

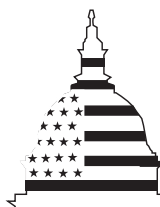
GAO

Report to the Chairman, Committee on
Armed Services, House of
Representatives

July 1999

DEFENSE INVENTORY

Property Being Shipped to Disposal Is Not Properly Controlled



G A O

Accountability * Integrity * Reliability



United States General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-281629

July 1, 1999

The Honorable Floyd D. Spence
Chairman, Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

As requested, we reviewed the Department of Defense's (DOD) management procedures for controlling excess weapon system parts, components, equipment, and other inventory items that are being shipped to disposal.¹ You asked that we determine if this property is vulnerable to waste, abuse, or loss. During fiscal year 1998, the military services shipped millions of items to disposal with a reported acquisition value totaling over \$20 billion. This report discusses (1) types and amounts of excess property that is reported as not received² when shipped to disposal and (2) weaknesses in management controls over excess property that is being shipped to disposal that makes it vulnerable to waste, abuse, or loss. This report focuses on property that DOD considers sensitive or pilferable. Sensitive property is comprised of military parts and equipment that have capabilities and technologies involving weapons, national security, or military advantages. Pilferable property has no military capability or technology implications but is especially subject to theft because it can be readily resold or converted to personal use.

This is the third in a series of reports responding to your request. We previously reported on DOD's needless destruction of certain usable aircraft parts and on inappropriate sales of parts with military technology and flight safety risks.³ Our previous reports are summarized in appendix I. This report is also part of our continuing effort to address defense

¹DOD refers to property being shipped from one DOD activity to another as in-transit property.

²DOD refers to shipped property that was not recorded as received as unaccounted for property.

³Defense Inventory: Management of Surplus Usable Aircraft Parts Can Be Improved (GAO/NSIAD-98-7, Oct. 2, 1997) and Defense Inventory: Action Needed to Avoid Inappropriate Sales of Surplus Parts (GAO/NSIAD-98-182, Aug. 3, 1998).

inventory management as a high-risk area⁴ because of vulnerabilities to waste, fraud, abuse, and mismanagement. The scope and methodology of our work are described in appendix II.

Results in Brief

DOD has had problems accounting for excess property that is being shipped to disposal and has developed comprehensive procedures to track the property. However, the procedures are not working effectively, leaving property vulnerable to loss or theft. In 1998, the Defense Logistics Support Command reported accountability over property being shipped to disposal as a material weakness because there was little enforcement or use of appropriate control procedures. DOD reports that during fiscal year 1998, property valued at about \$2.7 billion was shipped to disposal but was not recorded as received by disposal offices. Our analysis of DOD's data for the 12-month period ending March 31, 1998, shows that over one-half of the dollar value of property that was reported as not received involved items that require special handling such as communications equipment, aircraft components, and gun parts.

DOD does not consider all property reported as not received as lost or stolen. DOD officials stated that in many instances the property in question is received and disposed of properly but is incorrectly reported as not received because the systems used to track the property are not reliable. However, DOD does not know the status of property being shipped to disposal because of the questionable accuracy of data and lack of adherence to control procedures. The reports used to manage and track this property are not accurate because of computer system programming and data input errors. For example, we identified 30 shipments that were correctly entered into a service's information system but, due to a programming or data transmission problem, were not entered into the DOD In-transit Accountability System. Consequently, the reports incorrectly identified some property as not received, did not recognize large numbers of disposal transactions reported by the services, and contained duplicate information. Also, control procedures are not being followed because

⁴In 1990, we began a special effort to review and report on the federal program areas we identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. This effort, which was supported by the Senate Committee on Government Affairs and the House Committee on Government Reform, brought a much needed focus on problems that were costing the government billions of dollars. We identified DOD's inventory management as a high-risk area at that time because levels of unneeded inventory were too high and systems for determining inventory requirements were inadequate.

service and disposal office personnel either are not fully aware of the procedures or do not always understand them. For example, service and disposal office personnel did not always know how to research and investigate discrepancies between what was shipped to disposal and what was received. We reviewed 191 sample shipments of sensitive military property reported as not received. No investigations had been made for any of these shipments. After further review, we were able to satisfactorily determine the status of 114 of these shipments (60 percent). We found that disposal offices received the shipments but, due to a backlog of property waiting to be processed, had not recorded the receipts. However, we were unable to trace the actual disposition of the remaining 77 shipments (40 percent). These included sensitive items such as a wiring assembly used for encrypted electronic communications, optical magnifying devices for 25-millimeter guns, and assorted components for the Bradley fighting vehicle and other weapon systems.

We are recommending among other things that the Secretary of Defense take actions to correct information system errors and provide training on control procedures. These actions should be incorporated into a congressionally required plan to improve controls over items shipped between DOD activities.

Background

The Federal Property and Administrative Services Act of 1949, as amended, places responsibility for the disposition of government real and personal property with the General Services Administration. That agency delegated disposal of DOD personal property to the Secretary of Defense, who in turn delegated it to the Defense Logistics Agency (DLA). The Office of the Deputy Under Secretary of Defense (Logistics) provides overall guidance for disposing of property. The military services are responsible for determining if certain property they hold exceeds their needs. Once they do so, the Defense Reutilization and Marketing Service (DRMS), a component of DLA, carries out disposal functions. Excess property is generally sent to 1 of 113 disposal offices⁵ for redistribution within DOD or transfer to other federal agencies. Property that is not redistributed or transferred is designated as surplus and can be donated to eligible entities such as state and local governments among many others. The property that remains after this process may be sold to the general public. Disposal offices are not

⁵DRMS operates 85 domestic disposal offices and 28 international disposal offices.

authorized to handle weapons, classified material, drugs, firearms, ammunitions, and explosives. The military services dispose of these items.

DOD provides guidance for establishing an internal control system to safeguard property that is being shipped. The key management information system supporting these controls is the In-transit Accountability System. Maintaining control and accountability over excess property being shipped is important for two key reasons. First, the property includes sensitive military parts and equipment that need to be safeguarded. Second, the property is valuable and may include pilferable items, such as photographic equipment and supplies, hand tools, shop equipment, and clothing. During fiscal year 1998, the military services shipped to disposal millions of items with a total reported acquisition value exceeding \$20 billion.⁶

Inadequate Accountability Is a Long-standing Problem

DOD's problems with accountability over property being shipped to disposal date back to the 1970s. In response, DOD over time developed comprehensive procedures to control that property. However, audits continued to find that these procedures were not effective. For example, we reported in 1991 that some procedures for such shipments had been discontinued.⁷ At the time, DOD agreed that control procedures were ineffective but stated that it planned actions to improve controls.

In its annual Federal Managers' Financial Integrity Act report for fiscal year 1995, DRMS identified accountability over property shipped to disposal as a material weakness.⁸ In 1996, DRMS reported that use of the In-transit Accountability System would provide control over the shipment of excess property and that accountability was no longer a material weakness.

⁶Excess property may be valued at salvage prices (3.4 percent of latest acquisition cost for fiscal year 1998). However, the standard price (i.e., latest acquisition cost and a surcharge covering the costs to operate the supply system) is used throughout DOD in its logistics systems. Therefore, throughout the remainder of this report, the standard price is the value associated with inventory being shipped to disposal.

⁷Property Disposal: Controls Needed to Preclude DOD Release of Unsafe Surplus M151 Jeeps (GAO/NSIAD-91-10, Jan. 2, 1991).

⁸The Federal Managers' Financial Integrity Act of 1982 requires that executive agencies establish and maintain systems of internal controls that conform to standards established by the Comptroller General of the United States. The act also requires that agencies evaluate these controls periodically and report to the President and Congress annually on their status. These controls must provide reasonable assurance (i.e., a satisfactory level of confidence, given considerations of costs, benefits, and risks) that resources are accounted for. When the head of the agency decides that the internal controls do not comply with established standards, the agency's annual report must identify weaknesses and describe how and when they will be corrected.

However, in 1998, the Defense Logistics Support Command reported accountability over the shipment of excess property as a material weakness because there had been little enforcement or use of the In-transit Accountability System.

Amounts and Types of Excess Property Reported as Not Received

DOD reports of shipped property for fiscal years 1997 and 1998 indicate unacceptably large amounts of property identified as not received at disposal offices. For fiscal year 1997, DOD reported that the services shipped excess property valued at about \$19.9 billion to disposal. According to the report, property worth about \$2.2 billion (11 percent) was not recorded as received by disposal offices. For fiscal year 1998, DOD reported that the services shipped excess property valued at about \$20.5 billion to disposal and that property worth about \$2.7 billion (13 percent) was not recorded as received by disposal offices (see table 1).

Table 1: Value of Property Reported by DOD as Not Received (fiscal year 1998)

Dollars in millions

DOD component	Total sent to disposal	Amount not received	Percent not received
Air Force	\$6,151.3	\$209.9	3.4
Army	6,250.4	1,675.5	26.8
Navy ^a	5,242.5	676.2	12.9
Other DOD	2,867.6	104.5	3.6
Total	\$20,511.8	\$2,666.1	13.0

^aIncludes Marine Corps.

Source: DOD In-transit Accountability System.

We analyzed In-transit Accountability System data for the 12-month period ending March 31, 1998. About \$1.8 billion of the property shipped to disposal by the services was not recorded as received. Table 2 shows the categories, number of items, and dollar value of property reported as not received.

Table 2: Categories of Property Reported by DOD as Not Received (12 months ending Mar. 31, 1998)

Dollars in millions

Category	Number of shipments	Number of items	Value
Sensitive military items	16,656	283,171	\$339.0
Pilferable items	141,197	3,068,674	692.5
Nonsensitive items	175,453	26,009,763	746.1
Total	333,306	29,361,608	\$1,777.6

Source: DOD In-transit Accountability System.

Over one-half of the dollar value of the shipments in table 2 involved pilferable items and sensitive military items comprised of technologies, capabilities, and weapons that should not be made available to the public. Our review focused on excess sensitive and pilferable items. Nonsensitive items were excluded from our review because DRMS has an initiative related to disposing of excess nonsensitive property that is designed to reduce the number of unmatched transactions in the In-transit Accountability System. DRMS and service officials told us that In-transit Accountability System reports of property not received do not automatically equate to lost or stolen property. They said that in many instances, the property was incorrectly identified as not received by the In-transit Accountability System. However, DOD's management controls do not provide sufficient confidence that property is actually received.

Management Control Weaknesses Leave Property Vulnerable to Loss or Undetected Theft

DOD does not know the status of property being shipped to disposal because of the questionable accuracy of data and lack of adherence to control procedures. The reports used to manage and track this property are not accurate because of computer system programming and data input errors. Using judgmentally selected samples of items, we identified weaknesses in the In-transit Accountability System relating to (1) inaccuracies in the In-transit Accountability System data and (2) failure to determine what happened to items that were shipped but not reported as received. These conditions leave property vulnerable to loss or undetected theft. The problems were caused primarily by programming and data input errors and personnel not following or being familiar with required procedures.

Shipment Control Procedures

Military procedures require that excess property that is sensitive, pilferable, or more than \$800 in value be controlled from the time it leaves a military unit's shipping activity until it arrives at a disposal office. Implementing the controls is a shared responsibility. The military units are supposed to provide information to the In-transit Accountability System when the property is shipped. The disposal office provides information to the In-transit Accountability System when the property is received. The system then compares information on the property received from the disposal office with information received from the military unit. If there is a discrepancy, the military unit is notified. The unit is supposed to research the discrepancy, coordinate with the disposal office, document its research, and provide information on the results to the In-transit Accountability System (see app. III for more detail).

Procedures also require disposal offices, upon receiving property, to provide information to the In-transit Accountability System on the type, quantity, and date of receipt. To reduce the cost, handling, and administrative time needed to process property through the disposal system, the services or disposal offices can accumulate nonsensitive property under \$800 in value together as a batch lot. Batch-lotted property is not reported to the In-transit Accountability System and, therefore, cannot be accounted for under the shipment control procedures. The procedures, however, do not allow property considered pilferable, sensitive, or over \$800 in value to be placed in batch lots. Shipments of such property must be reported to the In-transit Accountability System. All property in the shipments we reviewed were considered sensitive or pilferable.

Inaccurate Reporting Data Input and System Problems

DRMS' and services' automated systems used to track excess property shipped to disposal had programming and data input problems that caused the In-transit Accountability System reports to contain inaccurate information. Because of these problems, accountability reports did not recognize large numbers of disposal transactions reported by the services and contained duplicate or inaccurate information. Also, the Navy's information system was not programmed to forward discrepancy notices to shipping activities for review. This situation reduces the value of reports generated as a management tool, thus increasing the vulnerability to undetected property loss.

One type of discrepancy recorded by the In-transit Accountability System involved property that was recorded as received at the disposal offices, but

that was not recorded as having been shipped. This situation occurred primarily because transactions processed by the services' information systems did not show up in the In-transit Accountability System. We reviewed a selection of 33 shipments that the In-transit Accountability System identified as received by the Oklahoma City disposal office but that had no corresponding shipment record. Of these shipments, 30 had been correctly entered into the Air Force's information system but had not been recorded in the In-transit Accountability System. DRMS personnel were investigating whether the cause of the problem was programming or data transmission.

Records showed that the other three shipments were manually processed and not entered into either the military service's information system or the In-transit Accountability System. The shipments involved Army gun barrels. The unit typed the shipping documents and did not enter the shipments into an information system or report the transactions to the In-transit Accountability System. Procedures require units that do not have computer connections to the In-transit Accountability System to either arrange for shipments to be processed by a unit with those capabilities or to mail a copy of the shipment documents for input into the system. The personnel lacked training and did not know they were supposed to provide data to the information system. Officials at the four disposal offices we visited stated that they routinely received and processed excess property accompanied by handwritten or typed shipping documents.

The In-transit Accountability System also contained duplicate information. For example, shipments to the Texarkana, Texas, disposal office had been recorded twice. The system reported the shipments both as sent but not received and as received but not sent. The system created two discrepancies for the same shipment because service and disposal office personnel entered different stock numbers for the same shipment. According to disposal office officials, this discrepancy occurs frequently on shipments for which the military services have not obtained national stock numbers⁹ and to which they assigned local stock numbers. Since the disposal office's system cannot recognize local stock numbers, personnel there routinely enter a national stock number that closely resembles a description of the item being shipped. But because local and national stock

⁹National stock number refers to a 13-digit stock number used by DOD and other agencies to identify items of supply. It consists of a four-digit federal supply class that designates the general commodity grouping of the item and a nine-digit item identification number that differentiates one supply item from another.

numbers are different, the system cannot match the shipment with the receipt, and a double discrepancy occurs.

In addition, Navy information systems were not programmed to forward discrepancy notices for review by shipping activities. Consequently, items were not being researched. The In-transit Accountability System electronically notifies the Naval Inventory Control Point system that a shipment to a disposal office has not been received. The Navy system searches for a corresponding shipment transaction and informs the accountability system that the shipment has been made. Once this happens, the discrepancy notice is cleared from the Navy's system. However, regulations require verification of receipts and research of discrepancies. The Navy is working to correct this system error.

Disposal Office Personnel Did Not Correctly Record Receipts

We also noted that In-transit Accountability System reports were inaccurate and control procedures were not always properly implemented because receiving personnel at the disposal offices either were not familiar with receipt recording procedures or did not follow them. Specifically, we found the following problems:

- At the Texarkana disposal office we physically inspected 33 batch lots and found pilferable property in 5 of them. The items were a firearms part, hand tools, a typewriter, and a wrench set. At the Oklahoma City disposal office, 4 of the 54 batch lots we inspected included pilferable property. We also identified a likely case of theft involving excess pilferable property. In June 1998, the Air Force shipped a camera lens, valued at \$424, to the Oklahoma City disposal office. Disposal office personnel did not enter receipt of the lens into the tracking system. Instead, the lens was placed together with office supplies in a batch lot. Our inspection of the batch lot showed that the camera lens was missing. After a comprehensive search, disposal office personnel concluded that the camera lens had been stolen.
- At the Philadelphia disposal office, a military sensitive item, a night-vision image intensifier, was among 26 batch lots we inspected. Disposal office personnel stated that they checked the demilitarization codes and acquisition dollar value of property before it is placed in batch lots. However, they did not know that the procedures also required a check for pilferable and sensitive property.

Based on our discussions with DRMS officials, DRMS sent a memorandum to all disposal offices addressing our findings. The memorandum directs the disposal offices to comply with requirements covering batch lots and

requires managers to periodically review the requirements with disposal office employees. In addition, the officials revised the DRMS' operational compliance guide to include a periodic self-assessment by disposal offices to ensure that pilferable and sensitive property is not included in batch lots. Following this action, we reviewed 106 batch lots at the San Diego disposal office and found no discrepancies.

Failure to Follow Procedures Results in Loss of Accountability

Our review of 191 judgmentally selected shipments showed that the services and disposal offices did not follow procedures for researching discrepancies between what was reported as sent to disposal and what was received. Service and disposal office personnel were not adequately trained and did not always understand or were not fully aware of the procedures. Consequently, service and disposal personnel did not know how to research and investigate discrepancies. As with the reporting problems, this situation made property vulnerable to loss. Procedures require that the sending unit research such discrepancies. If the unit and the disposal office cannot resolve the discrepancy, the unit is required to alert its security office or criminal investigators.¹⁰ If a unit does not respond to a discrepancy report after two notices, DRMS takes no further action but leaves the discrepancy on its records for 2 years.

Although the property we selected for review had military capabilities, technologies, or value that warranted protecting, the discrepancies were not being researched and investigated. We researched available records and found that 114 shipments had been properly disposed. In most cases, we found that the disposal offices had received the shipments but did not record the receipts in a timely manner. The In-transit Accountability System automatically reports a discrepancy if property is not recorded as received within 60 days after being shipped. Officials pointed to a backlog of property waiting to be processed as the reason for the delays. However, for the other 77 shipments, we were unable to determine what happened to the property. Specifically:

- Records on 27 shipments of sensitive property sent by the Army to the Texarkana, Texas, disposal office showed no evidence of receipt or

¹⁰The criminal investigative agency in the Air Force is the Office of Special Investigations, in the Army it is the Criminal Investigative Division, and in the Navy it is the Naval Criminal Investigative Service. Other agencies that may become involved include the Defense Criminal Investigative Service; the DLA Command Security Office; the U.S. Customs Service, Office of Special Investigations; and the Federal Bureau of Investigation.

disposition of the property. The missing property included optical magnifying devices for 25-millimeter guns and assorted components for the Bradley fighting vehicle and other weapon systems.

- Records on 48 shipments of sensitive property sent by the Air Force to the Oklahoma City, Oklahoma, disposal office showed no evidence of receipt or disposition. The missing property included aircraft lighting panels that displayed name plates or tags identifying the panels as part of a specific weapon system. Procedures require the name plates or tags to be removed and destroyed.
- Records on two shipments of sensitive property sent by the Navy to the San Diego, California, disposal office showed no evidence of receipt or disposition. One missing item was a sensitive wiring assembly used for encrypted electronic communications.

Results Act Goals and Related Reporting Requirements

The weaknesses in management controls over excess property shipped to disposal also undermine DOD's ability to measure progress towards achieving the selected goals set out in its fiscal year 2000 Performance Plan. The plan was prepared in response to the requirements of the Government Performance and Results Act.¹¹ The plan contains a performance indicator for achieving 90-percent visibility over material by fiscal year 2000 and 100-percent visibility by 2004. Visibility refers to knowing on a real-time basis how many units of specific items are on hand, where the items are located, and their condition. Officials stated that they were evaluating ways to enforce their control procedures and to increase management oversight of the accountability of excess property shipped to disposal.

The officials stated that the accountability problem with property shipped to disposal is part of a larger problem involving visibility over all shipped property. DOD was required by the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 to develop, by March 1, 1999, a comprehensive plan to ensure visibility over shipped items.¹² According to

¹¹The Results Act requires federal agencies (including DOD) to develop departmentwide strategic and performance plans and reports. They must set strategic goals, measure performance, and report on the degree to which goals were met. This is expected to provide Congress and other decisionmakers with objective information on the relative effectiveness and efficiency of federal programs. Annual performance plans are included as appendix J to the Secretary of Defense's Annual Report to the President and the Congress.

¹²The Authorization Act requires that the Comptroller General review the plan and submit to Congress any appropriate comments.

DOD officials, the plan will be available later in 1999 and will address improvements needed in accountability over excess inventory shipped to disposal.

Conclusions

DOD management controls over excess property being shipped to disposal are not working effectively, leaving the property vulnerable to loss or undetected theft. DOD believes that property is not being lost and that most record discrepancies are due to administrative errors. However, such administrative problems are systemic and widespread. In addition, DOD does not know the status of property being shipped to disposal because of the questionable accuracy of data and lack of adherence to control procedures. Further, control procedures over property shipped to disposal are not being followed because service and disposal personnel either are not fully aware of the procedures or do not always understand them. Underlying causes of these conditions appear to be the heavy flow of property to disposal, insufficient management attention, and a lack of training. These conditions make it impossible to report accurate performance measures results for inventory that is being shipped.

Recommendations

We recommend that the Secretary of Defense include actions in the statutorily-required plan for visibility over shipped inventory that would address the following areas of concern:

- Lack of adherence to internal control procedures for safeguarding excess property shipped to disposal to include researching and investigating discrepancies between what was reported as sent to disposal and what was received.
- Insufficiently trained personnel.
- Data accuracy problems contained in the In-transit Accountability System reports.
- The need for performance measures, milestones, and timetables to help monitor the progress being made to reduce the vulnerability of property being shipped to disposal to undetected loss or misplacement.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD concurred with the report. DOD stated that it has convened an Integrated Process Team to address in-transit control visibility. The team will address our report recommendation, including the responsibilities of the various types of

organizations that generate excess personal property as well as the responsibilities of the disposal activities. DOD's comments are included in appendix IV. DOD also provided detailed technical comments and we revised the report to reflect them where appropriate.

We are sending copies of this report to the appropriate congressional committees; the Honorable William Cohen, Secretary of Defense; the Honorable Louis Caldera, Secretary of the Army; the Honorable Richard Danzig, Secretary of the Navy; the Honorable F.W. Peters, Acting Secretary of the Air Force; Lieutenant General Henry T. Glisson, Director, DLA; and the Honorable Jacob Lew, Director, Office of Management and Budget.

Please contact me at (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix V.

Sincerely yours,

A handwritten signature in black ink that reads "David R. Warren". The signature is written in a cursive style with a long horizontal flourish at the end.

David R. Warren, Director
Defense Management Issues

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Abbreviations

DLA	Defense Logistics Agency
DOD	Department of Defense
DRMS	Defense Reutilization and Marketing Service

Summary of Prior GAO Reports

1. Defense Inventory: Management of Surplus Usable Aircraft Parts Can Be Improved (GAO/NSIAD-98-7, Oct. 2, 1997).

We reviewed selected aspects of the Department of Defense's (DOD) disposal process, focusing on whether (1) during the disposal process DOD destroyed usable aircraft parts that did not have military technology and flight safety implications and (2) the military services recalled aircraft parts from the disposal process to preclude unnecessary purchases or repairs.

We noted that management of the aircraft parts disposal process could be improved. DOD destroyed some usable aircraft parts and sold them as scrap. These parts were in new or repairable condition and did not have military technology or flight safety implications. The parts could possibly have been sold intact at higher than scrap prices. This situation occurred for several reasons. For example, disposal offices destroyed parts because the demilitarization codes the military services had assigned to the parts were inaccurate. The codes indicated the parts contained military technology when they did not. Our work showed that the Oklahoma City disposal office destroyed 62 of 71 sample items, even though they did not have technology implications, because the assigned codes required their destruction. Personnel responsible for assigning and reviewing the codes had not been sufficiently trained and guidance was not adequate. In addition, policies and practices designed to prevent the inadvertent or unauthorized release of parts with military technology and flight safety implications did not distinguish between parts with or without such implications. Parts without military technology and flight safety concerns were destroyed along with parts that had these characteristics.

Our work also showed that DOD could have purchased or repaired fewer aircraft parts if it had recalled the needed parts from the disposal process. For example, the Army could have reduced current and planned purchases by about \$200,000 by using Cobra helicopter parts scheduled for destruction. DOD regulations require the military services to know which parts they have placed in the disposal process. However, interface problems between service and disposal office computer systems precluded the services from knowing what parts were at the disposal offices. The military services had not instituted alternative ways to obtain this information on a routine basis.

Problems with the disposal process were likely not unique to the three disposal yards we visited because DOD, military service, and Defense Logistics Agency policies and procedures generally apply to activities being

performed at all locations. Our past reviews and DOD internal studies identified similar problems at these and other locations over the past 10 years or earlier.

2. Defense Inventory: Action Needed to Avoid Inappropriate Sales of Surplus Parts (GAO/NSIAD-98-182, Aug. 3, 1998).

We reviewed DOD's disposal process for surplus parts with both military technology and flight safety risks, focusing on DOD's efforts to (1) identify and destroy parts with military technology and (2) implement a flight safety program to prevent aircraft parts with potential flight safety risks from being sold through the disposal process.

We noted that while DOD recognized the dangers associated with selling surplus parts with military technology to the public and had taken certain actions to address the problem, DOD's disposal offices inadvertently sold surplus parts with military technology intact. These sales occurred for three reasons. First, the military services assigned the wrong demilitarization codes to the parts. Because guidance was inadequate, codes assigned to parts with military technology incorrectly indicated that the parts did not contain the technology. DOD has been considering ways to address this situation but has not yet reached a final decision. Second, an initiative intended to correct inaccurately assigned demilitarization codes did not ensure that data systems were updated with the corrected codes. As a result, disposal offices continued to sell parts with military technology intact after the codes for the parts were determined to be inaccurately assigned. Personnel responsible for correcting the inaccurately assigned codes did not always update their data systems with the corrected codes. Third, the methods that the disposal offices used to demilitarize some parts did not adequately destroy the military technology contained in the parts. Guidance to disposal offices on how to destroy the military technology inherent in some items was not adequate.

DOD and its components had not aggressively pursued implementation of initiatives to prevent the sale of potentially dangerous flight safety critical aircraft parts through the disposal system. DOD and the components had not set timelines for implementing the flight safety program. Also, none of the components had fully implemented all of the program initiatives, but some have made greater progress than others. For example, at the time our fieldwork was completed, the Army had identified over 4,500 aircraft parts with flight safety implications, whereas the Navy had not identified any aircraft parts with these implications. DOD planned to increase its

Appendix I
Summary of Prior GAO Reports

interaction and involvement in the program, but the military services and the Defense Logistics Agency continued to have problems accomplishing flight safety program initiatives.

Scope and Methodology

To determine DOD's policies and practices to account for excess property that is shipped between the military services and disposal offices, we met with officials and performed work at the Office of the Deputy Under Secretary of Defense (Logistics), Washington, D.C.; Army, Navy, and Air Force Headquarters, Washington, D.C.; the Defense Logistics Agency, Fort Belvoir, Virginia; and the Defense Reutilization and Marketing Service, Battle Creek, Michigan. We also reviewed policies, procedures, disposal and transaction histories, and related records obtained from the Defense Supply Center, Philadelphia, Pennsylvania; the Naval Inventory Control Point, Philadelphia, Pennsylvania; the Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma; Defense Distribution Depots located in San Diego, California, Texarkana, Texas, Susquehanna, Pennsylvania, and Oklahoma City, Oklahoma; and the U.S. Army Reserve, Oklahoma City, Oklahoma. We also interviewed personnel and collected information from six disposal offices located in Oklahoma City, Oklahoma; Philadelphia and Mechanicsburg, Pennsylvania; San Diego and North Island, California; and Texarkana, Texas.

To identify the reported types and amounts of excess DOD property shipped to disposal that are identified as not received, we obtained data from DOD's In-transit Accountability System showing discrepancies between shipment and receipt data. We analyzed the data to identify shipments of pilferable, sensitive, and nonsensitive items that were reported by the In-transit Accountability System as not received.

At the Defense Reutilization and Marketing Service, we obtained computerized records from the In-transit Accountability System showing property that was not received between February 1997 and March 1998, giving us the most current and complete shipping data available. Using the data, we judgmentally selected for review 191 shipments reported by DOD as not received at disposal to determine whether the material was missing and whether any discrepancies were researched. We selected these shipments based on the military sensitivity of the items in the shipments. We selected and reviewed 56 Air Force shipments of excess military sensitive items sent to the Oklahoma City disposal office, 84 shipments of excess Navy military sensitive items sent to the San Diego disposal office, and 51 shipments of excess Army military sensitive items sent to the Texarkana disposal office. We selected these locations because, according to DOD records, large quantities of excess military parts and equipment, including our sample items, were sent to these locations but were never recorded as received. We did not independently verify the overall accuracy of the In-transit Accountability System database from which we obtained

data but used it as a starting point for selecting shipments which we then tracked back to records and documents on individual transactions.

For each sample shipment, we researched shipment records, analyzed inventory records, reviewed disposal office documentation and receipt records, and held discussions with service and disposal office personnel at the locations selected. We also examined 219 batch lots of property at the disposal offices to determine whether the batch lots contained pilferable or sensitive property.

To determine whether military units properly reported disposal transactions, we reviewed an additional 33 transactions that were identified by the In-transit Accountability System as received at the Oklahoma City disposal office but were not identified as having a corresponding shipment. We also selected these shipments on the basis of the military sensitivity of the items in the shipments.

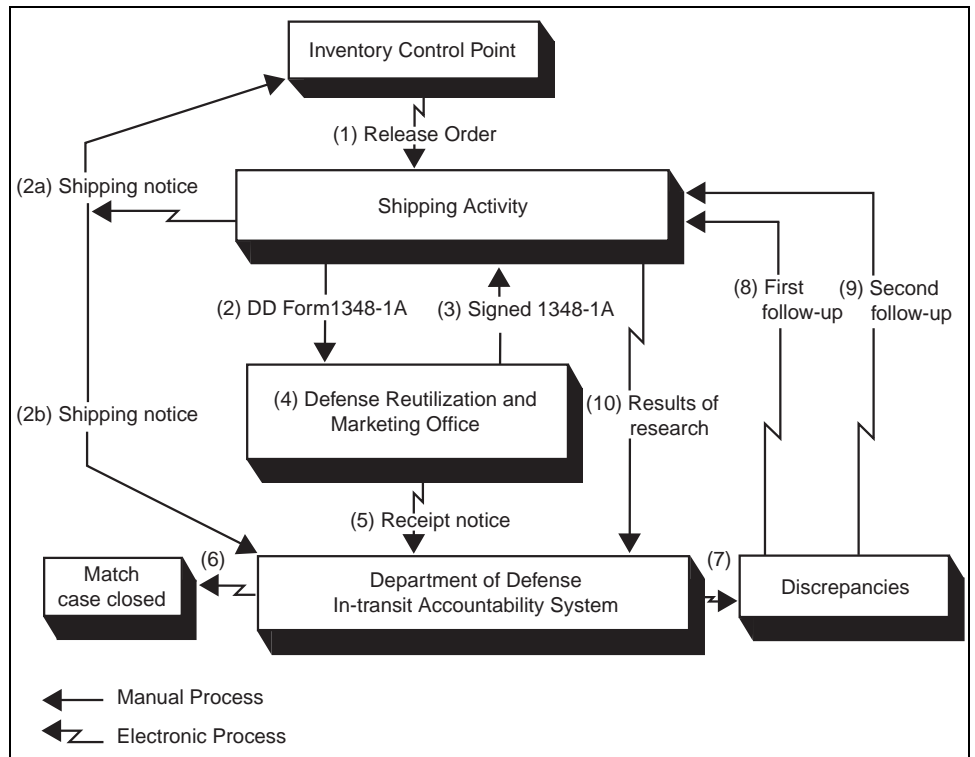
We reviewed the In-transit Accountability System reports for other issues that negatively impacted DOD's management controls. For example, to determine whether duplicate transactions were included in the In-transit Accountability System reports, we compared discrepancies involving shipments of excess property to the Texarkana disposal office with discrepancies involving receipts of excess property at the Texarkana disposal office for fiscal year 1998.

We used the same computer programs, reports, records, and statistics that DOD, the military services, the Defense Logistics Agency, and the Defense Reutilization and Marketing Service use to control excess property that is shipped between the military services and the disposal offices. We did not independently determine the reliability of all these sources.

For historical perspective and illustrations of past problems, we reviewed the results of prior DOD internal studies and DOD Inspector General reports. We also used documentation and data obtained during prior work on disposal operations.

We performed our review between July 1998 and March 1999 in accordance with generally accepted government auditing standards.

Control Procedures for Excess Property Shipped to Disposal



(1) Inventory manager determines that an item is excess and prepares an inventory release order (A5J). The A5J is sent electronically to the shipping activity where the item is stored.

(2) The shipping activity fills out a Shipping and Receiving Document (DD Form 1348-1A), which accompanies the item to the disposal office.

(2a) The shipping activity notifies the Inventory Control Point that the item was shipped. This notification clears the inventory manager's records of accountability for that item.

(2b) The shipping notification is also sent to the DOD In-transit Accountability System, and a suspense file is established by document number, national stock number, and number of items shipped.

(3) The disposal office inspects the shipment, signs the DD 1348-1A, and returns the form to the shipping activity. The shipping activity is required to keep this form for 2 years.

**Appendix III
Control Procedures for Excess Property
Shipped to Disposal**

(4) The disposal office inspects and counts the number of items received and enters the receipt information into its inventory system. The receipt notice is sent electronically to the DOD In-transit Accountability System, and a suspense file is established for the document number, national stock number, and number of items received.

(5) The system compares document numbers, national stock numbers, and quantities for each notification of shipment and each notification of receipt.

(6) If an exact match of document number, national stock number, and quantity occurs, the file is closed.

(7) A discrepancy occurs if there are quantity differences, no shipping notification exists for a receipt notification, or no receipt notification exists for a shipping notification.

(8) A first follow-up request (AFX) is sent to the shipping activity to investigate the reason for the discrepancy and resolve it. A report of the investigation is to be sent to the In-transit Accountability System within 10 working days.

(9) If no report of investigation is received within 20 days, a second follow-up request (AFZ) is sent to the shipping activity to investigate the reason for the discrepancy and resolve it. If no investigative report is received, the file remains active for 1 year and is then moved to the history file as unresolved. The history file is maintained for 2 years.

Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

(L/MDM)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

MAY 20 1999

Mr. David R. Warren
Director, Defense Management Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

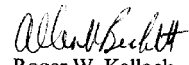
Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE INVENTORY: Property Being Shipped To Disposal Is Not Properly Controlled," Dated April 20, 1999 (GAO Code 709363), OSD Case 1797. The DoD concurs with the draft report.

The Integrated Process Team that we have convened to address in-transit control visibility will address the recommendation in the GAO draft report. This will include addressing the responsibilities of the various types of organizations that generate excess personal property as well as the responsibilities of the disposal activities.

The DoD detailed comments are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

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

Enclosure

Note: The enclosure is not included in this report. It contained detailed technical comments and we revised the report to reflect them where appropriate.



GAO Contacts and Staff Acknowledgments

GAO Contacts

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Ronald L. Berteotti, (214) 777-5702

Acknowledgments

In addition to those named above, Roger L. Tomlinson, Jackie L. Kriethe, Frederick T. Lyles, Jr., Thomas E. Baril, Jr., and Robert C. Sommer made key contributions to this report.

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