

Audit



Report

YEAR 2000-SENSITIVE PROPERTY REUTILIZED,
TRANSFERRED, DONATED OR SOLD

Report No. 99-255

September 15, 1999

Office of the Inspector General
Department of Defense

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Acronyms

ASD(C ³ I)	Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
ASD(HA)	Assistant Secretary of Defense (Health Affairs)
DAISY	Defense Reutilization and Marketing Automated Information System
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DRMO	Defense Reutilization and Marketing Office
DRMS	Defense Reutilization and Marketing Service
FSC	Federal Supply Class
FSG	Federal Supply Group
LESO	Law Enforcement Support Office
LEA	Law Enforcement Agency
NMC	Naval Medical Center
Y2K	Year 2000



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September 15, 1999

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (COMMAND,
CONTROL, COMMUNICATIONS, AND
INTELLIGENCE)
DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Year 2000-Sensitive Property Reutilized, Transferred,
Donated, or Sold (Report No. 99-255)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) and the Defense Information Systems Agency are responsive to the recommendations and further comments are not required. We request that the Defense Logistics Agency provide additional comments on Recommendation 2.a. Because of the special urgency regarding year 2000 conversion issues, we request that the Defense Logistics Agency provide the comments by October 15, 1999.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Michael A. Joseph (mjoseph@dodig.osd.mil) or Mr. Timothy J. Tonkovic (ttonkovic@dodig.osd.mil) at (757) 766-2703. See Appendix C for the report distribution. The audit 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. 99-255
(Project No. 9LF-5041)

September 15, 1999

Year 2000-Sensitive Property Reutilized, Transferred, Donated, or Sold

Executive Summary

Introduction. Property that is no longer required by a DoD organization is reutilized within DoD or transferred, donated, or sold to Federal and State agencies, educational institutions, governmental humanitarian programs, nonprofit organizations, and the general public. The Defense Logistics Agency, through its Defense Reutilization and Marketing Service, oversees the reutilization, transfer, donation, or sale of most excess and surplus property. For computers and related equipment, the Defense Information Systems Agency is responsible for centralized management and redistribution. For the 6-month period ending March 31, 1999, DoD organizations reused, transferred, donated, or sold, for specific Federal supply groups,¹ about 340,000 items of medical property and processed about 4,000 transactions transferring property to law enforcement agencies. During the same period, the Defense Information Systems Agency redistributed about 62,000 computers and related equipment. Information was not available to determine how much of the property was year 2000 (Y2K) sensitive, but we note that medical property includes a wide range of items such as anesthesia apparatus and x-ray equipment. Property transferred to law enforcement agencies included electronic countermeasures equipment, as well as vehicles.

The Offices of the Military Department Surgeons General issued guidance in July 1998, October 1998, and January 1999 requiring the Military Health System to render Y2K noncompliant biomedical equipment inoperable. In March 1999, the Defense Logistics Agency issued policy and procedures for disposing of property that may be Y2K sensitive. As part of that guidance, the Defense Logistics Agency required Defense Reutilization and Marketing Offices to alert customers that there may be risks from using Y2K noncompliant property and that property obtained may not be Y2K compliant. In March 1999, the General Services Administration established a working group to develop a Federal policy for disposal of property that may not be Y2K compliant. On August 10, 1999, General Services Administration Bulletin FPMR H-76, "Utilization and Disposal," was published in the Federal Register. The Bulletin provides disposal policy direction for excess hazardous biomedical equipment and information technology equipment with potential Y2K defects.

¹Appendix A contains a list of the Federal supply groups included in the report and the specific Federal supply classes reviewed by the audit team.

Objective. The overall objective was to determine whether measures had been taken or were needed to ensure that DoD is not a supplier of property that is not Y2K compliant. Specifically, we reviewed categories of property that had been reutilized within DoD or transferred, donated, or sold to Federal and State agencies, educational institutions, governmental humanitarian programs, nonprofit organizations, or the general public.

Results. DoD was transferring to other Federal and State agencies; donating to educational institutions, governmental humanitarian programs, or nonprofit organizations; and selling to the general public property that may not be Y2K compliant. Examples include medical property, communications equipment, and computer equipment. Portions of the transferred, donated, or sold property were not assessed for Y2K compliance. The April 1997 DoD Year 2000 Management Plan and subsequent updates did not address property disposal issues. Although guidance by the Defense Logistics Agency and the Offices of the Military Department Surgeons General was a positive step, it did not resolve the disposal issue. As a result, recipients of transferred, donated, or sold property may be exposed to various levels of risk, ranging from minor disruptions to unsafe scenarios. DoD would continue to be a supplier of potentially Y2K noncompliant property unless clear policy were issued and emphasized by senior management. See the Finding section for details.

Summary of Recommendations. We recommend that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) clarify DoD disposal guidance and incorporate the guidance into the DoD Year 2000 Management Plan. The guidance should include a requirement for organizations generating excess or surplus property to assess the property for Y2K sensitivity and compliance status. Transfer documents prepared by the generating organizations should identify the Y2K compliance status for every item to be excessed. Additionally, definitive guidance for the mutilation of Category 1² defective property identified as not Y2K compliant should be included. We recommend that the Director, Defense Logistics Agency, suspend disposal actions until the Agency coordinates with generating organizations to assess Y2K inventory on hand for Y2K sensitivity and compliance status, as well as for health or safety impacts. We also recommend that the Defense Logistics Agency process dispositions of biomedical equipment from generating organizations only when the transfer documents include the Y2K status for all equipment. We recommend that the Defense Information Systems Agency notify pending recipients on transfer documents of potential Y2K noncompliance and include disclaimers for fitness of use.

Management Comments. The Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) concurred with the recommendation to clarify disposal guidance and developed appropriate guidance that will be included in the DoD Year 2000 Management Plan. The Defense Logistics Agency nonconcurred with the recommendation to suspend disposal actions of excess and surplus property, stating that the Agency had already been tasked to assess Y2K sensitivity of all items of supply and was in the final phases of completing its assessment. The Defense Logistics Agency also stated that compliance with the recommendation would place an inordinate burden on the Defense Reutilization and Marketing Service and duplicate action already underway, and that Defense Reutilization and Marketing Office personnel lack the necessary expertise to render Y2K technical judgments. However, the Defense Logistics Agency agreed to suspend

²Category 1 is property which, if used, would create a public health or safety concern.

all reutilization, transfer, donation, and sale actions on biomedical equipment until a determination is made as to Y2K sensitivity. Additionally, the Defense Logistics Agency stated that it reviewed medical items in Federal Supply Classes 6515 and 6525, and only 0.2 percent were found to have an embedded chip and none were date sensitive. The Defense Logistics Agency also agreed to accept excess or surplus biomedical equipment from generating organizations only if Y2K sensitivity is annotated on transfer documents. It did not agree to do so for all excess or surplus property. The Defense Information Systems Agency agreed to post warnings on its Defense Automation Resources Management Program Excess Listing web page that certain types of computers may be Y2K noncompliant. See the Finding section for a summary of management comments and the Management Comments section for the complete text of the comments.

Audit Response. Comments from the Office of the Assistant Secretary were responsive. Based on Defense Logistics Agency comments, we revised and reversed the order of two recommendations to the Assistant Secretary to recognize that property mutilated by the generating organization will not be identified as Category 1 defective on turn-in documentation.

Although the Defense Logistics Agency nonconcurred with the recommendation to suspend disposal actions, we consider the comments to be generally responsive for biomedical equipment. The Defense Logistics Agency comments were not responsive for property other than biomedical equipment. The Defense Logistics Agency stated the recommendation duplicates actions underway, but it also stated that Defense Reutilization and Marketing Office personnel lack the expertise necessary to render Y2K technical judgments. We agree there is no need for Defense Reutilization and Marketing Offices to suspend all disposal actions until all Y2K assessments are completed. If property is known to be non-Y2K sensitive, then such disposals need not be suspended. The Defense Logistics Agency statement concerning medical items in Federal Supply Classes 6515 and 6525 needs clarification. The Defense Logistics Agency reviewed 510 in-stock line items at Defense Supply Center Philadelphia, but did not review the 339,748 medical property items referenced in the report. Additionally, the Defense Logistics Agency did not attempt to determine how many of the 510 in-stock items may have been the same as the 339,748 medical property items discussed in the report. The recommendation to assess all inventory items in the Defense Reutilization and Marketing Offices is warranted and is consistent with the agreed-upon change to the DoD Year 2000 Management Plan.

Based on the Defense Logistics Agency comments and the Assistant Secretary's planned update to the DoD Year 2000 Management Plan, we revised the recommendation to process dispositions only when transfer documents are annotated as to the equipment's Y2K status to apply only to biomedical equipment. As a result, we consider the Agency's comments responsive to the recommendation.

We request that the Defense Logistics Agency reconsider its position on the recommendation to suspend disposal actions for other than biomedical equipment and provide comments in response to the final report by October 15, 1999. Comments from the Defense Information Systems Agency were responsive.

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Background

DoD Year 2000 Management Plan. The DoD Chief Information Officer has the overall responsibility for overseeing the DoD solutions to the year 2000 (Y2K) problem. In his role as the DoD Chief Information Officer, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (ASD[C³I]) issued the initial "DoD Year 2000 Management Plan" (the DoD Management Plan) in April 1997 and has issued subsequent updates. The DoD Management Plan required DoD Components to implement a five-phase (awareness, assessment, renovation, validation, and implementation) Y2K management process. The DoD Management Plan also provides the overall strategy and guidance for inventorying, prioritizing, fixing, or retiring systems and monitoring programs.

Defense Reutilization and Marketing Service. A Defense Logistics Agency (DLA) organization, the Defense Reutilization and Marketing Service (DRMS) oversees the reutilization, transfer, donation, and sale of excess and surplus property. The DRMS offers unneeded property from DoD organizations for reutilization, transfer, donation, or sale through its network of Defense Reutilization and Marketing Offices (DRMOs).

Defense Information Systems Agency. The Defense Information Systems Agency (DISA) has been assigned the responsibility for centralized management of DoD computers and related equipment assets, including inventory tracking and redistribution of excess and surplus equipment to recipients. DoD organizations are required to report excess and surplus computers and related equipment assets to DISA for disposition and DISA approves the transfer and donation of information technology assets. DISA provides the approval for such dispositions; it does not take possession of the excess and surplus equipment. Computers and related equipment include disk drives, modems, printers, software, workstations, and other items.

Other Property Disposal Channels. In addition to DRMS and DISA disposals, separate authorities exist to transfer and donate property to Federal and State agencies, nonprofit organizations, and other users. For example, the Defense Contract Management Command, another DLA organization, is responsible for ensuring that Defense contractors comply with applicable DoD demilitarization policies when disposing of munitions list items. We did not include those authorities in the scope of this audit.

Excess and Surplus Property. Property that is reutilized, transferred, donated, or sold by the DRMOs is considered excess or surplus. Excess property includes any property under the control of a Federal agency that is not required for its needs. Excess property is reutilized within DoD or transferred to other Federal agencies. Property designated for humanitarian assistance programs and law enforcement support programs are processed as reutilizations or transfers to the Federal agencies responsible for the programs.

Surplus property includes excess property that is not required for the needs of any Federal agency. Surplus property may be claimed by State or local governments as donations or made available for sale to the general public. For

purposes of this report, we use the term property to include DoD “excess property” and “surplus property” that is available for redistribution. For purposes of this report, property redistribution refers to all or any combination of the following four disposal processes: reutilization, transfer, donation, and sale.

Objective

The objective was to determine whether measures had been taken or were needed to ensure that DoD is not a supplier of property that is not Y2K compliant. Specifically, we reviewed property that had been reutilized, transferred, donated, or sold to Federal or State agencies, educational institutions, governmental humanitarian programs, nonprofit organizations, or the general public. We limited our review to medical property redistributed by DRMOs, communications property transferred to law enforcement agencies, and computers and related equipment redistributed by DISA. See Appendix A for a discussion of the audit scope and methodology and a summary of prior coverage.

Disposal of Potentially Year 2000 Noncompliant Property

DoD was transferring to other Federal agencies; donating to educational institutions, governmental humanitarian programs, State and local law enforcement agencies, or nonprofit organizations; or selling to the general public property that may not be Y2K compliant. Portions of the transferred, donated, or sold property were not assessed for Y2K compliance. Transfers, donations, and sales of potentially Y2K noncompliant property occurred because the April 1997 DoD Management Plan and subsequent updates did not address property disposal issues, but focused on ensuring that systems DoD planned for continued use would operate into and beyond the year 2000. Y2K property disposal guidance issued by DLA in March 1999 and by the Offices of the Military Department Surgeons General in July 1998, October 1998, and January 1999 partially addresses the problem; however, the guidance needs to be clarified. As a result, recipients of transferred, donated, or sold property may be exposed to various levels of risk, ranging from minor disruptions to unsafe scenarios. DoD will continue to be a supplier of potentially Y2K noncompliant property unless clear and consistent policy is published and emphasized by senior management.

Criteria

Executive Order 12999, "Educational Technology: Ensuring Opportunity for All Children in the Next Century," April 17, 1996, requires all executive departments and agencies to protect and safeguard computer equipment, particularly when declared excess or surplus, so that it may be recycled and transferred, if appropriate.

Various statutes determine when to reutilize or sell the Government's property; donate it for public use; destroy it to prevent impairment or to prevent a hazard; or make it available as contributions to domestic, educational, and foreign programs. Public Law 81-152, "Federal Property and Administrative Services Act of 1949," June 30, 1949, established the General Services Administration as the agency that is responsible for overall Government-wide property management procedures and policies. The General Services Administration delegated to the Secretary of Defense the responsibility for disposition of property from DoD. The responsibility was subsequently transferred from the Secretary of Defense to DLA.

DoD Manual 4160.21-M, "Defense Material Disposition Manual," August 1997, implements the requirements of the Federal Property Management Regulation and other laws and regulations, as appropriate, as they apply to the disposition of property.

DoD Disposal Guidance for Y2K-Sensitive Property

Defense Logistics Agency. DLA, through the DRMS and DRMOs, is responsible for property disposal policies and administration of the Defense Material Disposition Program. DLA issued policy in March 1999 providing guidance to DoD organizations transferring Y2K noncompliant property to DRMOs for disposal. The policy requires that:

- property identified by the generating organization for disposal through DRMS that is known to be Y2K noncompliant and having health or safety applications (for example, some biomedical devices and patient care equipment) or used in military weapon systems (for example, avionics) is considered Category 1 defective and
- property identified by the generating organization and known to be Y2K noncompliant but having no health, safety, or weapon systems application is considered Category 2 defective.

Category 1 defective property, if used, would create a public health or safety concern and must be mutilated (made unfit for its originally intended purpose) by the generating organization. Category 2 defective property cannot be reutilized within DoD but may be used for commercial purposes and may be transferred, donated, or sold as usable property.

Additionally, as part of the March 1999 guidance, the DLA Assistant Executive Director for Disposal Management directed that placards be conspicuously placed in each DRMO alerting customers that there may be risks from using Y2K noncompliant property and that property obtained from DRMOs may not be Y2K compliant. The Assistant Executive Director also directed that similar notices be placed in sales catalogs and on the DRMS web site's home page for both Government and private users.

Before the March 1999 policy, DLA had no special handling requirements, and Y2K-sensitive property was redistributed with the same disclaimer that is used for other property. DoD property that is redistributed through the DRMOs is made available without warranty for fitness of use.

Military Health System. The Assistant Secretary of Defense (Health Affairs) (ASD[HA]) developed the "Military Health System's Y2K Management Plan" to reinforce and supplement the DoD Management Plan. The ASD(HA) supplemental plan did not address disposal.

To ensure healthcare delivery is not adversely affected prior to, on, or after January 1, 2000, the Military Health System engaged in a coordinated effort to identify and resolve potential Y2K problems. The Offices of the Military Department Surgeons General issued guidance in July 1998, October 1998, and

January 1999 that requires military treatment facilities to render Y2K noncompliant biomedical equipment inoperable prior to transfer to DRMOs. The guidance states:

Medical equipment which has been identified as "not upgradeable" shall be removed from service prior to the year 2000 issue having an impact on its operation. Once removed from service, the equipment will be rendered inoperable by the military treatment facilities' biomedical repair division and marked with a tag stating, "Suspended from Use - Inoperable Due to Year 2000 Noncompliance." The equipment will then be transferred to the local Defense Reutilization and Marketing Office as scrap.

Defense Information Systems Agency. DISA coordinates and approves the redistribution of DoD excess computers and related equipment to authorized organizations. As of June 1999, DISA had not issued a policy for the disposition of Y2K-sensitive computers and did not have a disclaimer on its transfer documents notifying users of potential Y2K problems.

Redistribution of Potentially Y2K Noncompliant Property

DoD was transferring to other Federal agencies; donating to educational institutions, governmental humanitarian programs, State and local law enforcement agencies, or nonprofit organizations; or selling to the general public property that may not be Y2K compliant. Portions of the transferred, donated, or sold property were not assessed for Y2K compliance. We did not quantify the amount of Y2K noncompliant property that was transferred, donated, or sold because property documents did not include information showing whether property had been assessed for Y2K compliance.

Although we did not quantify the amount of Y2K noncompliant property, we selected several Federal supply groups (FSGs) and classes for review and found examples of redistribution of potentially Y2K noncompliant property. We limited our review to medical property redistributed by DRMOs, communications property transferred to law enforcement agencies, and computers and related equipment redistributed through DISA.

Medical Property Redistributed by DRMOs. DRMOs redistributed about 340,000 items of medical property from October 1998 through March 1999, which might have included Y2K noncompliant devices that could fail to operate properly after December 31, 1999. The medical property included devices critical to health and safety, such as anesthesia apparatus, fetal heart monitors, and x-ray equipment. The 340,000 items of medical property also included devices not critical to health and safety, such as arch supports. Table 1 shows quantities of medical property in Federal Supply Class (FSC) 6515, "Medical and Surgical Instruments, Equipment, and Supplies," and FSC 6525, "X-Ray Equipment and Supplies: Medical, Dental, Veterinary," that were redistributed by DRMOs during the first 6 months of FY 1999.

**Table 1. Medical Property Redistributions
for the First 6 Months of FY 1999**

<u>Redistribution Process</u>	<u>Quantity</u>
Reutilization ¹	115,380
Transfers ²	90,003
Donations ³	16,574
Sales ⁴	117,791
Total	339,748

¹DoD organizations.

²Non-DoD Federal agencies.

³State and local governments.

⁴General public.

DoD organizations did not notify DRMOs on property transfer documents whether the property was Y2K compliant or whether it had been assessed for Y2K compliance. Accordingly, the DRMOs had no way of knowing whether the medical property was Y2K compliant, or even whether it was Y2K sensitive.

In April and May 1999, we visited two DRMOs to determine procedures for redistribution of medical property turned in from military treatment facilities. At both DRMOs, we found medical property from FSC 6515 and FSC 6525 that was available for redistribution that had not been assessed for Y2K compliance.

Documents at the DRMO that services Naval Medical Center (NMC) Portsmouth, Virginia, indicated that quantities of potentially Y2K noncompliant items of medical property were to be transferred from the NMC to the DRMO. DRMO transfer documents showed the pending turn-in of about 9,000 medical items from NMC Portsmouth to the DRMO for disposal. The transfer documents did not indicate whether any of the 9,000 items had been assessed for Y2K compliance. In April 1999, NMC Portsmouth personnel informed us that none of the 9,000 items had been assessed for Y2K compliance because they were no longer needed at the facility. The personnel estimated that about 2,000 of the 9,000 items may have been high or medium health risk. The excess property, including those with health or safety applications, were scheduled to be transferred to other military treatment facilities, the DoD Humanitarian Assistance Program, the Indian Health Service, or other State agencies or sold to the general public. Personnel at the DRMO and NMC Portsmouth were not aware of the DLA guidance on disposition of Y2K noncompliant property. On April 16, 1999, the Navy agreed to stop shipments of the 9,000 items until it assessed the property for potential health or safety impacts. The inventory of 9,000 medical items may not be typical of other facilities because a fully equipped replacement hospital became operational at Portsmouth in April 1999.

At DRMO, Wright-Patterson Air Force Base, Ohio, there were 545 medical items pending redistribution. The DRMO was not notified on transfer

documents as to the Y2K status of the devices. We judgmentally selected 46 of the 545 medical items for physical inspection. Of the 46 items, 24 were tagged or marked as Y2K compliant, 7 were tagged or marked as noncompliant, and 15 were not tagged or marked for Y2K status. However, none of the transfer documents included information on the Y2K status or whether the property was Category 1 or Category 2 defective. DRMO personnel informed us that without such information on the transfer documents, the property tagged as compliant or noncompliant and the untagged items would all be disposed of in the same manner.

Property Transferred Through the DLA Law Enforcement Support Office. From October 1, 1998, through March 31, 1999, DRMOs processed more than 15,700 transactions for 74 FSGs transferring property to law enforcement agencies (LEAs). The DLA Law Enforcement Support Office (LESO) coordinates the transfer of DoD property from DRMOs to LEAs for the Drug Enforcement Policy and Support Program. The LESO does not maintain records regarding the Y2K status of property that is transferred to LEAs from DRMOs. Federal agencies, each of the 50 States, and 2 territories are enrolled in the program, and more than 12,000 of the nation's 17,000 LEAs acquired DoD property during FY 1998.

Of the 74 FSGs of property transferred to LEAs, 8 FSGs accounted for 25 percent of the total transactions. Table 2 shows the number of transactions (not quantities of equipment) for the eight FSGs of property that were transferred to LEAs through the LESO during the first 6 months of FY 1999.

Table 2. Summary of Property Transferred to LESO for the First 6 Months of FY 1999

<u>Federal Supply Group¹</u>	<u>Number of Transactions</u>
Communications Property	1,051
General Purpose ADPE ²	1,051
Vehicles	805
Instruments and Lab Equipment	463
Aircraft Components	253
Electronic Components	146
Maintenance and Repair Equipment	113
Engines, Turbine	103
Total	3,985

¹See Appendix A for the complete title of each FSG cited in this table.
²Automatic Data Processing Equipment.

For the communications property group, we reviewed 90 items (from 6 FSCs) on hand at DRMO Fort Meade, Maryland, on May 27, 1999. The FSCs reviewed were FSC 5810, "Communications Security Equipment and Components"; FSC 5811, "Other Cryptologic Equipment and Components";

FSC 5825, "Radio Navigation Equipment, Except Airborne"; FSC 5826, "Radio Navigation Equipment, Airborne"; FSC 5840, "Radar Equipment, Except Airborne"; and FSC 5865, "Electronic Countermeasures, Counter-Countermeasures and Quick Reaction Capability Equipment." None of the property had been assessed for Y2K compliance. DRMO personnel stated that organizations were turning in communications property without Y2K assessments. DLA personnel stated that they briefed State law enforcement coordinators on Y2K issues during the June 1999 Law Enforcement Support Office National Conference.

Computer Equipment Redistributed Through DISA. From October 1, 1998, through March 31, 1999, DISA coordinated the redistribution of 62,200 pieces of computer equipment to Federal and State agencies, educational institutions, governmental humanitarian programs, or nonprofit organizations without knowledge of the equipment's Y2K status. As of March 9, 1999, there were 30,300 excess computers and pieces of related equipment available for redistribution. The computer equipment redistributed by DISA might have included Y2K noncompliant computers that could fail to operate properly after December 31, 1999. Additionally, DISA did not notify recipients that equipment may not be Y2K compliant or provide a disclaimer that equipment was made available without warranty for fitness of use. During the audit, DISA agreed to include a notification of potential Y2K vulnerabilities and a written disclaimer for fitness of use in its transfer documents.

Property Disposal Policy Issues

DoD was the provider of potentially Y2K noncompliant property because the DoD Management Plan and subsequent updates did not address property disposal issues, but focused on ensuring that operational systems would continue to operate into and beyond the year 2000. The DLA and Military Department property disposal guidance partially addresses the disposal problem; however, the policy needs to be clarified to further minimize the risk of DoD being a supplier of property with Y2K vulnerabilities. Additionally, DoD senior management needs to emphasize the DoD commitment to properly dispose of Y2K noncompliant property.

DoD Y2K Policy. The DoD Management Plan did not address property disposal issues, but focused on ensuring DoD systems would continue to operate effectively into and beyond the year 2000. Because of limited time and funding to resolve Y2K issues, DoD initial emphasis was correctly placed on assessing the operational capabilities of its systems planned for use into and beyond the year 2000. Although the DoD Management Plan did not address disposal issues, DLA and the Offices of the Military Department Surgeons General issued policy and guidance for disposal of Y2K noncompliant property.

DoD Policy on Disposals Made Through the DRMOs. The policy established by DLA for the disposal of Y2K noncompliant property through the DRMOs was a positive step in assisting DoD to minimize the impact on recipients of potentially Y2K noncompliant property. However, the policy did not clearly require that all potentially Category 1 and 2 defective property be assessed for

Y2K compliance before disposal. Instead it referred to property known to be Y2K noncompliant. At NMC Portsmouth, Category 1 and 2 defective property was scheduled for disposal without being assessed. The NMC Portsmouth personnel believed they were in compliance with the policy because they did not know the Y2K status of the medical property. To demonstrate the criticality of the issue, we identified 14 fetal heart monitors that were scheduled for disposal and had no documentation as to Y2K status even though they had been identified by the manufacturer as potentially Y2K noncompliant.

Military Department Guidance. The Offices of the Military Department Surgeons General jointly developed the guidance that requires military treatment facilities to render Y2K noncompliant biomedical equipment inoperable prior to transfer to DRMOs.

As with the DLA policy, the Surgeons' General guidance was a positive step, but needed clarification. The Surgeons' General guidance stated that biomedical equipment which has been identified as not upgradeable should be removed from service, rendered inoperable by a biomedical equipment technician, and turned in as scrap. We were advised by a representative of the Army Surgeon General that the intent of the Surgeons' General guidance was to destroy noncompliant property so as to preclude future use. However, conversations with military treatment facility personnel revealed differing interpretations of the term "render inoperable." We were told that rendering property inoperable could include the removal of power cords and switches or removal and destruction of electrical components, such as circuit boards. Rendering equipment inoperable may permit users to refurbish the property and reuse it for its originally intended purpose, without making the property Y2K compliant. The use of such property could have health or safety implications, depending on the specific property being used.

Federal Disposal Policy. In March 1999, the General Services Administration's Office of Transportation and Personal Property established a working group to develop a Federal policy for disposal of property that may not be Y2K compliant. On August 10, 1999, General Services Administration Bulletin FPMR H-76, "Utilization and Disposal" was published in the Federal Register. The Bulletin provides disposal policy direction for excess hazardous biomedical equipment and information technology equipment with potential Y2K defects.

Conclusion

Despite efforts to establish requisite controls, DoD continued to be a supplier of potentially Y2K noncompliant property. The DoD policies on assessment and disposal of Y2K-sensitive property were intended to eliminate or minimize risk for recipients of Y2K noncompliant property. Those policies had been only partially effective.

Recommendations, Management Comments, and Audit Response

Revised and Renumbered Recommendations. As a result of management comments from DLA, we revised and reversed the order of Recommendations 1.a.(6) and 1.a.(8). We also revised Recommendation 2.b. to include only biomedical equipment.

1. We recommend that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence):

a. Coordinate with the Under Secretary of Defense for Acquisition and Technology, the Defense Logistics Agency, the Defense Information Systems Agency, and representatives of the Military Health System to clarify DoD disposal guidance. The guidance should require generating organizations to:

(1) Determine year 2000 sensitivity for all property planned for disposal.

(2) Identify on the transfer document all property that is not year 2000 sensitive.

(3) Assess for year 2000 compliance all property determined to be year 2000 sensitive.

(4) Identify on the transfer document all property that is year 2000 compliant.

(5) Determine if property identified as year 2000 noncompliant has potential health or safety impacts.

(6) Mutilate, when possible, year 2000 noncompliant property determined to be Category 1 defective.

(7) Identify on the transfer document as Category 2 defective all other year 2000 noncompliant property.

(8) Identify on the transfer document as Category 1 defective the year 2000 noncompliant property with health or safety impacts that is to be mutilated by the Defense Logistics Agency.

b. Incorporate the disposal guidance into the DoD Year 2000 Management Plan.

ASD(C³I) Comments. The ASD(C³I) concurred with the recommendation to coordinate and clarify excess or surplus property disposal policy. The ASD(C³I) developed a change to the DoD Management Plan that requires transferring or disposing organizations to identify potential Y2K sensitivity and Y2K compliance status, and to ensure documentation of noncompliant property.

The change, to be incorporated in Appendix E, "Contracts, Legal Issues, and Waivers," in the DoD Management Plan, includes a section on disposal or redistribution of Y2K vulnerable items. The update states that property to be disposed of, through whatever means, must retain identity of the Y2K vulnerability at the transaction point where the property leaves the transferring or disposing organization's control. The update also includes a decision matrix for generating organizations to use in identifying Y2K vulnerable items and in annotating the Y2K status on turn-in documentation.

DLA Comments. DLA provided unsolicited comments on the recommendation. Although DLA nonconcurred with the recommendation, it agreed that the DoD Management Plan should include guidelines for identifying property that is Y2K sensitive. Additionally, DLA provided a decision matrix that the ASD(C³I) planned to include in the update to the DoD Management Plan. DLA also stated that Recommendations 1.a.(6) and 1.a.(8) were contradictory and needed to be revised because Category 1 property mutilated by generating organizations would be turned in as scrap, not as Category 1 defective property.

Audit Response. Comments from the ASD(C³I) are responsive. Based on comments from DLA, we revised and reversed the order of Recommendations 1.a.(6) and 1.a.(8) to recognize that property mutilated by the generating organization will not be identified as Category 1 defective on the turn-in document. Once mutilated, it is considered to be scrap.

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

a. Suspend reutilization, transfer, donation, and sale of property at the Defense Reutilization and Marketing Offices until the agency coordinates with generating organizations to:

- (1) Assess year 2000 sensitivity for all inventory on hand.**
- (2) Determine whether property assessed to be year 2000 sensitive has potential health or safety impacts.**
- (3) Determine whether year 2000-sensitive property with potential health or safety impacts is year 2000 compliant.**
- (4) Treat the property with potential health and safety impacts that was determined to be year 2000 noncompliant as Category 1 defective and mutilate.**

b. Process dispositions of biomedical equipment from generating organizations only when all equipment on the transfer documents is identified as year 2000 compliant, Category 1 defective, Category 2 defective, or not year 2000 sensitive.

DLA Comments. DLA nonconcurred, stating that the Services and DLA have already been tasked to assess Y2K sensitivity of all items of supply and that DLA is in the final phases of completing its assessment. DLA also stated that compliance with the recommendation would place an inordinate burden on the

DRMS and duplicate action already underway, and that DRMO personnel lack the necessary expertise to render Y2K technical judgments. DLA stated that it did not agree that suspension of all reutilization, transfer, donation, and sales action is required. However, DLA agreed to suspend all reutilization, transfer, donation, and sale action on biomedical equipment until a determination is made as to whether the equipment is not Y2K sensitive, Y2K sensitive and compliant, or Y2K sensitive and noncompliant.

DLA cited seven categories of biomedical equipment identified by the Food and Drug Administration that pose the greatest potential risk if not Y2K compliant. DLA stated that property in the seven categories will only be accepted by DRMOs if disposal turn-in documents are annotated with a Y2K status and if the turn-in document is signed by a representative of the generating organization.

DLA also stated that the audit report refers to 339,748 items of medical property that had been reutilized, transferred, donated, or sold. DLA stated that those items included more than medical electronic equipment, such as sutures, splints, and forceps. DLA further stated that it reviewed the medical items in Federal Supply Classes 6515 and 6525, and only 0.2 percent were found to have an embedded chip and none were date sensitive.

Audit Response. Although DLA nonconcurred, we consider the comments to be generally responsive to Recommendation 2.a. and responsive to Recommendation 2.b.

DLA guidance to the DRMOs to suspend all disposal actions on biomedical equipment until determinations are made as to whether the equipment is not Y2K sensitive, Y2K sensitive and compliant, or Y2K sensitive and noncompliant is responsive to Recommendation 2.a. for biomedical equipment. The DLA guidance references an outdated Food and Drug Administration list of seven categories of potentially high-risk medical equipment. On June 19, 1999, the Food and Drug Administration replaced the seven categories of high-risk biomedical equipment with a list of computer-controlled, potentially high-risk medical devices. The list was updated again on August 24, 1999. The updated list should be incorporated into the DLA guidance.

The DLA comments are not responsive to the recommendation of suspending disposal actions for property other than biomedical equipment. Additionally, the DLA statements that the recommendation duplicates actions underway and that the DRMO personnel lack the expertise necessary to render technical judgments are contradictory.

We believe the recommendation to suspend property disposal actions is warranted as written. The recommendation's intent is not for DRMOs to suspend all disposal actions pending completion of Y2K assessments. If property is known to be non-Y2K sensitive, then such disposals need not be suspended. The recommendation is consistent with the ASD(C³I) agreed-upon change to the DoD Management Plan. We request that DLA reconsider its position on the recommendation to suspend disposal actions for items other than biomedical equipment and provide additional comments in response to the final report.

Based on DLA comments and the ASD(C³I) revision to the DoD Management Plan, we revised Recommendation 2.b. to include only biomedical equipment. Accordingly, we consider DLA comments to be responsive to Recommendation 2.b. and further comments on that part of the recommendation are not required.

The DLA statement concerning the Y2K sensitivity of medical items in Federal Supply Classes 6515 and 6525 needs clarification. In making its determination, DLA reviewed 510 in-stock line items at Defense Supply Center Philadelphia. DLA did not review the 339,748 medical property items referenced in the report. Further, DLA did not attempt to determine how many of the 510 in-stock items may have been the same as the 339,748 medical property items that were referenced in the report. The report recognizes that the 339,748 medical items processed for disposal included non-Y2K sensitive items, but points out that DoD disposed of considerable amounts of medical property without knowing how much of the property may have been Y2K vulnerable.

3. We recommend that the Director, Defense Information Systems Agency, notify pending recipients of computers and related equipment of potential year 2000 noncompliance and include disclaimers on transfer documents.

DISA Comments. DISA concurred, stating that the recommendation had been implemented before receipt of the draft report. DISA posted warnings on its Defense Automation Resources Management Program Excess Listing web page that certain types of computers may not be Y2K compliant. The web page also provides a reference for information on computer compliance. DISA stated that all documents associated with computer transfers have been modified to include a disclaimer statement and to alert customers about potential noncompliance.

Appendix A. Audit Process

This is one in a series of reports being issued by the Inspector General, DoD, in accordance with an informal partnership with the Chief Information Officer, DoD, to monitor DoD efforts to address the Y2K computing challenge. For a list of audit projects addressing the issue, see the Y2K web pages on the IGnet at <http://www.ignet.gov/>.

Scope and Methodology

Work Performed. We analyzed and validated DoD, DLA, DISA, and Service policies, procedures, and practices for the disposition of excess and surplus property. In March 1999, we attended public auctions at DRMO Williamsburg, Virginia, and DRMO Norfolk, Virginia, to observe sales operations and inspect property for Y2K status markings. During April and May 1999, we visited DRMOs at St. Juliens Creek, Virginia, and Wright-Patterson Air Force Base to review procedures for handling potentially Y2K noncompliant medical property turned in since January 1, 1999. In May 1999, we visited DRMO Fort Meade to review procedures for handling potentially Y2K noncompliant communications property turned in since January 1, 1999. We performed reviews of prior, current, and planned redistribution of potentially Y2K noncompliant property by DoD to Federal and State agencies, LEAs, educational institutions, governmental humanitarian organizations, nonprofit organizations, and the general public. We researched various DLA web sites and obtained inventory listings of property available for redistribution from October 1, 1998, through March 31, 1999. We also reviewed web sites of biomedical device manufacturers to determine whether various biomedical devices were affected by the Y2K problem. If the manufacturer noted that Y2K compliance depended on the version of the model and the installed software, we considered the equipment to be potentially Y2K noncompliant.

Groups and Classes Reviewed. We selected nine FSGs and eight FSCs for review of potentially Y2K noncompliant property. An FSG identifies the commodity area covered by classes within each group, as published in the "Federal Supply Classification Cataloging Handbook," April 1999. There are 78 FSGs, which are subdivided into 639 FSCs for supply management purposes.

The FSGs referenced in this report are FSG 16, "Aircraft Components and Accessories"; FSG 23, "Ground Effect Vehicles, Motor Vehicles, Trailers, and Cycles"; FSG 28, Engines, Turbines, and Components"; FSG 49, "Maintenance and Repair Shop Equipment"; FSG 58, "Communication, Detection, and Coherent Radiation Equipment"; FSG 59, "Electrical and Electronic Equipment Components"; FSG 65, "Medical, Dental, and Veterinary Equipment and Supplies"; FSG 66, "Instruments and Laboratory Equipment"; and FSG 70, "General Purpose Automated Data Processing Equipment (Including Firmware), Software, Supplies and Support Equipment."

We limited our review of property to eight FSCs from FSGs 58 and 65. The FSCs reviewed were FSC 5810, "Communications Security Equipment and Components"; FSC 5811, "Other Cryptologic Equipment and Components"; FSC 5825, "Radio Navigation Equipment, Except Airborne"; FSC 5826, "Radio Navigation Equipment, Airborne"; FSC 5840, "Radar Equipment, Except Airborne"; FSC 5865, "Electronic Countermeasures, Counter-Countermeasures and Quick Reaction Capability Equipment"; FSC 6515, "Medical and Surgical Instruments, Equipment, and Supplies"; and FSC 6525, "X-Ray Equipment and Supplies: Medical, Dental, Veterinary," which contained large quantities of potentially Y2K sensitive items. Appendix B includes a full description of the types of property in each of the eight FSCs.

Limitations to Scope. We limited our review to medical property redistributed by DRMOs, communications property transferred to LEAs, and computers and related equipment redistributed by DISA. Those were categories of property that we selected as having the potential to be especially vulnerable to Y2K issues. We did not determine the amount of Y2K noncompliant property because property records and transfer documents were not always available or did not contain information stating whether the property was Y2K compliant. Additionally, we did not review other authorities or methods for redistributing DoD property.

Use of Computer-Processed Data. We used information from the Defense Reutilization and Marketing Automated Information System (DAISY) and the on-line Product Search for Government Reutilization, Transfer, and Donation (Product Search). DAISY provides for complete visibility of usable property through all phases of property disposal, based on input from each DRMO. We did not validate DAISY data because we did not base our audit analysis on data from the system. We used DAISY only to identify the quantities of property processed during the first 6 months of FY 1999.

The Product Search provides Internet access to inventory lists of property available at each DRMO on a daily basis. Government organizations and the general public can research product availability of individual property items at specific DRMOs. We used the Product Search to identify inventory for our review of property processing procedures at DRMOs. At DRMO, Wright-Patterson Air Force Base, we physically inspected 46 medical items associated with 30 transfer documents, and at DRMO, Fort Meade, we inspected 90 communications items associated with 29 transfer documents. Items inspected were judgmentally selected. We found the Product Search accurately showed the inventory of property we selected at the two DRMOs at the time of our visits in May 1999.

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: Prepare now for an uncertain future. **Goal:** Pursue a focused modernization effort that maintains U.S. qualitative superiority in key war fighting capabilities. (DoD-3)

High-Risk Area. In its identification of risk areas, the General Accounting Office has specifically designated risk in resolution of the Y2K problem as high. This report provides coverage of that problem.

Audit Type, Dates, and Standards. We performed this program audit from February through June 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

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

Management Control Program. We did not review the management control program related to the overall audit objective because DoD recognized the Y2K issue as a material management control weakness area in the FY 1998 Annual Statement of Assurance.

Summary of Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to Y2K issues. General Accounting Office reports can be accessed over the Internet at <http://www.gao.gov/>. Inspector General, DoD, reports can be accessed at <http://www.dodig.osd.mil/>.

Appendix B. Federal Supply Classes Reviewed

We reviewed eight FSCs of property from two FSGs: Group 58, “Communication, Detection, and Coherent Radiation Equipment,” and Group 65, “Medical, Dental, and Veterinary Equipment and Supplies.” The Federal Supply Classification Cataloging Handbook describes those FSCs as follows.

Group 58: Communication, Detection, and Coherent Radiation Equipment

FSCs

5810: Communications Security Equipment and Components

5811: Other Cryptologic Equipment and Components

5825: Radio Navigation Equipment, Except Airborne
Includes Loran Equipment; Shoran Equipment; Direction Finding Equipment

5826: Radio Navigation Equipment, Airborne
Includes Loran Equipment; Shoran Equipment; Direction Finding Equipment

5840: Radar Equipment, Except Airborne
Note—Radar assemblies and subassemblies designed specifically for use with fire control equipment or guided missiles are excluded from this class and are included in the appropriate classes of FSG 12 or FSG 14.

5865: Electronic Countermeasures, Counter-Countermeasures and Quick Reaction Capability Equipment
Note—This class includes, and is restricted to, passive and active electronic equipment, systems, and subsystems designed to prevent or reduce an enemy’s effective use of radiated electromagnetic energy or designed to insure our own effective use of radiated electromagnetic energy. Includes Electronic Countermeasures, Electronic Counter-Countermeasures, Electronic Support Measures, and Quick Reaction Capability Equipment and components specially designed therefore which are not classifiable elsewhere in the FSC structure. Excluded from this class are non-electronic items which are properly classified in more specific classes in accordance with the FSC structure and indexes.

Group 65: Medical, Dental, and Veterinary Equipment and Supplies

FSCs

6515: Medical and Surgical Instruments, Equipment, and Supplies

Includes Anesthesia Apparatus; Blood Transfusion Apparatus; Oxygen Therapy Apparatus; Respirators; Orthopedic Supplies; Arch Supports; Clinical Thermometers; Sutures; Hearing Aids; Veterinary Equipment; Endoscopes, Fiber Optic. Excludes Ophthalmic Instruments, Equipment, and Supplies; Non-Medical Endoscopes.

6525: X-Ray Equipment and Supplies: Medical, Dental, Veterinary

Includes Medical X-Ray Film; Medical X-Ray Film Viewing Equipment; Medical X-Ray Film Processing and Finishing Equipment and Supplies; X-Ray Tubes. Excludes Industrial X-Ray Equipment.

Appendix C. 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 (Command, Control, Communications, and
Intelligence)
Deputy Chief Information Officer and Deputy Assistant Secretary of Defense (Chief
Information Officer Policy and Implementation)
Principal Director for Year 2000
Assistant Secretary of Defense (Health Affairs)

Department of the Army

Auditor General, Department of the Army
Inspector General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Superintendent, Naval Post Graduate School
Inspector General, Department of the Navy
Inspector General, Marine Corps

Department of the Air Force

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

Other Defense Organizations

Director, Defense Contract Audit Agency
Chief Information Officer
Director, Defense Information Systems Agency
Inspector General, Defense Information Systems Agency
Chief Information Officer, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Defense Systems Management College

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
National Security Division Special Projects Branch
General Accounting Office
National Security and International Affairs Division
Technical Information Center
Inspector General, General Services Administration
Inspector General, Department of Health and Human Services
Inspector General, Department of Veterans Affairs

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Special Committee on the Year 2000 Technology Problem
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform
House Subcommittee on Technology, Committee on Science

Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Comments



COMMAND, CONTROL,
COMMUNICATIONS, AND
INTELLIGENCE

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
6000 DEFENSE PENTAGON
WASHINGTON, DC 20301-6000

23 AUG 1999

Final Report
Reference

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT
DIRECTORATE, INSPECTOR GENERAL, DOD

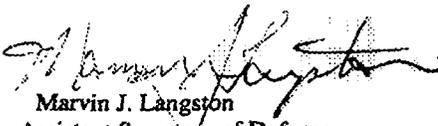
SUBJECT: Audit Report on Year 2000-Sensitive Property Reutilized, Transferred,
Donated, or Sold (Project No. 9LF-5041)

The Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) (OASD(C3I)), has reviewed the Draft Audit Report on Year 2000-Sensitive Property Reutilized, Transferred, Donated, or Sold, dated July 2, 1999.

After reviewing the draft report, OASD(C3I) concurs with the recommendation regarding the need to clarify DoD property disposal guidance in the DoD Y2K Management Plan.

We have developed and are coordinating a change to the DoD Y2K Management Plan (attached). This change will require transferring or disposing organizations to identify Y2K vulnerable items for Y2K sensitivity and compliance status, and to ensure documentation of non-compliant property. Because of the potential risk to the general public, this document also addresses biomedical equipment turned in to the Defense Reutilization and Marking Service (DRMS).

My point of contact for any additional information is Dr. Raymond Paul at (703)602-0980, Ext. 143, email: Ray.Paul@osd.pentagon.mil.


Marvin J. Langston
Deputy Assistant Secretary of Defense
(Deputy CIO & Year 2000)

Attachment

(not included)



Defense Logistics Agency Comments



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

IN REPLY
REFER TO

DLSC-L

JUL 23 1999

MEMORANDUM FOR DOD INSPECTOR GENERAL

SUBJECT: DoD IG Draft Report, "Year 2000--Sensitive Property Reutilized, Transferred, Donated, or Sold," July 2, 1999 (Project No. 9LF-5041)

This responds to the overall findings of subject report. Responses to recommendations are enclosed. We agree that care should be exercised when issuing or selling to the public Department of Defense (DoD) excess or surplus personal property that may not be Y2K compliant. We have taken appropriate steps to: assess Y2K sensitivity and compliance for Defense Logistics Agency (DLA) managed items; ensure that known, high-risk, noncompliant property is identified and not released; and inform our property disposal customers regarding property that is released. While recognizing the importance of the Y2K issue, we believe it is first necessary to address our overall policy framework, as it relates to the disposal of Federal excess and surplus personal property.

DoD has taken numerous positive actions regarding the Y2K issue. The Secretary of Defense tasked the Military Services and Defense agencies with identifying and assessing Y2K vulnerability for DoD items of supply. Since January 1999, DLA has assessed 4,003,216 National Stock Numbered (NSN) items which it manages and found only 34 NSNs (mostly microcircuit components of weapons systems) to be Y2K noncompliant.

From a property disposal standpoint, we issued policy guidance in March 1999 which requires: the identification and mutilation of excess property known to be Y2K noncompliant that has safety, health, and/or weapon system applications; the posting of a notice to the Defense Reutilization and Marketing Service's world wide web home page advising customers that property offered may not be Y2K compliant; the placement of specific Y2K sales articles in all surplus sales catalogs cautioning that the property offered may not be Y2K compliant and that the Government makes no warranty or assumes no liability for noncompliant property; and the posting of Y2K alert signs at all Defense Reutilization and Marketing Offices (DRMOs). We also notified the Military Services (reutilization customers) that property obtained from DRMOs may not be Y2K compliant, and asked the General Services Administration to notify Federal civil agencies (transfer customers) and the National Association of State Agencies for Surplus Property (NASASP - donation customers). We briefed state law enforcement coordinators on

Y2K during the Law Enforcement Support Office National Conference in June 1999, and we are requiring that DRMOs put a Y2K alert annotation on release documents for each item issued or sold. The Y2K issue will be specifically addressed at upcoming conferences of both the NASASP and the Users and Screeners Association. We believe the above actions provide more than adequate Y2K notification to our entire customer base for excess and surplus property.

Congress, through disposal statutes, clearly places significant importance on the reutilization of excess and surplus property. Congress has firmly established that the public good is best served by liquidating excess and surplus Federal property in a manner that optimizes its reutilization (i.e., the "greater good"), thus offering the taxpayers recoverable resources that can be used to offset limited budgets. A longstanding principle in the property disposal program is that the reuse of DoD excess and surplus personal property may involve some degree of inherent risk to the user. We offer excess and surplus property on an "as is, where is" basis, with no express or implied warranties for fitness of use. The sheer volume of excess and surplus property reused or sold through DRMOs (\$11.7 billion acquisition value in FY 98) indicates that our customers consider such risks more than offset by continued utility of the property. Further, the draft report unfairly exaggerates these risks, especially for excess and surplus medical equipment. For example, the report refers to 339,748 items of medical property that have been reutilized, transferred, donated or sold. However, those items come from a population that includes more than medical electronic equipment, such as sutures, splints, and forceps. DLA reviewed medical items in Federal Supply Classes 6515 and 6525, and only .2% were found to have an embedded chip and none to be date sensitive.

In conclusion, we fully agree that the public should not be unwittingly issued or sold property that may not be Y2K compliant. The numerous steps outlined above have been designed to ensure that does not occur.



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

Enclosure

SUBJECT: Year 2000--Sensitive Property Reutilized, Transferred, Donated, or Sold
(Project No. 9LF-5041)

RECOMMENDATION 1: Recommend that the Assistant Secretary of Defense
(Command, Control, Communications, and Intelligence):

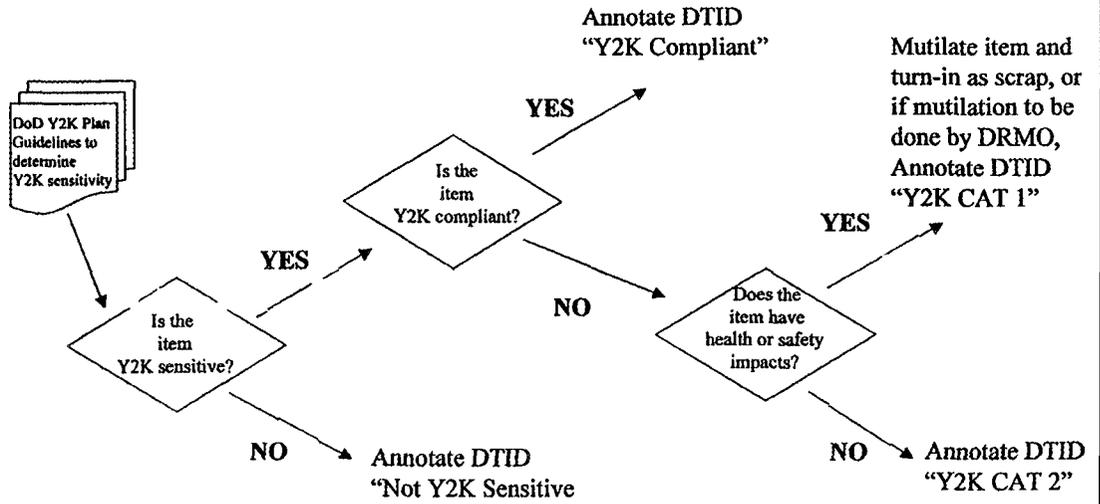
a. Coordinate with the Under Secretary of Defense for Acquisition and Technology, the Defense Logistics Agency, the Defense Information Systems Agency, and representatives of the Military Health System to clarify DoD disposal guidance. The guidance should require generating organizations to:

- (1) Determine year 2000 sensitivity for all property planned for disposal.
- (2) Identify on the transfer document all property that is not year 2000 sensitive.
- (3) Assess for year 2000 compliance all property determined to be year 2000 sensitive.
- (4) Identify on the transfer document all property that is year 2000 compliant.
- (5) Determine if property identified as year 2000 noncompliant has potential health or safety impacts.
- (6) Identify on the transfer document as Category 1 defective the year 2000 noncompliant property with health or safety impacts.
- (7) Identify on the transfer document as Category 2 defective all other year 2000 noncompliant property.
- (8) Mutilate all year 2000 noncompliant property determined to be Category 1 defective.

b. Incorporate the disposal guidance into the DoD Year 2000 Management Plan.

DLA COMMENTS: Nonconcur. The DoD Y2K Management Plan should include guidelines for identifying property that is Y2K sensitive. Additionally, the steps identified above appear too explicit, as they are not totally independent steps. Recommend inclusion of the attached Y2K decision tree, in lieu of steps 1-8 above, to assist generating organizations and direct them toward the same results. If the decision tree is not used, the steps must be revised, as steps 6 and 8 are contradictory. Since Category 1 property is to be mutilated by the generating organization, it will be turned-in as scrap and there will be no transfer document on which to identify that it is Category 1. Property identified as Category 1 will only be transferred to the DRMO when the DRMO is to perform the mutilation.

Generating Activity Y2K Decision Tree



SUBJECT: Year 2000--Sensitive Property Reutilized, Transferred, Donated, or Sold
(Project No. 9LF-5041)

RECOMMENDATION 2: Recommend that the Director, Defense Logistics Agency:

- a. Suspend reutilization, transfer, donation, and sale of property at the Defense Reutilization and Marketing Offices until the agency coordinates with generating organizations to:
 - (1) Assess year 2000 sensitivity for all inventory on hand.
 - (2) Determine whether property assessed to be year 2000 sensitive has potential health or safety impacts.
 - (3) Determine whether year 2000-sensitive property with potential health or safety impacts is year 2000 compliant.
 - (4) Treat the property with potential health and safety impacts that was determined to be year 2000 noncompliant as Category 1 defective and mutilate.
- b. Process property dispositions from generating organizations only when all property on the transfer documents is identified as year 2000 compliant, Category 1 defective, Category 2 defective, or not year 2000 sensitive.

DLA COMMENTS: Nonconcur. The Military Services and DLA have already been tasked to assess Y2K sensitivity of all items of supply, and DLA is in the final phases of completing its assessment. While we agree that certain property should be assessed to determine potential health or safety impacts, the recommendation places an inordinate burden on DRMS and duplicates actions already underway. DRMO personnel lack the expertise to render such technical judgements, as confirmed in the report. We do not agree that a suspension of all reutilization, transfer, donation, and sales action is required.

The U.S. Food and Drug Administration (FDA) has determined that the following categories of medical equipment pose the greatest potential risks:

- Radiation treatment planning systems
- Hemodialysis delivery systems
- Therapeutic Aspheris systems
- Alpha-fetoprotein kits for neural tube defects
- Chemistry analyzers for clinical use
- Blood establishment computer software
- Various types of medical image generating, communication, storage and display workstations, and systems needed to store and track recall images in a given chronological order.

Therefore, we have issued disposal policy guidance requiring the following actions for medical equipment that falls in the above categories identified by the FDA:

- DRMOs will only accept excess turn-ins if the Disposal Turn-In Document (DTID) is annotated with "not Y2K sensitive" or "Y2K sensitive and compliant", and the annotation is signed by a representative of the generating activity. Property in an unknown Y2K status will not be accepted by the DRMO. Property that is Y2K noncompliant will be processed as Category 1 defective property in accordance with our March 1999 policy guidance.

- For existing DRMO inventory items, all reutilization, transfer, donation, and sale actions will be suspended until a determination is made as to whether the items are not Y2K sensitive, Y2K sensitive and compliant, or Y2K sensitive and noncompliant. DRMOs should request assistance from generating activities and/or consult the FDA website (<http://www.fda.gov/cdrh/yr2000/year2000.html>), as needed, to make that determination. Disposal processing may continue for items found to be not Y2K sensitive or Y2K sensitive and compliant. Items found to be Y2K sensitive and noncompliant must be mutilated. Items for which Y2K status cannot be determined through the above steps will be held until further notice.

DISPOSITION:

Action is complete.

ACTION OFFICER: Tom Ruckdaschel, DLSC-LC

REVIEW/APPROVAL: Walter B. Bergmann, II, DLSC-L

COORDINATION: Carla von Bernewitz, CI

Brenda Meadows, DLSC-LS

Mimi Schirmacher, DDAI

Defense Information Systems Agency Comments



DEFENSE INFORMATION SYSTEMS AGENCY

701 S. COURTHOUSE ROAD
ARLINGTON, VIRGINIA 22204-2100

IN REPLY
REFER TO:

Inspector General (IG)

14 July 1999

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
(ATTN: READINESS AND LOGISTICS SUPPORT
DIRECTORATE)

SUBJECT: Response to DoD IG Draft Report, Year 2000-Sensitive
Property Reutilized, Transferred, Donated, or Sold
(Project 9LF-5041)

1. The attached enclosure is the official DISA response to the subject report. DISA was required to comment on recommendation 3 of the draft report. This recommendation is addressed in the enclosure along with generalized comments and supporting documentation.
2. If you have any questions, please call Mr. Jason Bakker Audit Liaison, at (703) 607-6607.


RICHARD T. RACE
Inspector General

Enclosure a/s

Quality Information for a Strong Defense

INTEROFFICE MEMORANDUM

TO: Inspector General (IG)
FROM: Chief Information Officer (CIO)
DATE: 13 July 1999
SUBJECT: DOD IG Draft Report, Year 2000-Sensitive
Property Reutilized, Transferred, Donated,
or Sold (Project 9LF-5041)
Reference: DISA IM, IG, subject as above, 7 July 1999
Preparer: S. Sellers/DO3E/(703) 607-1904/ss

1. The purpose of this IM is to forward our response to the subject.

2. The DOD Y2K Management Plan needs to address the requirement that all information technology acquisitions must be Y2K compliant. It should also be amended to remind management that computers acquired through the redistribution process are equivalent to making an acquisition. As such, they also need to be fully Y2K compliant. All excess computers going into the Defense Logistics Agency disposal process need to be identified on the turn-in document as either compliant or non-compliant.

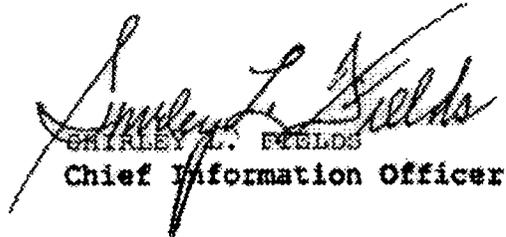
3. We concur with recommendation 3. Prior to receipt of the draft audit, the recommendation had been implemented. The Defense Automation Resources Management Program (DARMP) Excess Listing Web Page was posted to include a warning that certain types of computers may not be Y2K compliant, states procedures that can make the computers compliant post Y2K, and refers customers to the National Institute of Standards and Technology for information on product compliance. Further, all documents associated with potential or approved transfer of assets have been modified to alert customers about potential non-compliance and also include a disclaimer statement.

4. Recommend that the IG Report also include a statement that the Defense Logistics Agency should fully implement the requirement stated in DOD 4160.21-M that DLA notify DISA

DISA IM, CIO, DOD IG Draft Report, Year 2000-Sensitive
Property Reutilized, Transferred, Donated, or Sold
(Project 9LF-5041)

when Class 70 assets are transferred from Defense
Reutilization and Marketing Offices. Subsequent to DLA
notification, DISA will enter the data in the Defense
Information Technology Management System (DITMS). This will
enable the DOD DARMF Focal Points to monitor computers re-
entering the DOD inventory, and take corrective action if the
acquisition is not in compliance with the organization's
architecture or strategic plans.

5. Questions or comments may be addressed to me at (703)
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