a quantity of property located at any activity having the same description, condition code, and unit cost.

Personal property. Property of any kind except real property and records of the Federal Government.

Remote site. The process used by DRMOs and generators of excess property when the excess property remains at the site of the generator, but final disposition of the property is managed by the DRMO. Management of the excess property disposition usually involves advertising the property as available for reutilization, transfer, or donation, and handling the sale of the property if it is not successfully reutilized, transferred, or donated.

Reutilization. The process that allows a Service or a Defense agency with excess property to provide that property to another Service or Defense agency for use by the recipient in the discharge of its responsibilities.

Surplus personal property. Personal property that is not needed for the discharge of responsibilities of any Federal agency. Property that has been screened for reutilization and transfer is considered surplus and available for donation and sale.

Transfer. A process that allows a Service or a Defense agency with excess property to provide that property to another Federal agency for use by the recipient in the discharge of its responsibilities. GSA approves most transfers of DoD excess property.

Turn-ins to the DRMO. The transfer of accountability for excess property from DoD Components to DRMOs to ensure proper disposal processing. DoD generating organizations are required to comply with the Disposition Manual and their Service or agency retention and disposal policies and procedures when preparing property as turn-ins.

Appendix E. Turn-In Documents, Inventory Adjustments, and Downgrades to Scrap

We tested turn-in documents to verify that excess property shipped to DRMOs was received and accounted for by the DRMOs, inventory adjustments had proper authority and were reasonable, and downgrades-to-scrap (after receipt) had proper approval levels and were reasonable. The results of the tests and conclusions are discussed below.

Turn-In Document Tests. While controls need to be improved over the shipment by generators and receipt by DRMOs of excess property, after the items were identified on DRMO turn-in documents, we were able to trace more than 98 percent of the property to the property listed; to a valid status of the property listed; or, in the case of DRMO Kaiserslautern, to a reasonable conclusion as to the status of the property. To validate that excess property turned in to DRMOs could be adequately accounted for, we obtained from the DRMOs property turn-in documents that originated from the largest generators of property in our judgmentally selected sample. We assigned sample numbers to the turn-in documents, recorded acquisition values, and validated whether the documents were recorded on DAISY. We then traced the property listed on the turn-in documents to the recorded warehouse location or determined whether the property had been removed from the DRMO accountable records because of reutilizations, transfers, donations, or sales.

Test Results. We traced 332 transactions, with an acquisition value of about \$3.5 million. Of the 332 transactions, DRMOs received 3 (less than 1 percent) that we could not physically locate. We located property related to 30 transactions at the DRMOs that the DRMOs had not officially received by posting the receipt in DAISY. We could not trace 47 items from the generators to the DRMOs. Of the 47 untraceable items, 38 were at DRMO Kaiserslautern, Germany, which had reported a large backlog of property to be received. Management at DRMO Kaiserslautern was taking alternate measures to receive the property. Specifically, the property backlog was contained in 17 van trailers that DRMO Kaiserslautern planned to unload as time permitted. We accepted, without verification, DRMO Kaiserslautern's assertion that the 38 untraced items were most likely contained in the van trailers. Of the remaining 9 untraceable items, 6 were from military installations in the San Diego area and appeared to have been received by the North Island DRMO instead of the San Diego DRMO. The remaining 3 untraceable items represented less than 1 percent of the transactions traced.

Inventory Adjustments. Of the 8 DRMOs we reviewed for inventory adjustments, only DRMO Vandenberg had problems with inventory adjustment transactions. DRMO Vandenberg is discussed in a separate report. For the remaining 7 DRMOs, we reviewed 67 inventory adjustments for authority and reasonableness, and determined that no problems existed at the sites reviewed.

Downgrades to Scrap (After Receipt). If DRMOs cannot reuse, transfer, donate, or sell property, they may decide to downgrade the property to scrap. Scrap property is sold by weight and is not accounted for as individual items. We noted no significant problems in the downgrading of items to scrap. We reviewed 95 downgrades to scrap transactions. We verified the listed reason for the downgrades and verified that the downgrades were approved at sufficient levels.

Appendix F. Organizational Responsibilities in the Disposal of Excess and Surplus Property

The Federal Property and Administrative Services Act of 1949 (the Act) assigned responsibilities for the disposition of DoD excess and surplus property.

GSA. The Act assigned the supervision and direction over the disposition of excess and surplus property to GSA. The Administrator of GSA delegated the responsibility for the sale and final disposition of personal property that will not be transferred to other Federal agencies or donated to authorized donees to the Secretary of Defense

Secretary of Defense. In addition to the responsibilities above, the Secretary of Defense has the responsibility under the Act for internal screening and redistribution of DoD property among the Services and Defense agencies.

DLA. The Secretary of Defense assigned the Director, DLA, the responsibility for the administration of the Defense Materiel Disposition Program. As the Integrated Program Manager for the Defense Materiel Disposition Program, DLA is responsible for establishing, coordinating, and approving policy, system concepts and requirements, resource management, program guidance, budgeting and funding, training and career development, management review and analysis, and internal control measures.

DRMS. The DRMS property disposal responsibilities include exercising program management of the Defense Materiel Disposition Program; developing a system for controlling and accounting for excess and surplus personal property; developing programs for surveillance of disposable property and related operations to ensure optimum reutilization, proper demilitarization, environmentally sound disposal practices, and performance of functions for which DRMS is responsible under pertinent regulations, monitoring property accountability and approving adjustments and corrections to property accounts for assigned DRMOs; and exercising operational supervision of DRMOs

DRMO. The DRMO property disposal responsibilities include providing assistance and disposal service to DoD Components and other authorized customers, maintaining property accountability and control of excess and surplus personal property, conducting periodic physical inventory of disposable property on hand, and preparing inventory adjustment documents as required.

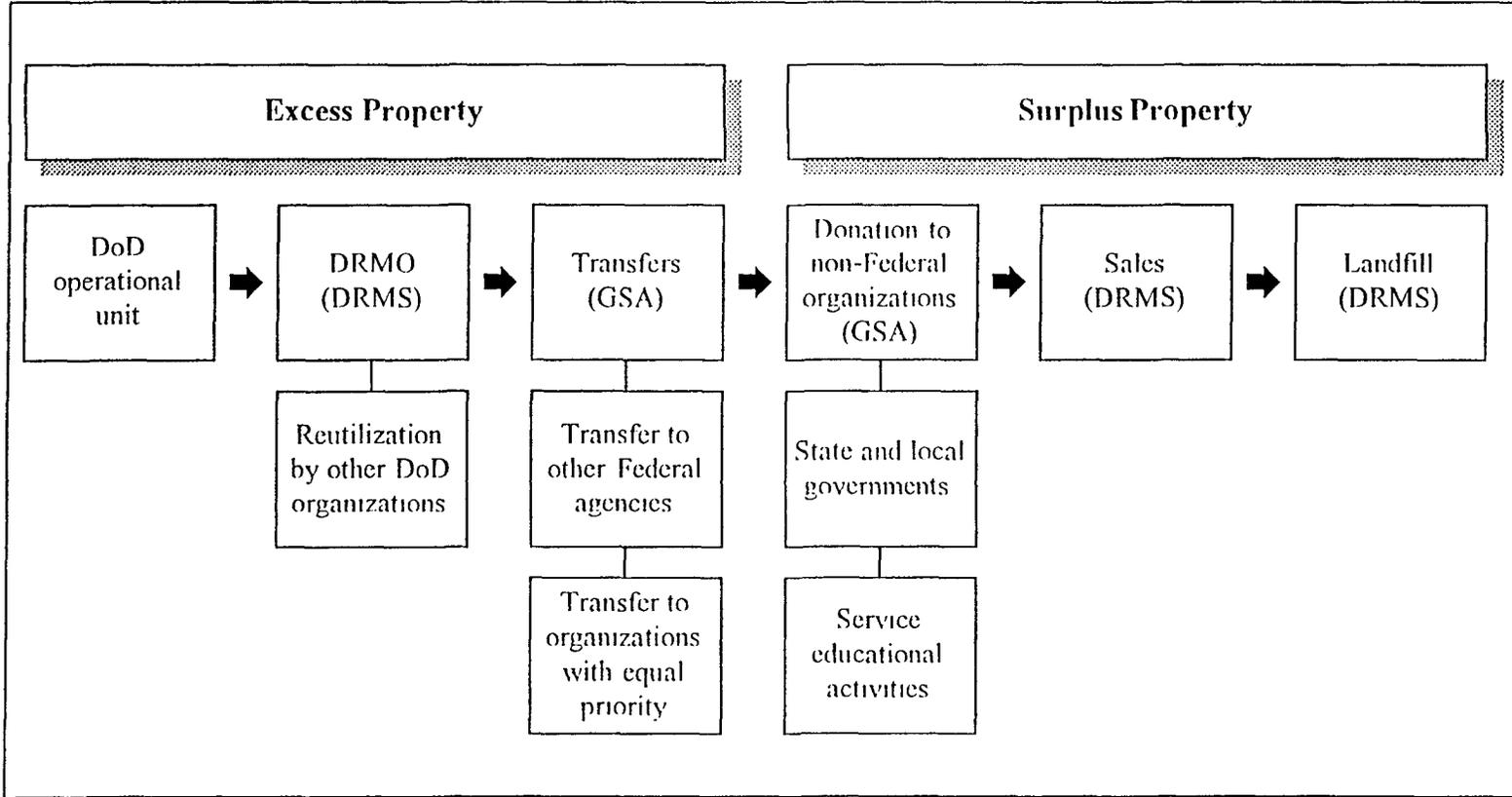
Appendix G. DRMS Disposal Process

As shown in the figure below, the DRMS disposal process involves multiple steps and organizations. DoD property enters the disposal process upon being declared excess by a Service or Defense agency. DoD excess property is not required for the needs and the discharge of the responsibilities of that DoD organization. Organizations dispose of property because of obsolescence, end of useful life, or other reasons determined by property control officers. After a depot or operational unit declares DoD property excess, the property is submitted to a DRMO. Excess property may be reutilized by other DoD organizations, transferred to other Federal agencies, or transferred to other organizations with priority equal to that of the Federal agencies. Organizations with equal priority include certain law enforcement agencies and humanitarian relief groups. GSA is responsible for approving transfers of most Federal property and authorizes groups to screen and requisition excess property.

Property that Federal agencies or organizations with priority do not need is deemed surplus and made available for donation to organizations outside the Federal Government. Items may be donated to state or local governments or service educational activities. Service educational activities include the boy scouts, girl scouts, and little league. GSA is responsible for authorizing institutions as eligible donees. As with the transfer function, GSA is responsible for approving most donations to organizations outside the Federal Government.

Material that remains unclaimed after the donation cycle is available for sale. DRMS assumes authority over property during the sale cycle. Property that is not sold as an item or for its scrap value is sent to a landfill or other appropriate disposal site.

Appendix G. DRMS Disposal Process



DRMS Disposal Process

Appendix H. Report Distribution

Office of the Secretary of Defense

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

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 Logistics Agency
Commander, Defense Reutilization and Marketing Service
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

General Accounting Office

National Security and International Affairs Division,

Technical Information Center

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

Senator John McCain

Part III - Management Comments

Deputy Under Secretary of Defense (Logistics) Comments



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

16 SEP 1998

(L/MDM)

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT
DIRECTORATE
OFFICE OF THE INSPECTOR GENERAL

THROUGH: DIRECTOR, CAIR *484 9/17*

SUBJECT: DoDIG Draft Evaluation Report: "Property Disposal
Management Controls"; Project Number 7LH-3012; dated June 26, 1998

This is in response to the request for comments from this office on recommendation 1 in the subject report. Based on the concerns identified in the attachment, we partially concur with recommendation 1. While we agree that the in-transit-to-disposal process needs to be improved, a practical, cost-effective method has not yet been found that would allow this to be accomplished.

Many of the issues in the subject report occur prior to the turn-in to disposal process and involve the policies and procedures of the Military Services. Comments from the Military Services are essential to the formulation of successful recommendations for improvement to this process. Therefore, we recommend that the report also be provided to the Military Services for comment.

Finally, we are pleased that the subject report corroborates the findings of the review conducted by this office that the policy covering property being transferred or donated from Defense Reutilization and Marketing Offices is adequate.

Roger W. Kallock
Deputy Under Secretary
of Defense (Logistics)

Attachment



DoDIG Draft Evaluation Report: "Property Disposal Management Controls";
Project Number 7LH-3012; dated June 26, 1998

DoDIG RECOMMENDATION 1

We recommend that the Deputy Under Secretary of Defense (Logistics) revise DoD Manual 4160.21-M to establish procedures that require the generators of property for disposal to remove the property from their accountable records only after receipt or electronic acknowledgment of receipt of property from the Defense Reutilization and Marketing Service Automated Information System and follow regulations similar to those for environmentally hazardous property when dealing with property that requires demilitarization. At a minimum, excess property generators should:

- Identify and segregate property requiring demilitarization before transporting it to the Defense Reutilization and Marketing Office and Plan, schedule, and coordinate the turn-in of property requiring demilitarization with the receiving Defense Reutilization and Marketing Office.

DUSD(L) RESPONSE

- Partially concur. We agree that aspects of the in-transit-to-disposal process need to be improved. Requiring removal from the generator's accountable record after a receipt is provided may result in improved control. However, a cost-effective method has not yet been found that would allow this to be accomplished. The DRMO receives a wide variety of material from various disposal property generators and does not have the manpower to perform sorting and verification at the time of turn-in and provide a final receipt.
- Policy addressing the planning, scheduling, and coordination of the turn-in to the DRMO of any property for disposal, including property requiring demilitarization, is already contained in Chapter 3 of the disposal manual. The current receipt process at the DRMO has been agreed to by the Military Services and is contained in the revised "Defense Materiel Disposition Manual", DoD 4160.21-M. However, the disposal manual does not cover the processes used by generators prior to turn-in to the DRMO, including removal from the property generator's accountable record.
- Property requiring demilitarization is not necessarily hazardous property and the type and degree of demilitarization required is already specifically identified by a demilitarization code. Property requiring demilitarization is also segregated at the DRMO. Additional identification and segregation of property requiring demilitarization by the generator would be duplicative and any benefit to the management controls over this property from this effort is not evident.

Deputy Under Secretary of Defense (Logistics) Comments

Final Report
Reference

- We suggest that the subject report be modified to recommend that the Deputy Under Secretary (Logistics) lead an integrated process review of the in-transit-to-disposal process to identify cost-effective improvements. Such a review should not be limited to the disposal manual and should include policy documents for wholesale, retail, asset visibility, and disposal in the Office of the Secretary of Defense, the Military Services, and the Defense Logistics Agency.

Revised

Defense Logistics Agency Comments



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REPLY
REFER TO

DDAI

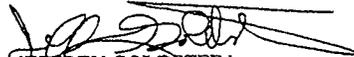
3 Sep 1998

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Property Disposal Management Controls, 7LH-3012

Enclosed are DLA comments in response to the subject draft report. If you have any questions,
please notify Sharon Entsminger, 767-6267

Encl


JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

cc:
DLSC-BO
DLSC-L
DRMS-J

3 SEP 1998

SUBJECT: Property Disposal Management Controls

FINDING. Controls Over the Transfer, Donation and Turn-In of Personal Property

DLA COMMENTS. DLA partially concurs. The DoD IG cites a number of deficiencies relative to many facets of the disposal process, to include receiving, Recycling Control Point, property accountability, and the respective responsibilities of Defense Reutilization and Marketing Offices (DRMOs), and DoD generators.

The IG (beginning on page 11) states that many DoD generators "drop" property accountability either upon shipment to the DRMO or upon return of the disposal turn-in document (DTID). We are aware that this sometimes occurs—a fact brought to the attention of DUSD (L), via DLA letter dated April 11, 1996. In response, DUSD informed LC staff that the inherent problem was DLA (DRMS) non-conformance with DoD 4140.1-R, Department of Defense Materiel Management Regulation, specifically, that physical stewardship of property always constitutes accountability. In other words, DRMOs must assume automatic accountability immediately upon receipt of the property, regardless of any physical inspection or verification by the DRMO receiving staff. DLSC staff did not agree with that position, citing numerous instances within DoD where this does not apply. Notwithstanding, DUSD, DLSC, and the military services, ultimately agreed on the current turn-in policy as described in DoD 4160.21-M (August 1997).

In Dec 1997, DRMS formally announced plans to close approximately half of its DRMOs leaving 68 DRMOs remaining in CONUS. DRMS is employing new management practices, which strengthen the disposal process through custom-tailored service arrangements, to include post closure disposal services. In transit accountability is improved in several ways through these arrangements:

- a. Excess property is transported only when the generator has not provided a staging area for receipt-in-place processing.
- b. Property with low value that is not transport worthy (i.e. scrap, bulk, rolling stock and hazardous) is received-in-place or at the provided staging area.
- c. DRMS provides forward receiving disposal expertise to direct property correctly and makes decisions if property should be transported.
- d. High value, Munitions List or Commerce Controlled List items are directed for transportation, funded for, and controlled by DRMS. In the majority of service arrangements, DRMS is providing the truck and transporting the property providing for more control of property.

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e. DRMS provides on-site customer service liaisons that pre-coordinates/inspects property prior to turn-in, thereby increasing the accuracy of information on turn-in documents.

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INTERNAL MANAGEMENT CONTROL WEAKNESS: Nonconcur

The IG states (page 14) "*The DRMS material management control weaknesses had not been effectively addresses and remained inadequate with no feasible corrections planned. DLA had not taken timely and effective action to correct the in transit accountability material weakness that was identified in 1985, more than 13 years ago* "

We wish to reiterate that the viability of the In-Transit Accountability system (see MILSTRIP, DoD 4000.25-1-M) relies upon shipment notifications from each DoD generator, most of which are not under DLA's control. Accordingly, it is inaccurate to assign systemic shortcomings solely on DLA. Moreover, the extent to which DLA established its material weakness was to institute a partial solution to the overall accountability problem, namely, for excess property disposed of by former service depots (wholesale), and only to the extent generators provide electronic shipment notifications.

As background, DLA memorandum to DUSD(L), dated April 11, 1996, subject: Receipt of Property at the DRMOs (attachment), addressed a contractor's review, which indicated little knowledge of, or adherence to, the requirements for Intransit Accountability for shipments to DRMOs. The memorandum requested DUSD(L) take action to effect full compliance with Intransit Accountability.

RECOMMENDATION 1:

That DUSD (L) revise DoD Manual 4160.21-M, to establish procedures that require the generators of property for disposal to remove the turned in property from their accountable records only after receipt or electronic acknowledgement of receipt of property from the Defense Reutilization and Marketing Service Automated Information System; and follow regulations similar to those for environmentally hazardous property when dealing with property that requires demilitarization. At a minimum, excess property generators should:

- a. Identify and segregate property requiring demilitarization before transporting it to the Defense Reutilization and Marketing Office and
- b. Plan, schedule, and coordinate the turn-in of property requiring demilitarization with the receiving Defense Reutilization and Marketing Office.

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DLA COMMENTS. Partially Concur. We acknowledge the basic thrust of the IG's recommendation, that generators should have a working knowledge of the importance of demilitarization requirements. We disagree with requiring generators to "identify and segregate" property requiring demilitarization (DEMIL). The type and degree of DEMIL is already identified via the DEMIL codes. Notwithstanding the continuing problems of DEMIL code accuracy/inaccuracy, we see little value in levying these additional requirements on the warfighter. The requirement to plan, schedule, and coordinate turn-ins is already stated in the DoD 4160.21-1-M, Chapter 3. Moreover, we disagree with the IG's comparing environmentally hazardous property with property requiring DEMIL. Hazardous property must be disposed of in accordance with the Resource Conservation and Recovery Act, and other statutes. These requirements are usually far more stringent than DEMIL required property, much of which is not dangerous in any form.

RECOMMENDATION 2: That the Director, Defense Logistics Agency, revise Defense Reutilization and Marketing Service Instruction 4160 14 to require that Defense Reutilization and Marketing Offices receiving property that requires demilitarization to:

- a. Receipt the property at the time of delivery and
- b. Assign accountability for the property to the Defense Reutilization and Marketing Office accountable property officer upon receipt.

DLA COMMENT: Non concur. We agree that DEMIL required property pending receipt should be afforded the same level of security as property on the DRMOs accountable record. However, forcing the DRMO to accept accountability of excess property immediately upon receipt has numerous drawbacks. For instance DRMOs would be hard-pressed to garner generator assistance to verify what was actually received; to document discrepancies, or to note other problem areas. Clearly, this would create a perverse and unintended incentive for generators to avoid following proper turn-in procedures (e.g., hazardous, DEMIL, etc.); and all problems would automatically become the "DRMO's problem". Ultimately, this approach could create an additional cost burden to our customers—the warfighter. It should be noted that DRMS is developing additional guidance on generator identification and segregation of property requiring special handling (DEMIL, environmental, pilferable and sensitive). We wish to emphasize, however, that DoD generators must take some level of responsibility on these matters, to assure their personnel are properly trained.

Notwithstanding, DRMOs continue to work with generators to ensure the proper identification and segregation of property requiring special handling before turn-in to the DRMO. DRMS is also evaluating a Radio Frequency (RF) receiving project designed to receive property faster, reduce double handling, and identify demilitarization required (coded) property upon turn in. This project is being tested at DRMOs Jacksonville, Florida, and Hill Air Force Base, Utah. Moreover, DRMS is also working on a 'One Day Receiving' project that will enable DRMOs to prioritize receipts, utilizing RF technology

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and software edits that speed the receiving process. The results of these projects are still pending but we are confident these projects will yield significant process improvements.

RECOMMENDATION 3. That the Director, Defense Logistics Agency, reassess the planned corrections to the in transit accountability material control weakness to develop feasible solutions for both retail and wholesale excess property, and to provide realistic target correction dates.

DLA COMMENT. Nonconcur. The correction of in transit accountability problems with retail level turn-ins is not within the control of DLA. Given that limited span of control, we believe the current schedule for completion of our material weakness is appropriate, correct, and realistic.

ACTION OFFICER: Tom Ruckdaschel, DLSC, (703) 767-1534

REVIEW: Walter B. Bergman, Deputy Executive Director, Logistics Management

COORDINATION: Sharon Entsminger, DDAI, 767-6267

DLA APPROVAL:



E.R. CHAMBERLIN
Rear Admiral, SC, USN
Deputy Director

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ADDITIONAL DLA COMMENTS

We offer the following additional comments to assist in clarifying the draft report:

a. Pg. 3. Par 3. Reference for property accountability is also included in DRMS-I 4160.14, Vol II

Revised

b. Pg. 4. Par 2. Incorrect reference. Under Transfer of DoD Excess Property it should read DRMS-I 4160.14, Vol. III, Instructions for RTD for DRMS and the DRMOs.

Revised

c. Pg. 7. Par 2. Incorrect reference. It should read DRMS-I 4160.14, Vol. III, Instructions for RTD for DRMS and the DRMOs.

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Revised

d. Pg. 13. Disposal of Property Requiring DEMIL. The 2nd Sentence requires clarification. We are particularly sensitive to DRMS' image regarding our DEMIL program. Not all property requiring demilitarization poses a potentially deadly hazard items, such as a bolt or a barrel, for a weapon by themselves are innocuous. In combination with other parts and material, the ready to function assembly could possibly meet this definition. Also items, which are designed for defense against attack such as flak vest and armor which, require demilitarization can not be categorically classified as possessing a potentially deadly hazard.

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Revised

e. Pg 13. Disposal of Property Requiring DEMIL. The 3rd sentence, recommend dangerous be replaced with Ammunition, Explosives and Other Dangerous Articles (AEDA). This substitution more clearly defines the type of DEMIL required property that must be turned in with proper inert certification.

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Revised

d. Page 27, Appendix C. Use of the Remote Site Process. **Partially concur.** We agree that procedures need to be clarified and consolidated into a single source manual, and that such guidance should maximize the use, and proper management of remote site disposal. Further, the report states that, as a result of pending DRMO closures, excess property generators will incur higher transportation costs. The IG does not state how this conclusion was derived or provide any metrics to support it While some transportation costs may indeed increase, we are working with the generators to minimize the impact. A study recently performed by the Defense Operations Research and Resources Analysis Office, for example, revealed that much property (approximately 85%) is in scrap and/or poor condition of low value—and not transport worthy. In addition, DRMS is paying some transportation costs through 1999.

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The IG also cites instances where property (vehicles) located off-site may have been tampered with Clearly, the generator is responsible for overall base security, to include reasonable assurance that property is not tampered with, especially after disposal turn-in documents have been forwarded to the DRMO.

Evaluation Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

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