

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DISTRIBUTION OF PROCEEDS FROM THE SALE OF
REIMBURSABLE SCRAP MATERIAL**

Report No. 95-025

November 8, 1994

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Department of Defense

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Acronyms

DBOF	Defense Business Operations Fund
DLA	Defense Logistics Agency
DRMO	Defense Reutilization and Marketing Office
DRMS	Defense Reutilization and Marketing Service
DTID	Disposal Turn-in Document
NSO	National Sales Office



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



November 8, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on the Distribution of Proceeds From the Sale of Reimbursable Scrap Material (Report No. 95-025)

We are providing this report for your review and comments. It discusses problems related to the Defense Reutilization and Marketing Service's procedures and controls over the distribution of sales proceeds, generated from the sale of scrap material, to qualified DoD activities.

DoD Directive 7560.3 requires that all recommendations be resolved promptly. Therefore, we request the Defense Logistics Agency provide comments on the one unresolved recommendation by January 6, 1995.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Stuart Dunnett, Audit Project Manager, at (614) 337-8009. The distribution of this report is listed in Appendix D. The audit team members are listed on the inside 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. 95-025
(Project No. 2LE-2020.02)

November 8, 1994

DISTRIBUTION OF PROCEEDS FROM THE SALE OF
REIMBURSABLE SCRAP MATERIAL

EXECUTIVE SUMMARY

Introduction. This report is being issued as part of our Audit of the Financial Statements of the Defense Reutilization and Marketing Service for FY 1993 (Project No. 2LE-2020). The report resulted from our review of the distribution of proceeds from the sale of reimbursable scrap material to qualified DoD recipients (installation recycling program activities and Defense Business Operations Fund activities). For FY 1993, \$49.5 million in distributions were made to qualified DoD recipients.

Objective. The objective of the audit was to determine whether distributions provided to qualified DoD recipients from the sale of reimbursable scrap material were controlled in accordance with the public law and DoD guidance. We also reviewed applicable internal controls.

Audit Results. The Defense Reutilization and Marketing Service did not adequately control the distribution of proceeds from the sale of scrap material that qualified for reimbursement, and expenses related to the sale and processing of the scrap material were not recovered before the distribution of the proceeds to qualified DoD recipients. As a result, installation recycling program activities were receiving sales proceeds that should have been distributed to Defense Business Operations Fund activities to reduce operating expenses. Additionally, \$8.5 million of FY 1993 expenses incurred for processing reimbursable scrap material were not recovered before distribution of sales proceeds.

Internal Controls. The audit identified a material internal control weakness in that controls were not effective to provide for an appropriate distribution of proceeds from the sale of scrap material to qualified DoD recipients. Part I discusses the internal controls assessed and Part II provides details of the weakness found.

Potential Benefits of Audit. The audit identified \$59.5 million of reimbursements that the Defense Reutilization and Marketing Service should collect in FY 1995 and the Future Years Defense Program outyears. Appendix B summarizes potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Commander, Defense Reutilization and Marketing Service, discontinue distribution of proceeds to DoD installation recycling program activities for sale of scrap turned in by the Defense Business Operations Fund activities, recover operating expenses incurred from processing reimbursable scrap material before distributing sales proceeds to qualified DoD recipients, and require Defense Reutilization and Marketing Offices to certify and maintain an adequate audit trail of the amount of reimbursements made to qualifying DoD recipients.

Management Comments. The Defense Logistics Agency partially concurred with the recommendation to establish controls necessary to ensure that Defense Business Operations Fund activities generating scrap material receive sales proceeds for that material. The Defense Logistics Agency proposed a change to Department of Defense policy that, if implemented, should curtail nonappropriated fund activities from receiving sales proceeds that should go to Defense Business Operations Fund activities. The Defense Logistics Agency nonconcurred with the recommendation to require the Defense Reutilization and Marketing Service to recoup operating expenses incurred processing reimbursable scrap material during FY 1993. The Defense Logistics Agency stated that Public Law 97-214 and the September 28, 1994, Deputy Under Secretary of Defense memorandum require that installations turning in the recyclable material receive 100 percent of the sales proceeds. The change proposed by the Defense Logistics Agency would let Defense Business Operations Fund activities receive net proceeds (gross proceeds less operating expenses). See Part II for a full discussion of Defense Logistics Agency comments and Part IV for the complete text of the comments.

Audit Response. We request that Defense Logistics Agency provide additional comments on the one unresolved issue by January 6, 1995.

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

Part I - Introduction

Introduction

Background

The Defense Reutilization and Marketing Service (DRMS), under the direction of the Defense Logistics Agency (DLA), is responsible for reutilizing, selling, and disposing of excess and surplus personal property generated by DoD activities. Personal property includes all types of usable and scrap material, other than land and buildings.

DRMS activities are responsible for promoting the sale of scrap material and facilitating the distribution of sales proceeds to qualified DoD recipients at about 200 Defense Reutilization and Marketing Offices (DRMOs) located worldwide. DRMS's National Sales Office (NSO), located in Memphis, Tennessee, processes the distributions to qualified DoD recipients, which include DoD Components (Military Departments and Defense agencies), Defense Business Operations Fund (DBOF) activities (for example, former industrial-funded activities), and approved DoD installations' recycling program activities (for example, morale, welfare, and recreation activities) as authorized by Public Law 97-214, section 2577. As of FY 1993, about 500 DoD installations had established recycling programs. For FY 1993, DRMS reported \$158.1 million in sales of usable property and \$83.8 million in sales of scrap material. Of the \$83.8 million related to sales of scrap material, \$49.5 million was distributed to the qualified DBOF activities and DoD installation recycling program activities. The remaining \$34.3 million of sales proceeds that were not subject to reimbursement was posted to the DRMS DBOF general account as prescribed by DoD policy.

The need for establishment of DoD recycling programs has increased due to recent high level direction and changes in immunity. Executive Order 12873, "Federal Acquisition, Recycling, Prevention," October 1993, mandates that the Federal Government serve as a model for private and public institutions related to cost-effective waste prevention and recycling activities. Recycling programs must respond to increased environmental requirements from state and local government, because the Federal Government waived immunity to procedural requirements in 1992. Agents, employees, or officers of the Federal Government are subject to the criminal provisions of state and local laws.

Objective

The objective of the audit was to determine whether distributions provided to qualified DoD recipients from the sale of scrap material were controlled in accordance with the public law and DoD guidance. We also reviewed applicable internal controls.

Scope and Methodology

We limited the scope of our audit to sales of scrap material administered by the NSO. We judgmentally selected 213 contract lines, valued at \$4 million, from a list of 2,596 contract lines, valued at \$27.1 million, for scrap recycling contracts awarded and administered by the NSO between October 1, 1992, and June 25, 1993. The 213 contract lines represented sales of scrap material at 51 separate DRMOs. We also inspected the content of scrap piles at 14 DRMOs to determine whether DRMO employees ensured that qualified DoD recipients were entitled to claim reimbursements for scrap material as required by applicable DoD policies.

This financial related audit was made from February 1993 through March 1994, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not complete a review of the general and application controls of the computer-processed systems used by management to control DRMS distributions. Organizations visited or contacted during the audit are listed in Appendix C.

Internal Controls

DoD Internal Management Control Program. We reviewed the adequacy of DRMS internal controls regarding the authorization of reimbursements, related to the sale of reimbursable scrap material, by the NSO to qualified DoD recipients. We also determined whether the controls adequately provided for the recovery of operating expenses before distribution of sales proceeds to qualified DoD recipients.

Internal Control Weakness. The audit identified a material internal control weakness as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Controls were not effective to ensure appropriate distribution of proceeds from the sale of scrap material to qualified DoD recipients. Recommendations 1., 4., and 5. will assist in correcting the internal weakness. \$59.5 million could be put to better use through the establishment of controls over the distribution of sales proceeds to DoD recipients. See Appendix B for a summary of potential benefits resulting from audit. DRMS did not identify the lack of controls over the distribution of sales proceeds resulting from the sale of scrap material as a material weakness in its Annual Statement of Assurance because the distribution of sales proceeds related to the sale of scrap material was not an assessable unit of the DRMS Internal Management Control Program. A copy of the final report will be provided to the internal control officers within the Office of the Secretary of Defense and DLA.

Introduction

Prior Audits

During the past 5 years, three audits have reported on weaknesses related to the distribution of proceeds to qualified DoD recipients. See Appendix A for details on the prior audit coverage.

Part II - Finding and Recommendations

Distribution of Proceeds

DRMS did not adequately control the distribution of proceeds generated from the sale of scrap material that qualified for reimbursement. The condition occurred because the DRMS did not implement DoD guidance related to ensuring the proper distribution of sales proceeds generated from the sale of scrap material turned in by Defense Business Operations Fund activities; and the DRMS did not recover its operating expenses before distributing sales proceeds to qualified DoD recipients, as required by public law and DoD policy. Additionally, the sales contract files maintained by the National Sales Office and the documentation maintained by the Defense Reutilization and Marketing Offices did not adequately support the amount of sales proceeds distributed to qualified DoD recipients. As a result, installation recycling program activities were receiving sales proceeds that should have been distributed to Defense Business Operations Fund activities to reduce operating expenses. Additionally, for FY 1993, \$8.5 million of DRMS expenses, incurred through processing and selling scrap material, was not recouped before sales proceeds were distributed to DoD recipients. About \$51 million dollars could be put to better use over the Future Years Defense Program.

Background

Public Law. Public Law 97-214, section 2577, July 12, 1982, requires that cost relating to the processing of sale of scrap and waste material be recovered. Specifically, the public law states: "Proceeds from the sale of recyclable materials at an installation shall be credited to funds available for operations and maintenance at that installation in amounts sufficient to cover the costs of operations, maintenance, and overhead for processing recyclable materials at the installation (including the cost of any equipment purchased for recycling purposes)." The law directs the Secretary of Defense to prescribe regulations related to the sale of recyclable material and operation of recycling programs at military installations.

DoD Implementing Instruction. DoD Instruction 7310.1, "Disposition of Proceeds from the DoD Sales of Surplus Property," July 10, 1989, was revised on June 18, 1993, to require that proceeds from the sale of scrap and usable property generated by DBOF activities are to be deposited into their respective business area accounts. The instruction also requires the DoD Components to recoup direct and indirect costs on the processing and sale of scrap material, including the delivery of the material to the processing point, physical and chemical processing of the material, sale of the material, and collection and disposition of sales proceeds.

DRMS Operating Procedures. DRMS Manual 4160.14, "Property Disposal Procedures for Defense Reutilization and Marketing Offices," March 1992, and

DRMS Handbook 4160.3 "Disposal Operating Procedures," September 1992, provide DRMOs with instructions on processing scrap material that qualifies for reimbursement. Specifically, DRMOs are required to:

- o inspect the scrap material to determine whether the generating activity properly identified and segregated the basic material content (for example, aluminum, brass, etc.) before accepting it as reimbursable material.

- o determine whether the scrap material is accompanied by a properly prepared disposal turn-in document (DTID). To qualify for reimbursement, the DTID must contain the generating activity's fund citation designating where proceeds are to be sent.

- o weigh all scrap material upon receipt and post weight on a "weight ticket" and in the appropriate block of the DTID. Weight tickets are to be attached to the respective DTIDs. DTIDs and weight tickets are to be filed to provide an audit trail.

- o prepare DRMS Form 1709, "Special Funding Sheet," from data obtained from DTIDs. The special funding sheet is sent to the NSO and is used to identify the amount of scrap material (by weight) turned in by generating activities. NSO personnel file the respective special funding sheets in the individual sales contract folder to support the amount actually reimbursed to the qualified recipient.

- o post sales proceeds to the DRMS DBOF account whenever fund codes are not annotated on DTIDs.

- o deny reimbursement to qualified DoD recycling programs for various types of material, including precious metal-bearing scrap, ships, planes, weapons, usable property (unless downgraded and weighed on receipt), and industrial-funded material.

Distribution of Sales Proceeds

DRMS did not adequately control the distribution of proceeds generated from the sale of scrap material because of inadequate implementation of DoD guidance, nonrecovery of operating expenses as required by public law, and inadequate documentation. The generators of scrap were not receiving their proper distribution of proceeds for FY 1993, and \$8.5 million in operating expenses that DRMS incurred by processing and selling scrap material was not recouped before the distribution of proceeds.

Inadequate Implementation of DoD Guidance. DBOF activities that generated the scrap material were not always receiving proceeds from the sale of scrap material. DRMS did not establish the controls necessary to ensure that all sales proceeds were reimbursed to DBOF activities that generated the scrap

Distribution of Proceeds

material. DoD Instruction 7310.1 states that proceeds from the sales of scrap material generated by the DBOF activities are required to be deposited into the activities' respective business accounts.

At six DRMOs included in our review, proceeds generated from the sale of scrap material were being reimbursed to military installations' recycling program activities, such as the non-appropriated funded morale, welfare, and recreation activities, even though the material was generated and turned in by DBOF activities. For example, the Morale, Welfare, and Recreation activity at DRMO-Hill, Utah, received proceeds from the sale of scrap material consisting primarily of magnesium and aluminum aircraft wheels and components that were mutilated and shipped directly to the DRMO by an Air Force DBOF activity (aircraft maintenance activity). Although the Air Force DBOF activity should have received at least \$110,000 of sales proceeds, the proceeds were remitted to the installation's Morale, Welfare, and Recreation activity, which operated the base recycling program. Our discussions with DRMO personnel confirmed that the Morale, Welfare, and Recreation personnel did not make any concerted effort to process and segregate the material, as required by DRMS procedures to be eligible for reimbursement. Further, the Morale, Welfare, and Recreation activity did not reimburse the expenses of the DBOF activity that mutilated and transported the material.

Nonrecovery of Operating Expenses. DRMS did not recover any expenses related to the handling, processing, and sale of reimbursable scrap material, as required by Public Law 97-214, section 2577 and DoD Instruction 7310.1. DRMS should have used reimbursable sales proceeds to offset DRMS operating costs before distributing the proceeds to qualified DoD recipients.

DRMS is a DBOF activity required to develop and charge a fee for services rendered. DRMOs normally incurred significant costs related to receiving, processing, and selling scrap material. However, DRMS did not establish a fee structure or other means to recover the cost and expenses incurred by DRMS to process and sell scrap material.

In FY 1993, DRMS provided us documentation that indicated that they incurred approximately \$8.5 million in cost related to the processing of reimbursable scrap material. We verified the reasonableness of the DRMS estimate for scrap operations by allocating personnel costs recorded by DRMS during FY 1993. To the extent feasible, DRMS should attempt to recoup the \$8.5 million incurred during FY 1993. Additionally, DRMS should establish fee structures or other means to recoup the estimated future expenses of \$51 million (6 years at \$8.5 million a year) for the Future Years Defense Program.

Inadequate Documentation. The sales contract files maintained by the NSO and the supporting documentation maintained by the DRMOs did not support the quantities of scrap provided for sale and actual reimbursements made to qualified DoD recipients. In the individual sales contract files at the NSO were unsigned copies of DRMS Form 1709, which were forwarded by the DRMOs receiving the scrap material. DRMS Form 1709 should provide a breakdown, by sales contract item, of the weight of material turned in by each activity requesting reimbursement. Upon award of the contract, NSO personnel apply

the contracted rate (cost per pound) to the quantity of scrap material turned in to determine the amount of the proceeds to be distributed to each generator. The DTIDs and weight tickets should be filed at the DRMOs as supporting documentation for the DRMS Form 1709.

Supporting Documentation. We requested supporting documentation from 51 DRMOs for 213 sales contract items, valued at \$4 million. The items were judgmentally selected from contract files, because the NSO did not maintain a master file. Although the DRMS Form 1709 was on file in each of the 213 sales contract item folders, the supporting documents needed to verify the summary totals were supposed to be maintained at each of the 51 DRMOs where the DRMS Forms 1709 were prepared.

Availability of Documentation. The results of our review indicated that for 179 sales contract items, valued at \$3.7 million, documentation was not readily available, or the documentation did not support the amount actually disbursed.

- o For 149 sales contract items, valued at \$2.9 million, the 28 DRMOs were not able to provide us with the requested data because of the amount of time required to manually retrieve the applicable DTIDs and the accompanying weight tickets.

- o For the remaining 30 sales contract items, valued at \$0.8 million, documentation provided to us indicated that the amounts actually disbursed were in error. The errors consisted of:

- o quantity variances, over and under the contract amount. For 25 sales contract items, valued at \$0.7 million, the weights recorded on the DTIDs did not agree with the adjusted amount on DRMS Form 1709 on file at NSO. For example, on contract 31-3601-121 (item 107), 255,670 pounds of scrap material, sold for \$37,711, was delivered to the contractor, while the DRMO was able to provide us DTIDs that supported only 58,032 pounds being received from the respective generator.

- o calculation errors. For five sales contract items, valued at \$0.1 million, NSO personnel incorrectly calculated the reimbursement amount.

We believe the DRMO chiefs should certify the DRMS Forms 1709 before sending them to the NSO. The certifications would hold the DRMOs responsible for the accuracy of the total weights for each item being submitted for each qualified recipient. Readily available documentation should be maintained by the DRMOs to support the certifications. Additionally, the respective NSO sales contracting officers should be required to retain documentation in the contract file of any changes made to the certified amounts submitted on the DRMS Form 1709.

Management Comments on the Finding, DoD Internal Management Control Program Weakness, and Audit Response

Management Comments on Distribution of Proceeds. DLA partially concurred with our finding that DRMS did not adequately control the distribution of proceeds generated from the sale of scrap material that qualified for reimbursement. DLA stated that DoD policy does not authorize DRMS to retain a portion of recyclable sales proceeds to cover its costs. DLA stated that it had sent a memorandum to the Deputy Under Secretary of Defense (Logistics), dated June 15, 1994, requesting that the DoD policy be changed to allow DRMS to retain proceeds to cover its costs. DLA further stated that the General Counsel concurred in its memorandum. In its response to DLA, the Deputy Under Secretary of Defense (Logistics) indicated that its request has been referred to the DRMS Unit Cost Working Group. DLA also stated that it has requested that the Under Secretary of Defense (Comptroller) revise DoD Instruction 7310.1, "Distribution of Proceeds from Sales of Surplus Personal Property," to allow DRMS to retain proceeds to cover its expenses.

Audit Response. DLA's request to change DoD policy meets the intent of Recommendation 3. for recoupment of approximately \$59.5 million during the current year and subsequent 6-year period of the Future Years Defense Program following approval of DLA's request (see Appendix B).

Management Comments on Internal Management Control Program Weakness. DLA concurred that there may be a DoD Internal Management Control Program weakness associated with the proper distribution of proceeds generated from the sale of scrap material turned in by Defense Business Operations Fund activities. However, DLA states DRMS is not the responsible entity to ensure that turn-in documents are prepared properly and to determine how funds are ultimately allocated.

Audit Response. As indicated in our response to DLA's comments to Recommendation 1., DRMS should implement controls that will ensure sales proceeds generated from the sales of material turned in by Defense Business Operations Fund activities are returned to those activities rather than to a non-appropriated fund activity that stamped its reimbursable fund cite on the turn-in document.

Recommendations, Management Comments, and Audit Response

We recommend that the Commander, Defense Reutilization and Marketing Service:

1. Establish controls necessary to ensure that Defense Business Operations Fund activities that generate the scrap material receive proceeds from sales of scrap material.

Management Comments. DLA partially concurred with the recommendation and stated that the DRMO is responsible for ensuring the appropriation reflected on the turn-in is proper for the type of material being turned in, and that the generating activity is responsible to ensure a valid appropriation is on the turn-in document. In the case of recyclable material, the generating activity is responsible for annotating on the turn-in document the name of the installation receiving the funds. DLA proposed a change to DoD Instruction 7310.01, "Disposition of Proceeds from Sales of Surplus Personal Property," that would ensure that all accounts entitled to receive proceeds, including DBOF activities generating the scrap material, receive net proceeds (gross proceeds less operating expenses).

Audit Response. The proposed change to DoDI 7310.01, if implemented, should curtail nonappropriated fund activities from receiving sales proceeds from sales of scrap material that would otherwise go to the DBOF activities generating the scrap material. Therefore, we support DLA's proposed change to current DoD policy.

2. Establish fee structures or other means to recoup expenses related to the processing and sale of reimbursable scrap material before approving distributions of proceeds to qualified DoD recipients.

Management Comments. DLA concurred with the recommendation and stated that corrective action would be completed by October 1, 1995.

3. Recoup \$8.5 million of operating expenses for FY 1993 from DoD Components to the extent feasible and practicable.

Management Comments. DLA nonconcurred with the recommendation and stated that Public Law 97-214 (United States Code, title 10, section 2577) and a Deputy Under Secretary of Defense (Environmental Security) memorandum of September 28, 1993, require the installation turning in the recyclable (scrap) material to receive 100 percent of the sales proceeds.

Audit Response. Public Law 97-214 does not state that recyclable activities are to receive 100 percent of sales proceeds generated from the sale of scrap material. The public law authorizes installations to recoup operating expenses before distributing the sales proceeds from the sales of scrap material. DLA has requested the Deputy Under Secretary of Defense (Logistics) to authorize DRMS to retain a portion of sales proceeds to cover operating expenses. We

Distribution of Proceeds

support DLA's request. Discussions with DLA and DRMS personnel have indicated that it is not currently feasible or practical to recoup either FY 1993 or FY 1994 operating expenses since lump-sum assessments have already been collected from the DoD Components for shortages between DRMS revenues and expenses during those periods. We therefore agree to rescind our request that \$8.5 million of operating expenses for FY 1993 and FY 1994 be recouped from DoD Components. However, we still believe that approximately \$59.5 million should be recouped during FY 1995 and the Future Years Defense Program period immediately following the approval of DLA's request. We request that DLA provide comments to the final report concerning the potential monetary benefits identified above.

4. Require Defense Reutilization and Marketing Office chiefs to certify that the weights posted to the DRMS Form 1709 and submitted to the National Sales Office are accurate and can be readily supported by documentation maintained at the respective Defense Reutilization and Marketing Office.

Management Comments. DLA concurred with the recommendation and stated that revisions to the DRMS operating procedures are in process to ensure that DRMS Forms 1709 are certified before they are submitted to the NSO. DLA provided an estimated completion date of October 1, 1994.

5. Require National Sales Office sales contracting officers to document any adjustments made to the DRMS Form 1709 and to maintain supporting documentation in the contract file.

Management Comments. DLA concurred with the recommendation and stated that adjustments made to the DRMS Form 1709 will be documented in the contract file. DLA provided an estimated completion date of September 30, 1994.

Part III - Additional Information

Appendix A. Summary of Prior Audits

The following three audits included reportable conditions similar to those found during this audit. Prior audit coverage also indicated internal control weaknesses related to the operation of qualified recycling programs.

General Accounting Office (GAO) Report No. NSIAD-94-40 (OSD Case No. 9522), "Widespread Abuse in Recycling Program Increases Funds for Recreation Activities," December 1993, reported widespread abuse in DoD's recycling program. Based on its interpretation of Public Law 97-214, section 2577, GAO reported that DoD installations were using millions of dollars annually for morale, welfare, and recreation activities that should have gone to the U.S. Treasury or should have been used to offset the need for appropriated funds. The report stated that the military bases routinely received money from the sale of aircraft, vehicles, and other materials that DoD specifically excludes from reimbursement. The report recommended that the Secretary of Defense:

- o establish a system of internal controls to ensure that installations and DRMOs meet the letter and intent of the 1982 legislation and follow existing DoD policy;

- o identify and report the recycling program issues as material weaknesses under the annual Federal Manager's Financial Integrity Act assessments;

- o require the Office of the Inspector General, DoD, or the Military Departments' audit agencies to periodically audit DoD's recycling program, in light of the spirit and intent of the 1982 legislation and DoD policy; and

- o require morale, welfare, and recreation activities at affected installations to reimburse the U.S. Treasury or industrial fund for the amount of recycling program proceeds received improperly, to the extent reasonable and practical.

The Under Secretary of Defense (Environmental Security) concurred with the intent of the recommendations. However, the Under Secretary nonconcurred with the criteria used by GAO to define recyclable material and disagreed with GAO's conclusion that abuse in recycling programs was widespread. The Under Secretary stated that DoD's definition of recyclable material was consistent with the definitions espoused by the Environmental Protection Agency and industry groups. The Under Secretary further stated that the definition had been in place for a number of years. In response to the Under Secretary's nonconcurrence with the definition of recyclable material, GAO suggested that Congress consider providing a definition of recyclable material in public law.

Inspector General, DoD, Report No. 94-158, "Cash Management Within the Defense Reutilization and Marketing Service", June 30, 1994, evaluated whether sales proceeds from the sale of scrap material were being reimbursed to turn-in activities in a timely manner. The audit reported that the Defense

Appendix A. Summary of Prior Audits

Finance and Accounting Service-Columbus retained proceeds from the sale of scrap material in suspense accounts for extended periods rather than releasing the proceeds to qualified DoD recipients in a timely manner. As a result, \$30.5 million could not be used by the qualified recipients for operating purposes. The audit recommended that the DRMS:

- o close pre-FY 1993 sales contracts and transfer the outstanding sales proceeds to the DRMS DBOF account,

- o deposit all sales proceeds generated from the sales of scrap material directly into the accounts of qualified DoD recipients, and

- o review and release FY 1993 sales proceeds to qualified DoD recipients.

DLA concurred with all recommendations and indicated that action would be taken to implement the recommendations.

Inspector General, DoD, Report No. 90-008, "Review of the Disposal of Recyclable Materials," October 31, 1989, was requested by the Chairman, House Armed Services Committee. The audit reported that at 23 of the 31 installations reviewed, feasibility studies that included economic analyses related to recycling efforts had not been done; and at other installations, formal programs had not been established. The report also showed that industrial-funded activities were handling proceeds from the sale of scrap material in an inconsistent manner and DoD guidance had not been updated. The report recommended that the then Assistant Secretary of Defense (Production and Logistics) develop formal policy guidance for recycling programs that included qualification requirements for recycling programs and controls over reimbursements to industrial funds. DoD Instruction 7310.1 was modified on June 18, 1993, and DoD policy guidance was issued on August 23, 1993, and amended in September 1993. The revised guidance partially implemented the recommendations.

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Internal Controls. Ensure that recycling programs receive reimbursements for recyclable material as defined by DoD policies.	Nonmonetary.
2. and 3.	Economy and Efficiency. Reimburse processing costs required by public law.	Funds Put to Better Use. About \$59.5 million in DBOF funds that would be transferred to qualified DoD recipients during FY 1995 and the Future Years Defense Program period of FY 1996 through FY 2001 should be recouped to offset DRMS operating expenses.
4. and 5.	Internal Controls. Ensure DRMS Forms 1709 are certified by DRMO chiefs; and any subsequent adjustments made by the NSO sales contracting officers should be supported by documentation in the contract file.	Nonmonetary.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Deputy Under Secretary of Defense (Environmental Security),
Washington DC
Office of the Deputy Under Secretary of Defense (Logistics), Washington, DC

Department of the Army

U.S. Army, Fort Lewis, WA
Letterkenny Army Depot, Chambersburg, PA
Tooele Army Depot, Tooele, UT
Crane Army Ammunition Activity, Crane, IN

Department of the Navy

Marine Corps Base, Camp Pendleton, CA
Naval Air Station, North Island, San Diego, CA
Naval Air Station, Whidbey Island, Oak Harbor, WA
Naval Shipyard, Puget Sound, WA
Naval Station, San Diego, CA
Naval Submarine Base, Bangor, WA
Naval Surface Warfare Center, Crane, IN
Ships Parts Control Center, Mechanicsburg, PA

Department of the Air Force

Hill Air Force Base, Ogden, UT
McChord Air Force Base, WA
Tinker Air Force Base, Oklahoma City, OK

Appendix C. Organizations Visited or Contacted

Defense Logistics Agency

Headquarters, Defense Reutilization and Marketing Service, Battle Creek, MI
Operations East, Defense Reutilization and Marketing Service, Columbus, OH
Operations West, Defense Reutilization and Marketing Service, Ogden, UT
National Sales Office, Defense Reutilization and Marketing Service, Memphis, TN
Defense Reutilization and Marketing Office-Aberdeen, Aberdeen Proving Ground, MD
Defense Reutilization and Marketing Office-Alameda, Alameda, CA
Defense Reutilization and Marketing Office-Anniston, Anniston Army Depot,
Anniston, AL
Defense Reutilization and Marketing Office-Barstow, Marine Corps Logistics Base,
Barstow, CA
Defense Reutilization and Marketing Office-Belvoir, Fort Belvoir, VA
Defense Reutilization and Marketing Office-Benning, Fort Benning, GA
Defense Reutilization and Marketing Office-Campbell, Fort Campbell, KY
Defense Reutilization and Marketing Office-Chambersburg, Letterkenny Army Depot,
Chambersburg, PA
Defense Reutilization and Marketing Office-Charleston, North Charleston, SC
Defense Reutilization and Marketing Office-Cherry Point, Cherry Point, NC
Defense Reutilization and Marketing Office-Columbus, Columbus, OH
Defense Reutilization and Marketing Office-Corpus Christi, Corpus Christi, TX
Defense Reutilization and Marketing Office-Crane, Naval Surface Warfare Center,
Crane, IN
Defense Reutilization and Marketing Office-Davisville, Naval Construction Battalion
Center, Davisville, RI
Defense Reutilization and Marketing Office-Devens, Fort Devens, MA
Defense Reutilization and Marketing Office-Duluth, Duluth, MN
Defense Reutilization and Marketing Office-Eglin, Eglin Air Force Base, FL
Defense Reutilization and Marketing Office-El Toro, East Irvine, CA
Defense Reutilization and Marketing Office-Gillem, Fort Gillem, Forest Park, GA
Defense Reutilization and Marketing Office-George, George Air Force Base, CA
Defense Reutilization and Marketing Office-Hill, Hill Air Force Base, UT
Defense Reutilization and Marketing Office-Hood, Fort Hood, TX
Defense Reutilization and Marketing Office-Jackson, Fort Jackson, SC
Defense Reutilization and Marketing Office-Jacksonville, Naval Air Station,
Jacksonville, FL
Defense Reutilization and Marketing Office-Keesler, Keesler Air Force Base, MS
Defense Reutilization and Marketing Office-Key West, Naval Air Station,
Key West, FL
Defense Reutilization and Marketing Office-Knox, Fort Knox, KY
Defense Reutilization and Marketing Office-LeJeune, Camp LeJeune, NC
Defense Reutilization and Marketing Office-Lewis, Fort Lewis, WA
Defense Reutilization and Marketing Office-Leonard Wood, Fort Leonard Wood, MO
Defense Reutilization and Marketing Office-Little Rock, Jacksonville, AR
Defense Reutilization and Marketing Office-Loring, Loring Air Force Base, ME
Defense Reutilization and Marketing Office-Mare Island, Vallejo, CA
Defense Reutilization and Marketing Office-Mayport, Mayport Naval Station,
Mayport, FL
Defense Reutilization and Marketing Office-McClellan, McClellan Air Force Base, CA
Defense Reutilization and Marketing Office-McConnell, McConnell, KS
Defense Reutilization and Marketing Office-Meade, Fort Meade, MD

Appendix C. Organizations Visited or Contacted

Defense Logistics Agency (cont'd)

Defense Reutilization and Marketing Office-Mechanicsburg, Mechanicsburg, PA
Defense Reutilization and Marketing Office-Montgomery, Gunter Air Force Base,
Montgomery, AL
Defense Reutilization and Marketing Office-Nellis, Nellis Air Force Base, NV
Defense Reutilization and Marketing Office-Norfolk, Norfolk Naval Station,
Norfolk, VA
Defense Reutilization and Marketing Office-North Island (San Diego Naval Air
Station), Imperial Beach, CA
Defense Reutilization and Marketing Office-Ogden, Ogden, UT
Defense Reutilization and Marketing Office-Oklahoma City, Tinker Air Force Base,
Oklahoma City, OK
Defense Reutilization and Marketing Office-Ord, Marina, CA
Defense Reutilization and Marketing Office-Patrick, Patrick Air Force Base, FL
Defense Reutilization and Marketing Office-Pendleton, Oceanside, CA
Defense Reutilization and Marketing Office-Pensacola, Pensacola Naval Air Station,
Pensacola, FL
Defense Reutilization and Marketing Office-Philadelphia, Philadelphia, PA
Defense Reutilization and Marketing Office-Port Hueneme, Port Hueneme, CA
Defense Reutilization and Marketing Office-Puget Sound, Puget Sound Naval
Shipyard, Bremerton, WA
Defense Reutilization and Marketing Office-Richmond, Defense General Supply
Center, Richmond, VA
Defense Reutilization and Marketing Office-Riley, Fort Riley, KS
Defense Reutilization and Marketing Office-San Antonio, Kelly Air Force Base, TX
Defense Reutilization and Marketing Office-San Diego, Imperial Beach, CA
Defense Reutilization and Marketing Office-Sierra, Sierra Army Depot, Herlong, CA
Defense Reutilization and Marketing Office-Sill, Fort Sill, OK
Defense Reutilization and Marketing Office-St. Juliens Creek, Portsmouth, VA
Defense Reutilization and Marketing Office-Stockton, Rough and Ready Naval
Command Center, Stockton, CA
Defense Reutilization and Marketing Office-Tampa, MacDill Air Force Base, FL
Defense Reutilization and Marketing Office-Tooele, Tooele Army Depot, UT
Defense Reutilization and Marketing Office-Twenty-nine Palms, Twenty-nine Palms, CA
Defense Reutilization and Marketing Office-Warner Robins,
Robins Air Force Base, GA
Defense Reutilization and Marketing Office-Whidbey Island, Naval Air Station
Whidbey Island, Oak Harbor, WA

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Under Secretary of Defense for Environmental Security
Deputy Under Secretary of Defense (Logistics)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
 Commander, Defense Reutilization and Marketing Service
Director, National Security Agency
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

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

Non-Defense Federal Organizations (cont'd)

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations

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Part IV - Management Comments

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



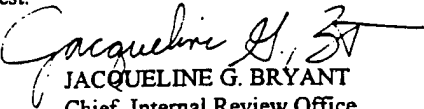
IN REPLY
REFER TO DDAI

26 SEP 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: OIG Draft Report, *"Distribution of Proceeds From the Sale of Reimbursable Scrap
Material,"* Project No. 2LE-2020.02

This is in response to your 30 June 1994 request.


JACQUELINE G. BRYANT
Chief, Internal Review Office

1 Encl

cc:
MM
FO
DRMS

FORMAT 1 OF 6

PURPOSE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: DISTRIBUTION OF PROCEEDS FROM THE SALE OF REIMBURSABLE SCRAP MATERIAL (PROJECT NO. 2LE-2020.02)

FINDING: DISTRIBUTION OF PROCEEDS. DRMS did not adequately control the distribution of proceeds generated from the sale of scrap material that qualified for reimbursement. The condition occurred because DRMS did not implement DoD guidance to ensure the proper distribution of sales proceeds generated from the sale of scrap material turned in by Defense Business Operations Fund activities; and DRMS did not recover its operating expenses before distributing sales proceeds to qualified DoD recipients, as required by public law and DoD policy. Additionally, the sales contract files maintained by the National Sales Office and the documentation maintained by the Defense Reutilization and Marketing Offices did not adequately support the amount of sales proceeds distributed to qualified DoD recipients. As a result, installation recycling program activities were receiving sales proceeds that should have been distributed to Defense Business Operations Fund activities to reduce operating expenses. FY 1993, \$8.5 million of DRMS expenses, incurred through processing and selling scrap material, was not recouped before sales proceeds were distributed to qualified DoD recipients, and \$51 million dollars would be put to better use over the Future Years Defense Program.

DIA COMMENTS: We partially concur in the observations. At this time, DoD policy does not authorize DRMS to retain a portion of recyclable sales proceeds to cover their costs. The Supply Management (MMSLE) memo to Deputy Undersecretary of Defense Logistics (DUSD(L)) dated 15 June 94 (Attachment 1) requested that OSD change their policy to allow DRMS to retain proceeds to cover their costs. The General Counsel concurred in this memo. DUSD(L)'s 20 Jul 94 response (Attachment 2) indicated that this question would be referred to the DRMS Unit Cost Working Group. The Office of the Comptroller (FO) has also requested that ASD(C) revise DoDI 7310.1, Distribution of Proceeds from the Sales of Surplus Personal Property which will allow DRMS to retain proceeds to cover their expenses.

INTERNAL MANAGEMENT CONTROL WEAKNESS:

We concur that there may be an IMC weakness associated with the proper distribution of proceeds generated from the sale of scrap material turned in by DBOF activities; however, we do not agree that DRMS is the responsible entity. DoD 4160.21-M, Ch. 14, paragraph K-11 (Attachment 3) states that it is the responsibility of the turn-in activity to place the appropriate reimbursable fund cite on the turn-in document. With regards to

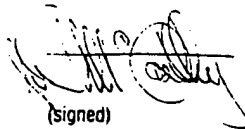
Defense Logistics Agency Comments

recycling, there is only one authorized fund cite per installation according to DUSD (ES) memo of 28 Sep 93 (*Attachment 4*). The DoD recycling regulation also states that proceeds reimbursed to an installation, will be maintained and managed at the installation. As such, how the funds are ultimately allocated is not a DRMS responsibility.

ACTION OFFICER: Mrs. Betty Mills, FOXA, x46222, 15 Sep 94
PSE REVIEW/APPROVAL: J. D. McCarthy, CAPT, SC, USN, Comptroller
COORDINATION: LaVaeda G. Coulter, DDAI, 15 Sep 94
E. Sanchez, FOE, *is* *Bryant, DDAI, 23 Sep 94*
MM
DRMS

DLA APPROVAL:

26 SEP 1994



(signed)
J. D. McCARTHY
CAPT, SC, USN
Chief Financial Officer
(Comptroller)

FORMAT 2 OF 6

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: DISTRIBUTION OF PROCEEDS FROM THE SALE OF REIMBURSABLE SCRAP MATERIAL (PROJECT NO. 2LE-2020.02)

RECOMMENDATION 1: We recommend that the Commander, Defense Reutilization and Marketing Service establish controls necessary to ensure that Defense Business Operations Fund activities that generate the scrap material receive proceeds from sales of scrap material.

DLA COMMENTS: Partially concur. The DRMO is responsible for ensuring the appropriation reflected on the turn-in document is proper for the type of material (e.g., ADP, recyclable) being turned in. It is the generator's responsibility to ensure that a valid appropriation is on the turn-in document. In the case of recyclable material, the name of the installation receiving the funds should be annotated on the turn-in document.

As discussed in our response to the finding, the generating installations are responsible for controls regarding the distribution of proceeds on their installation. The proposed change to DoDI 7310.1, Disposition of Proceeds from the Sale of Surplus Personal Property, will ensure that all accounts entitled to receive proceeds (including Defense Business Operations Fund activities) that generate scrap material receive net proceeds (proceeds less operating expenses). Any changes to DoDI 7310.1 must be incorporated in the DRMS operating procedures.

DISPOSITION:

- Action is ongoing. Estimated Completion Date: 1 Jan 95
- Action is considered complete.

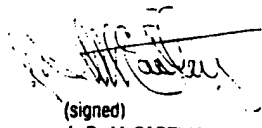
INTERNAL MANAGEMENT CONTROL WEAKNESS:

- Nonconcur.
- Concur; however, weakness, is not considered material.
- Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICE: Mrs. Betty Mills, FOXA, x46222, 15 Sep 94
 PSE REVIEW/APPROVAL: J. D. McCarthy, CAPT, SC, USN, Comptroller
 COORDINATION: LaVaeda G. Coulter, DDAI, 15 Sep 94
 E. Sanchez, FOE ~ *Print, DDC, 23 Sep 94*
 MM
 DRMS

DLA APPROVAL:

5 SEP 1994



(signed)
 J. D. MCCARTHY
 CAPT, SC, USN
 Chief Financial Officer
 (Comptroller)

Defense Logistics Agency Comments

FORMAT 3 OF 6

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: DISTRIBUTION OF PROCEEDS FROM THE SALE OF REIMBURSABLE SCRAP MATERIAL (PROJECT NO. 2LE-2020.02)

RECOMMENDATION 2: We recommend that the Commander, Defense Reutilization and Marketing Service establish fee structures or other means to recoup expenses related to the processing and sale of reimbursable scrap material before approving distributions of proceeds to qualified DoD recipients.

DLA COMMENTS: Concur. If the DoD Deputy Comptroller (Financial Systems) approves DLA's revision to DoDI 7310.1, DRMS will be reimbursed 20 percent of the sales proceeds to cover expenses relating to all categories of material. Of the 18 categories currently receiving proceeds, DRMS only receives selling expenses from two (Property owned by a country or international organization; and lost, abandoned, or unclaimed privately-owned personal property). We understand that DRMS recoupment of expenses for all receivables, including scrap and scrap recyclables, will be reviewed by the DRMS Unit Cost Work Group.

DISPOSITION:

- Action is ongoing. Estimated Completion Date: 1 Oct 95
- Action is considered complete.

RECOMMENDATION MONETARY BENEFITS:

DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- Nonconcur.
- Concur; however, weakness is not considered material.
- Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICE: Mrs. Betty MILLS, FOXA, x46222, 15 Sep 94

PSE REVIEW/APPROVAL: J. D. McCarthy, CAPT, SC, USN, Comptroller, 22 Sept 94

COORDINATION: LaVaeda G. Coulter, DDAI, 15 Sep 94

E. Sanchez, FOE, 20 Sept 94
MM

Handwritten signature: Betty Mills, 23 Sept 94

Handwritten signature: J. D. McCarthy

DLA APPROVAL:

14 13

FORMAT 4 OF 6

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: DISTRIBUTION OF PROCEEDS FROM THE SALE OF REIMBURSABLE SCRAP MATERIAL (PROJECT NO. 2LE-2020.02)

RECOMMENDATION 3: We recommend that the Commander, Defense Reutilization and Marketing Service recoup \$8.5 million of operating expenses for FY 1993 from DoD Components to the extent feasible and practicable.

DLA Comments: Nonconcur with the recommendation. Public Law 97-214 (10 USC 2577) and DUSD (E) memo of 28 September 1993 requires the installation turning in the recyclable material to receive 100% of the sales proceeds.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date:
- (X) Action is considered complete.

RECOMMENDATION MONETARY BENEFITS:

DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:


INTERNAL MANAGEMENT CONTROL WEAKNESS:

- (X) Nonconcur.
- () Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICE: Mrs. Betty Mills, FOXA, x46222, 15 Sep 94
PSE REVIEW/APPROVAL: J. D. McCarthy, CAPT, SC, USN, Comptroller
COORDINATION: LaVaeda G. Coulter, DDAI, 15 Sep 94 *John, DDAI: JHP*
E. Sanchez, FOE
MM
DRMS

DLA APPROVAL:

26 SEP 1994


(signed)
J. D. MCCARTHY
CAPT. SC. USN
Chief Financial Officer
(Comptroller)

Defense Logistics Agency Comments

FORMAT 5 OF 6

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: DISTRIBUTION OF PROCEEDS FROM THE SALE OF REIMBURSABLE SCRAP MATERIAL (PROJECT NO. 2LE-2020.02)

RECOMMENDATION 4: We recommend that the Commander, Defense Reutilization and Marketing Service require Defense Reutilization and Marketing Office (DRMO) chiefs to certify that the weights posted to the DRMS Form 1709 and submitted to the National Sales Office (NSO) are accurate and can be readily supported by documentation maintained at the respective Defense Reutilization and Marketing Office.

DLA COMMENTS: Concur. Revisions to DRMS operating procedures are in process to require DRMO chiefs to ensure DRMS Form 1709s are certified prior to submission to the NSO.

DISPOSITION:

(X) Action is ongoing. Estimated Completion Date: 1 Oct 1994
() Action is considered complete.

RECOMMENDATION MONETARY BENEFITS:

DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:


INTERNAL MANAGEMENT CONTROL WEAKNESS:

() Nonconcur.
(X) Concur; however, weakness is not considered material.
() Concur; however, weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICE: Mrs. Betty Mills, FOXA, x46222, 15 Sep 94
PSE REVIEW/APPROVAL: J. D. McCarthy, CAPT, SC, USN, Comptroller
COORDINATION: LaVaeda G. Coulter, DDAI, 15 Sep 94 *sent, 2001, 23, 6/94*
E. Sanchez, FOE
MM
DRMS

DLA APPROVAL:

26 SEP 1994


(signed)
J. D. MCCARTHY
CAPT, SC, USN
Chief Financial Officer
(Comptroller)

FORMAT 6 OF 6

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: DISTRIBUTION OF PROCEEDS FROM THE SALE OF REIMBURSABLE SCRAP MATERIAL (PROJECT NO. 2LE-2020.02)

RECOMMENDATION 5: We recommend that the Commander, Defense Reutilization and Marketing Service, require the National Sales Office sales contracting officers to document any adjustments made to the DRMS Form 1709 and to maintain supporting documentation in the contract file.

DLA COMMENTS: Concur. Adjustments made to the DRMS Form 1709 will be documented in the contract file. This requirement will be reiterated to the DRMS field activities in a message from DRMS HQ.

DISPOSITION:

- (X) Action is ongoing. Estimated Completion Date: 30 Sep 1994
- () Action is considered complete.

RECOMMENDATION MONETARY BENEFITS:

DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:


INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur.
- (X) Concur; however, weakness is not considered material.
- () Concur; however, weakness is considered material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICE: Mrs. Betty Mills, FOXA, x46222, 15 Sep 94
PSE REVIEW/APPROVAL: J. D. McCarthy, CAPT, SC, USN, Comptroller
COORDINATION: LaVaeda G. Coulter, DDAI, 15 Sep 94 *LaVaeda G. Coulter, DDAI, 23 Sep 94*
E. Sanchez, FOE
MM
DRMS

DLA APPROVAL:

26 SEP 1994


(signed)
J. D. McCARTHY
CAPT, SC, USN
Chief Financial Officer
(Comptroller)

Defense Logistics Agency Comments

Co. <i>DLA-PA</i>	Co. <i>DRUSRB</i>
Dept.	Phone #
Fax # <i>284-8725</i>	Fax #

LOGISTICS AGENCY
HEADQUARTERS
INSTALLATION

ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY
REFER TO MMSLD

15 JUN 1994

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)

SUBJECT: Department of Defense (DoD) Resource Recovery and Recycling Program (RRRP)

We are writing concerning two policy provisions of the Deputy Under Secretary of Defense (Environmental Security) (DUSD(ES)) memorandum of 28 September 1993, subject: Policy for DoD Recycling (Enclosure 1). Specifically, we request that these two provisions be changed as outlined below.

Paragraph 5a of the DUSD(ES) memorandum states that 100% of the proceeds from the sale of recyclable materials shall be retained to the installation generating the material and having a Qualifying Recycling Program. In fiscal year 1993, the Defense Reutilization and Marketing Service (DRMS), our field activity responsible for disposal of DoD excess and surplus property, expended nearly \$5.5 million in direct costs and \$3.0 million in indirect costs for the DoD RRRP. These costs equated to approximately 25% of the proceeds received from sales of recyclables. We request that the DUSD(ES) policy be changed to allow the DRMS to retain this percentage from future recyclable sales proceeds. This would enable the DRMS to collect the fully-burdened cost of their services with respect to the DoD RRRP.

Paragraph 4 of the 28 September 1993 memorandum allows installations to directly sell, subject to Defense Logistics Agency approval, recyclable materials acquired with appropriated funds if direct sale is expected to result in increased net proceeds, or increased efficiency or cost-effectiveness. We recommend that this be changed to allow Military Services/Defense Agencies to approve these direct sales. The Military Service/Defense Agency must assure that installations approved to sell directly comply with all provisions of the 28 September 1993 guidance. In particular, the Military Service/Defense Agency should note (a) the requirement that sales of recyclables be in accordance with Section 203 of the Federal Property and Administrative Services Act of 1949, as amended; (b) the requirement for installations selling directly to maintain operational records for annual fiscal year reporting requirements, review, and program evaluation purposes; and (3) the recyclable definition and exclusions.

The above changes will allow DoD to minimize costs in the sale of recyclable materials. Point of contact for this matter is Michael Stubblebine, MMSLD, telephone (703) 274-8783.

1 Encl

Ed Straw
EDWARD M. STRAW
Vice Admrl, SC, USN
Director

Attach 1



ACQUISITION AND TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000



20 JUL 1994

(L/MDM)

MEMORANDUM FOR DEPUTY EXECUTIVE DIRECTOR, SUPPLY MANAGEMENT,
DEFENSE LOGISTICS AGENCY

SUBJECT: Department of Defense (DoD) Resource Recovery and
Recycling Program (RRRP)

This is in response to the Director's memorandum of June 15, 1994, concerning the RRRP. The DLA requested approval to allow the Defense Reutilization and Marketing Service (DRMS) to retain approximately 25% of the proceeds from sale of recyclable material and that the Military Services be authorized to approve direct sales of recyclable material by military installations. Both requests impact on the DRMS cost recovery methodology.

A recent memorandum from the Comptroller of the Department of Defense addressed DRMS cost recovery. As a result of the memorandum, the DRMS Unit Cost Working Group (UCWG) has been tasked to develop an appropriate approach for recovering DRMS costs. Rather than look at each aspect separately, the UCWG must consider the total scope of DRMS cost recovery. Therefore, the requests concerning the RRRP will be addressed by the UCWG.

[Signature]
Jeffrey A. Jones
Assistant Deputy Under Secretary
(Material and Distribution)

*Jim,
If this doesn't work, let me know
& we'll try something else. But the
UCWG is trying to wrap up work,
so we need to move.
Zinnels*

Attach 2



Defense Logistics Agency Comments

DoD 4160.21-M

Account and forwarded to the applicable instrumentality.

c. Proceeds (100 percent) from the sale of garbage suitable for animal consumption that is disposed of under a multiple pickup contract shall be deposited to the General Fund Receipt Account 97R2651. Proceeds may not be prorated for return to individual nonappropriated fund activities included in the multiple pickup contract.

8. U.S. Coast Guard Property.

a. Proceeds (100 percent) from the sale of USCG property under the physical control of the USCG at the time of sale shall be deposited to the supporting A&FO Budget Clearing Account F3875. (17F3875, Navy and Marine Corps; 21F3875, Army; and 57F3875, Air Force.)

b. Upon completion of the sale transaction, a check shall be drawn on the suspense account and forwarded to the USCG at the following address:

Commandant
U.S. Coast Guard (GFAC)
Washington, DC 20593-0001

c. Proceeds (100 percent) from the sale of USCG property physically turned in to a DRMO shall be deposited to the General Fund Receipt Account 97R2651.

d. Proceeds (100 percent) from the sale of USCG aircraft located at the AMARC shall be deposited to the General Fund Receipt Account 97R2651. (USCG aircraft located at AMARC which are released for reclamation and disposal shall be processed in the same manner as Air Force property.)

9. GSA-Owned Automatic Data Processing Equipment.

a. Proceeds (100 percent) from the sale of ADPE owned by GSA and leased to DoD shall be deposited to the supporting A&FO Budget Clearing Account (Suspense) F3875. (17F3875, Navy and Marine Corps; 21F3875, Army; and 57F3875, Air Force.)

b. Upon completion of the sale transaction, a check shall be drawn on the suspense account and forwarded to GSA at the following address:

XIV-10

TS: Jacqui
Rhyant
D&I

General Services Administration
Office of Finance (WBCRC)
Collections and Securities
Seventh and I Streets NW.
Washington, DC 20407

10. Foreign Equity Property. Proceeds from the sale of property owned by a foreign country or international organization shall be deposited as follows:

a. Twenty percent shall be deposited to the current year operation and maintenance appropriation account of the DoD component which sells the property. The account to be credited for DRMS sales is 97*0100.5141. (* Denotes current fiscal year.)

b. Eighty percent shall be deposited to the supporting A&FO Suspense Account X6875. (17X6875, Navy and Marine Corps; 21X6875, Army; 57X6875, Air Force.)

c. Upon completion of the sale transaction, a check for 80 percent of the sale price shall be drawn on the suspense account and forwarded to the applicable foreign country or international organization.

11. Recyclable Material. Proceeds (100 percent) from the sale of recyclable material generated by participating activities governed by DoD Directive 4165.60, Solid Waste Management-Collection, Disposal, Resource Recovery and Recycling Program, implementing the provisions of 10 U.S.C. 2577 shall be deposited to the Budget Clearing Account (Suspense) F3875 of the A&FO identified on the DTID (17F3875, Navy and Marine Corps; 21F3875, Army; 57F3875, Air Force). Reimbursement may not be made for property for which the DTID does not contain the appropriate Suspense Account (F3875) designated for this program, or for an amount less than \$25.00 for each item.

12. Timber and Related Forest Products. Proceeds (100 percent) from the sale of timber and related forest products shall be deposited to the Budget Clearing Account (Suspense) F3875 of the A&FO identified on the DTID. (17F3875, Navy and Marine Corps; 21F3875, Army; and 57F3875, Air Force.)

Attach 3



ACQUISITION

OFFICE OF THE UNDER SECRETARY OF DEFENSE

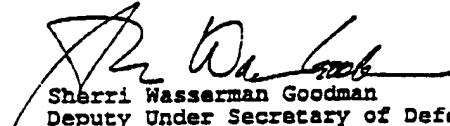
WASHINGTON, DC 20301-3000

28 SEP 1993

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
COMPTROLLER
INSPECTOR GENERAL
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Policy for DoD Recycling

Please refer to my memorandum of August 18, 1993, on the above subject. The examples used in the attachment to that memorandum have created confusion over what items are properly included in our recycling programs. I have, therefore, revised the examples to list scrap (including ferrous and nonferrous scrap) and, specifically, firing range expended brass and mixed metals gleaned from firing range cleanup which do not require demilitarization as items qualified for the recycling program. Please disseminate this important clarification as broadly as possible to preclude disruption of existing recycling programs.


Sherri Wasserman Goodman
Deputy Under Secretary of Defense
(Environmental Security)

Attachment

cc: USD (A)
cc: USD (P)

Environmental Security – Defending Our Future

Attach 4

POLICY FOR DOD RECYCLING

1. **GOALS AND OBJECTIVES.** Prevent pollution and conserve resources on DoD installations by: reducing, reusing, recovering, and recycling to divert materials from the solid waste stream, and procuring recycled products made of post-consumer materials and other recycled materials, and procuring new materials that are more easily recycled.

2. **GENERAL**

a. **Recycling Fundamentals.** All installations, world-wide, shall have recycling programs as required by Executive Order 12780. In order to close the recycling loop, the Department and the Components will establish a preference program for the acquisition of products containing recycled materials and for products that are more easily recycled. Separate guidance implementing the Environmental Protection Agency Affirmative Procurement Guidelines will be issued by USD (A).

b. **Program Establishment.** Pursuant to Public Law 97-214, 10 U.S.C., Section 2577, each installation, and facility not on a military installation, world-wide, shall have, or be associated with, a Qualified Recycling Program (QRP) to service all tenant activities. This includes all leased and government owned/contractor operated space. Installations having several recycling programs shall incorporate them into the single installation QRP. Each DoD Component will ensure the government owned, contractor operated facilities participate in a recycling program. Each QRP shall have a designated coordinator.

c. **Program Review.** Each QRP shall be continually reviewed to identify materials appropriate for waste stream diversion, explore recycling methods and identify potential markets. Additional recyclable materials include not only materials generating a profit, but materials whose diversion from the waste stream generate a savings to the Department in disposal costs, or when diversion is required by state/local law or regulation.

d. **Accountability and Reporting.** QRPs selling materials directly, shall maintain operational records for annual fiscal year reporting requirements, review, and program evaluation purposes. These records are to include at a minimum, quantity and types of materials recycled and proceeds from sale and shall be consistent with guidance provided by the Comptroller.

3. **RECYCLABLE MATERIALS**

a. **Recyclable.** Recyclable material includes materials diverted from the solid waste stream and the beneficial use of such materials. Diversion includes collection, separation, and processing of materials for use as raw materials in the manufac-

ture of goods sold or distributed in commerce or, the reuse of materials as substitutes for goods made of virgin materials. Examples of recyclable materials include (but not limited to): paper, food waste, plastic, glass, all cardboard and other packaging materials, newspapers, and empty food and beverage containers.

b. **Recyclable Materials** also include scrap (including ferrous and nonferrous scrap) and firing range expended brass and mixed metals gleaned from firing range cleanup which do not require demilitarization.

c. **QRP Exclusions.** The following materials may not be sold through a QRP: precious metals; government furnished materials; hazardous waste (including household hazardous waste); machine parts; electrical components; unopened containers of unused oil, solvents, or paints; and repairable items that have not progressed through the disposal cycle.

d. **Demilitarized Materials.** Items requiring demilitarization or mutilation prior to sale are not recyclable materials and the proceeds from sale are not eligible for reimbursement to the installation pursuant to 10 U.S.C. Section 2577 (32 CFR 172).

4. **SALE OF RECYCLABLE MATERIALS.**

a. **General.** Any sale of recyclable materials by the Secretary of Defense or Secretary of a military department shall be in accordance with the procedures in Section 203 of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. Section 484), as amended.

b. **Sales.** DLA shall remain the primary agency responsible for the sale of recyclable materials generated from an appropriated funded source (DoD assets). Upon request by the installation, or other Component division, and approval by DLA, an installation may directly sell recyclable materials acquired with appropriated funds if one of the following conditions is met:

(i) direct sale is expected to result in increased proceeds, net of cost, increased efficiency or cost effectiveness, or;

(ii) the sale of a material is expected to result in the direct return of a usable product containing that material.

DLA will authorize the sale of commodities by the installation for a duration to be determined between the two signatories. Materials generated from non-appropriated or personal funds (e.g., post consumer waste from base housing, private homes, and installation concessions) may be sold by the installation program without DLA approval.

5. MANAGEMENT OF PROCEEDS FROM RECYCLED MATERIALS.

a. **Reimbursement.** When DRMS sells materials for the installation, they use DoD 4160.21-M, to return funds to the installation and DoDI 7310.1, for financial accounting procedures. One hundred percent (100%) of the proceeds from the sale of recyclable material at an installation with a QRF shall be credited to the F3875 Budget Clearing Account (Suspense) of the installation. Funds will be maintained and managed at the installation.

b. **Distribution of Proceeds.** The distribution of proceeds for operating a qualified recycling program shall be consistent with 10 U.S.C. Section 2577 (32 CFR 172). Proceeds from the sale of recyclable material shall be used to reimburse the installation level costs incurred in operating the recycling program. After reimbursement of the cost incurred by the installation for operations (i.e., operation and maintenance, and overhead) installation commanders may use up to 50 percent of the remaining sale proceeds for pollution abatement, energy conservation, and occupational safety and health activities. Projects may be funded with these proceeds up to 50 percent of the cost of a minor construction project. Any remaining proceeds may be transferred to installation morale or welfare activities.

ATTACHMENT 1

REFERENCES

- (a) Executive Order 12780, Federal Agency Recycling and the Council on Federal Recycling and Procurement Policy, October 31, 1991.
- (b) Public Law 99-580, 42 U.S.C. Sections 6901-6987, Resource Conservation Recovery Act of 1976, as amended.
- (c) Public Law 97-214, 10 U.S.C. Section 2577, Disposal of Recyclable Materials.
- (d) Public Law 8-152, 40 U.S.C. Sections 484-485, Federal Property and Administrative Services Act of 1949, as amended.
- (e) DoD 4160.21-M, Defense Reutilization and Marketing Manual, March 1990.
- (f) DoD 4160.21-M-1, Defense Demilitarization Manual, October 1991.
- (g) DoD 4160.21-H, Defense Scrap Yard Handbook, July 1985.
- (h) DoDI 7310.1, Disposition of Proceeds from DoD Sales of Surplus Personal Property, July 1989.
- (i) DoDD 4165.60, Solid Waste Management, October 1976.
- (j) OMB Policy Memorandum 92-4, Procurement of Energy Efficient and Environmentally Sound Products, November 1992.

ATTACHMENT 2

DEFINITIONS

(a). Qualified Recycling Program (QRP). Organized operations that require concerted efforts to divert or recover scrap or waste from the waste streams, as well as efforts to identify, segregate, and maintain the integrity of the recyclable materials in order to maintain or enhance the marketability of the materials.

(b). Installation. A base, camp, post, station, yard, center, or other activity under the jurisdiction of the Secretary of a military department or, in the case of an activity in a foreign country, under the operational control of the Secretary of a military department or the Secretary of Defense.

(c). Recyclable Materials. Includes materials diverted from the solid waste stream and the beneficial use of such materials. Recycling is further defined as the result of a series of activities by which materials that would become or otherwise remain waste, are diverted from the solid waste stream by collection, separation and processing and are used as raw materials in the manufacture of goods sold or distributed in commerce or the reuse of such materials as substitutes for goods made of virgin materials. The term also includes, for purposes of this policy document, scrap (including ferrous and nonferrous scrap) and, specifically, firing range expanded brass and mixed metals gleaned from firing range cleanup which do not require demilitarization.

(d). Government Furnished Materials. Includes materials furnished to government contractors pursuant to the execution of government contracts as defined in DAR 17.345(b).

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