

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT OF REPAIRABLE ITEMS
USED BY MORE THAN ONE SERVICE

Report Number 92-071

April 7, 1992

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The following acronyms are used in this report.

AFLC.....Air Force Logistics Command
AMC.....Army Materiel Command
ASO.....Aviation Supply Office
CECOM.....Army Communications and Electronics Command
DIA.....Defense Logistics Agency
DLSC.....Defense Logistics Services Center
DSOR.....depot source of repair
ICP.....inventory control point
JDMAG.....Joint Depot Maintenance Analysis Group
MCLB.....Marine Corps Logistics Base
NIMSC.....nonconsumable item materiel support code
NSN.....national stock number
PICA.....primary inventory control activity
RDEC.....requirements data exchange cards
SICA.....secondary inventory control activity
SMALC.....Sacramento Air Logistics Center
TIR.....total item record



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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April 7, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on the Management of Repairable Items Used by More Than One Service (Report No. 92-071)

We are providing this final report for your information and use. Comments from the Army and Air Force on a draft of this report were considered in preparing this final report.

A draft of this report was provided to the addressees for comments on December 26, 1991. Comments from the Assistant Secretary of Defense (Production and Logistics) and the Navy were received too late to be included in this final report and will be considered as replies to the final report. Additional comments are requested from the Air Force. See Part II of the report for specific requirements for the additional comments. DoD Directive 7650.3 requires that all recommendations be resolved promptly. All comments should be provided by June 8, 1992. Monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Charles Hoeger, Program Director, or Mr. Pat Golden, Project Manager, at (215) 737-3881 (DSN 444-3881). The planned distribution of this report is listed in Appendix G.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

CC:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

Office of the Inspector General, DoD

AUDIT REPORT NO. 92-071
(Project No. ILD-0003)

April 7, 1992

FINAL AUDIT REPORT ON THE MANAGEMENT OF
REPAIRABLE ITEMS USED BY MORE THAN ONE SERVICE

EXECUTIVE SUMMARY

Introduction. In 1974, the nonconsumable item program was established with the goal to eliminate the duplication of wholesale materiel management functions for repairable secondary items used by more than one Service. Phase I of the program was to identify each repairable item used by more than one Service and assign each item to a lead Service. The lead Service would be responsible for making procurements of the assigned item for all Services, initiating cataloging changes and authorizing disposal actions. During Phase II of the program, the lead Service was to assume additional responsibilities for depot maintenance, wholesale stockage, and budgeting for replacement and overhaul requirements. As of March 1991, there were about 57,000 items in the program; about 30,900 were managed under Phase I of the program and about 26,100 were managed under Phase II of the program.

Objectives. The objectives of the audit were to determine if repairable secondary items used by more than one Service were being managed in accordance with the Joint Service Regulation, to evaluate internal controls at inventory control points, and to determine if corrective actions were taken in response to recommendations in a prior IG, DoD, audit report.

Audit Results. Repairable secondary items used by more than one Service were not being effectively managed to achieve the goal of the nonconsumable item program.

- Unauthorized wholesale stock for Phase II items, valued at about \$272 million, was being retained by secondary inventory control activities and not reported to the lead Service activity. Also there was a lack of controls over the submission and receipt of the requirements of other using Services for Phase II items. We estimated that \$125.3 million in available stock could have been used to fill requirements if reporting procedures in the Joint Service Regulation had been followed (Finding A).

- The nonconsumable item program's goal was not being accomplished effectively. Over 10,000 items had not been reviewed for inclusion into Phase II of the program and known program deficiencies were not corrected (Finding B).

Internal Controls. Internal controls were not adequate to ensure that the Services followed required procedures for reporting

wholesale inventories, to communicate requirements computations to other Services' inventory control activities, and to eliminate the duplicate wholesale management of repairable items. See Findings A and B for details on these weaknesses and Part I for a description of the controls assessed.

Potential Audit Benefits. We identified potential monetary benefits of \$111.1 million for inventories held by the secondary inventory control activities included in our audit, that could have been used to satisfy requirements at primary inventory control activities. Program goals would be more effectively accomplished if adequate controls were established (see Appendix E).

Summary of Recommendations. We recommended that the Services require the inventory control points to establish procedures to report wholesale assets in accordance with the Joint Service Regulation and to institute controls to ensure that their Service requirements are communicated to the designated primary inventory control activities. We also recommended that the Services review Phase I items for potential centralized management under Phase II of the program, properly record depot source of repair codes and other catalog data, and review inactive items for exclusion from the program.

We recommended that the Assistant Secretary of Defense (Production and Logistics) designate responsibilities and establish program goals, timetables, and reporting procedures for items managed under the nonconsumable item program.

Management Comments. Comments from the Assistant Secretary of Defense (Production and Logistics) and the Navy were received too late for inclusion in this report. They will be considered as comments to the final report. The Army Deputy Chief of Staff for Logistics, Assistant Director for Supply Management, concurred with the findings and recommendations. Planned actions are responsive to our recommendations. Additional comments are not required from the Army.

The Air Force Deputy Chief of Staff for Logistics, Assistant for Logistics Resources, either concurred or concurred with the intent of the recommendations. The Air Force requested additional information to verify reported problems. The information was provided in a separate correspondence. Additional comments on several recommendations and on the estimated monetary benefits are required from the Air Force. The responsiveness of the Army and Air Force and recommendations requiring additional comments are discussed in Part II of the report. The complete texts of the Army and Air Force's comments are in Part IV.

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This report was prepared by the Logistics Support Directorate,
Office of the Assistant Inspector General for Auditing, DoD.
Copies of the report can be obtained from the Information
Officer, Audit Planning and Technical Support Directorate,
(703) 693-0340.

PART I - INTRODUCTION

Background

In October 1973, the Joint Logistics Commanders tasked their Joint Policy Coordinating Group for Defense Integrated Materiel Management to identify a means to eliminate the duplication of the wholesale management functions (procurement, cataloging, disposal, wholesale stockage, maintenance, requirements computation, and budgeting) for repairable (nonconsumable) items used by more than one Service. In March 1974, the Deputy Secretary of Defense directed the Services to start the consolidation process and the Joint Logistics Commanders subsequently directed the Service representatives to develop a two-phased program. The objective during Phase I was to identify all repairable stock numbered items used by two or more Services and to assign each item to a lead Service. The lead Service would be responsible for making procurements of the assigned item for all Services, initiating catalog changes, and authorizing disposal actions. Each Service was generally allowed to maintain a wholesale level of stock to support that Service's user requirements. During Phase II of the program, the lead Service was to assume the additional responsibilities for depot maintenance, wholesale stockage, and budgeting for replacement and overhaul requirements.

Phase I, completed in December 1976, identified about 33,800 stock numbered items that were repairables used by two or more Services. These repairable items were coded, by at least one of the using Services, in the DoD Total Item Record (TIR) catalog files as depot repairable items or as end items. For 26,300 of the 33,800 items, a wholesale inventory manager in the lead Service was designated as the primary inventory control activity (PICA) and a wholesale inventory manager in each of the other Services that used the item was designated a secondary inventory control activity (SICA). The remaining 7,500 items had interchangeable and substitutable relationships and no lead Service was assigned during Phase I. In April 1983, the interchangeable and substitutable items were reviewed and lead Service assignments and appropriate cataloging entries were made.

In May 1976, the Assistant Secretary of Defense (Production and Logistics) (formerly Assistant Secretary of Defense [Installations and Logistics]), approved Phase II of the nonconsumable item program and directed that necessary resources be made available to ensure the implementation of Phase II by May 1978. The Phase II objective was to consolidate the wholesale logistics functions of depot maintenance, wholesale asset accountability and requirement levels, and computation of wholesale replacement and overhaul requirements at the PICAs. In March 1978, the Services issued a Joint Service Regulation, "Wholesale Inventory Management and Logistics Support of

Multiservice Used Nonconsumable Items," (Army Materiel Command Regulation 700-99, Naval Supply Systems Command Instruction 4790.7, Air Force Logistics Command Regulation 400-21, and Marine Corps Order P4410.22C) that established the procedures to be followed in managing the items included in the nonconsumable item program. The Joint Service Regulation was revised and reissued in February 1982. As a result of IG, DoD, Report No. 86-067, "Procurement of Repairable Items Used By More Than One Service," February 18, 1986, the Joint Service Regulation was again revised and reissued in April 1990. Under these procedures the PICAs were responsible for contacting the SICAs for each item and negotiating an agreement to eliminate any remaining duplicate wholesale functions.

Objectives

The objectives of the audit were to determine if repairable secondary items used by more than one Service were being managed in accordance with the Joint Service Regulation, to evaluate internal controls over the nonconsumable item program at DoD inventory control points, and to determine if corrective actions were taken in response to recommendations in IG, DoD, Report No. 86-067.

Scope

As of February 1991, DoD's TIR catalog files identified 57,034 repairable items used by more than one Service and managed under the procedures prescribed in the Joint Service Regulation. We used the TIR data to judgmentally select the PICAs and SICAs to be included in our audit. We did not perform audit tests to establish the validity of the PICA/SICA assignments to the TIR catalog files. However, at the four ICPs visited we compared the PICA/SICA assignments in their files to those recorded in the TIR. Only minor differences were noted and these did not affect audit tests. We selected four sites for review based on the highest number of SICA assignments for each Service. The Army Communications and Electronics Command (CECOM), Fort Monmouth, New Jersey; the Navy Aviation Supply Office (ASO), Philadelphia, Pennsylvania; the Air Force Sacramento Air Logistics Center (SMALC), Sacramento, California; and the Marine Corps Logistics Base (MCLB), Albany, Georgia, accounted for 52 percent of the SICA assignments in the program and 49 percent of the PICA assignments. The selection of activities and the statistical sample of test items are discussed in Appendix A.

At the PICAs and SICAs, we reviewed stock levels on the master inventory control records, procurement history data, transaction history data, requirements computation data, and disposal and cataloging actions. We reviewed procurements for the sample items, requirements computations done by the SICAs, and the communication of those requirements to the PICAs. Transactions tested occurred during the 2-year period ended June 1991. We reviewed local procedures for the management of repairable items

used by more than one Service and interviewed item managers, contracting personnel, and assigned coordinators for the nonconsumable item program.

This economy and efficiency audit was made from October 1990 through August 1991 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix F.

Internal Controls

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Internal controls were not adequate to ensure that the Services followed procedures required by the Joint Service Regulation for reporting wholesale inventories of Phase II items to the lead Service activities and for communicating requirements to the other Services' inventory control activities. Further, controls were not adequate to eliminate the duplicate wholesale management of repairable items. Recommendations in Findings A. and B., if implemented, will correct the weaknesses. We have determined that the estimated monetary benefits that can be realized by implementing Recommendation A.1.b. are \$111.1 million. A copy of the final report will be provided to senior officials responsible for internal controls within the Army, Navy, and Air Force.

Prior Audits and Other Reviews

IG, DoD, Report No. 83-053, "Management of Nonconsumable Items Used By More Than One Service," December 17, 1982, addressed the Services' progress in eliminating duplicate wholesale logistics management of repairable items. The report concluded that after 7 years of effort, DoD had not succeeded in implementing procedures to consolidate wholesale management for most of these items. The report recommended improved internal operating procedures; the establishment of enforcement mechanisms, such as inspections; and implementation of procedures for wholesale managers to contact other Services maintaining wholesale stocks before initiating procurements. The Services concurred with and agreed to implement the recommendations.

IG, DoD, Report No. 86-067, determined if procurements of repairable items used by more than one Service were in conformance with the policies established in the Joint Service Regulation and if assets available at all managing activities were considered in procurement decisions. The report stated that SICAs were purchasing items directly from contractors, contrary to the provisions of the Joint Service Regulation, which provided for consolidated purchases by the PICAs. Also, the Services' procedures were not effective to ensure that SICAs reported wholesale assets to the PICAs and that DoD wholesale stocks were

identified and considered before PICAs made procurements. The report recommended that the Joint Service Regulation be expanded to include specific procedures to require PICAs to query SICAs for stock availability before making procurements and to require PICAs to fill SICA requirements from available stock before initiating procurements. The audit report also recommended that SICAs establish procedures to identify and report wholesale stock to PICAs as provided for in the Joint Service Regulation. The Services concurred with the recommendations and later reported that corrective actions had been taken. This audit found that SICAs were not reporting wholesale assets to the PICA as required by the Joint Service Regulation.

PART II - FINDINGS AND RECOMMENDATIONS

A. ASSET REPORTING AND REQUIREMENTS FOR PHASE II ITEMS

Wholesale assets of Phase II items, valued at about \$272 million, were retained by SICAs and not reported to the designated PICAs. Also, the requirements of using Services for all Phase II items were not being submitted to the designated PICAs; and for requirements submitted, we identified errors in about one-fourth of the items reviewed. These conditions occurred because adequate reporting procedures had not been established or were not followed, and because internal controls had not been established to ensure submission and receipt of the Services' requirements. As a result, we estimated that \$125.3 million of the wholesale assets not reported by SICAs could have been used to fill PICA requirements with resulting estimated monetary benefits of \$111.1 million. In addition, requirements of using Services were not accurately included in DoD wholesale requirements developed by the PICAs.

DISCUSSIONS OF DETAILS

Background

Items included in the nonconsumable item program are classified under nonconsumable item materiel support codes (NIMSCs) to designate whether an item is in Phase I or Phase II of the program. NIMSC definitions are contained in Appendix B. For Phase II repairable items, the designated PICA is responsible for managing the DoD wholesale inventory. As the single wholesale manager, the PICA is responsible for developing, budgeting, and funding for consolidated DoD wholesale stock requirements based, in part, on requirements submitted by the designated SICAs for other using Services. As of March 1991, about 26,100 (46 percent) of the 57,000 items in the program were designated as Phase II.

The Joint Service Regulation provides policy and procedures for reporting assets to the designated PICA. When items are initially designated for Phase II processing, the SICAs (Army, Navy, Air Force, and Marine Corps inventory control points [ICPs]) are responsible for determining the quantity of stock required to be retained in retail inventories. Retail requirements are defined in the regulation to include protectable pre-positioned war reserve requirements and initial or follow-on provisioning and outfitting. Remaining available assets under SICA management and any wholesale stock identified up to 1 year after the effective date of transfer are to be transferred to the PICA on a nonreimbursable basis. Wholesale stocks that SICAs identify after 1 year are to be reported to the PICA under DoD excess assets reporting procedures. The available assets can be physically maintained at SICA storage sites until attrited or they may be physically relocated.

For assigned items, the PICA is responsible for determining the DoD wholesale stock levels required to support Service users. The applicable SICAs are to provide the PICA, by February 1 of each year, projected requisitioning requirements and projected unserviceable returns. SICAs' projected requirements and returns are to be communicated to the applicable PICA using requirements data exchange cards (RDECs). The RDECs are to separately identify the SICAs' other war reserve requirements and projected recurring demand and nonrecurring requirements, by quarter, for the current fiscal year and following 4 fiscal years and projected unserviceable returns for the same periods. Updates on an item-by-item basis are permitted between reporting periods.

Wholesale Asset Reporting

SICAs frequently did not comply with asset reporting procedures for Phase II items. Of the 295 sample items in our review, 195 SICA assignments (involving 178 national stock numbers [NSNs]) were under Phase II of the program. For 87 of the 95 items, the SICAs had unrestricted wholesale stock valued at \$1.46 million, none of which was reported to the applicable PICA.

Internal procedures. The SICAs' internal procedures did not ensure complete reporting of available assets. At the four SICAs in our audit (ASO; CECOM; MCLB, Albany; and SMALC), we reviewed internal procedures to determine why \$1.46 million in assets were not reported to the designated PICA in accordance with the Joint Service Regulation. We also analyzed stock status and transaction history data to determine the source of unreported assets.

The source of most of the unreported assets at ASO; CECOM; and MCLB, Albany, was undeterminable because transaction history data were not kept more than 2 years. For more recent transactions, where sources could be identified, the unreported assets resulted from materiel returns and inventory gains. For four of the items at MCLB, Albany, the materiel had been requisitioned from the PICA and held in Marine Corps wholesale stock. At SMALC, assets that were excess to retail requirements were the major source of unreported stock. Internal procedures at ASO, CECOM, and SMALC did not address reporting assets to the PICA that are identified after the effective date of logistics responsibility transfers. MCLB, Albany, procedures did require that assets be identified and reported to the appropriate PICA using DoD excess asset reporting procedures.

Unnecessary procurements. SICAs' nonreporting of available assets resulted in PICA's unnecessary procurements. Of the 87 sample items, involving 80 NSNs, with unreported assets of \$1.46 million previously discussed, assets valued at \$729,992 (50 percent) involving 35 NSNs were required by the PICA. For these items, PICA assets were below the approved force acquisition objective. Analysis of the PICA records for the 35 NSNs showed that 13 NSNs had outstanding customer backorders

that could have been completely or partially filled with the unreported assets. Fourteen of these NSNs, including 7 with the backorders had procurements in process or recently completed at the PICA. For example, the PICA for radio amplifiers, NSN 5895-01-100-6036, was procuring four amplifiers at an estimated cost of \$17,300. During the same period, SMALC, a SICA for the item, had 13 wholesale assets, which, if properly reported, would have eliminated the need for the PICA procurement.

Because of the high incidence of nonreported available assets in our sample, we reviewed the asset records for the four SICAs. As of the third quarter of FY 1991, the four SICAs held reportable inventory, coded as NIMSC 5 (items for which management was fully integrated), valued at \$272 million (see Appendix D). The inventory included 9,452 (52 percent) line items of the total 18,084 NIMSC 5 assignments that were identified to the four SICAs and which should have been reported to the designated PICA.

Ready for issue assets, condition code A, accounted for \$181.2 million of the \$272 million in reportable NIMSC 5 inventory. About \$76.2 million of the \$272 million was reported as condition code F, unserviceable - materiel in need of repair, while the remaining \$14.6 million was reported in various other unserviceable condition codes. Based on our sample results we estimated that \$125.3 million of the \$272 million nonreported wholesale assets could have been used to fill PICA requirements, that is, the assets were within the approved force acquisition objective. Considering repair costs for the unserviceable assets, we adjusted the \$125.3 million to derive estimated monetary benefits (cost avoidance) of \$111.1 million (see Appendix A) from the reporting and the recovery of these assets by the assigned PICAs.

Repeat audit finding. IG, DoD, Report No. 86-067 identified Phase II items held by SICAs but not reported to the designated PICA activities. Conditions reported at that time were attributed to the lack of procedures to report such assets and the lack of management emphasis. The Services stated that corrective action would be taken; however, our current work indicated that corrective action was not effective.

Requirements Submissions for Phase II Items

The ICPs, in their capacity as a PICA or SICA, lacked adequate controls over the submission and receipt of RDECs. Of the 195 SICA assignments for Phase II items in our sample, SICAs did not submit RDECs for 54 assignments. Additionally, SICAs' errors in computing requirements were identified at three of the four ICPs included in our audit.

Submission and receipt of RDECs. We reviewed internal procedures for the submission and receipt of RDEC requirements and for the SICAs' computations of requirements that were submitted to the designated PICAs. The Joint Service Regulation

provides that the PICA will use the requirements, procedures, and methodology of its parent Service in calculating DoD requirements, and the demand projections that SICAs provide on the RDECs will be included in computing wholesale stock requirements. None of the ICPs retained auditable RDEC records of prior years' submissions. For this reason, we could not relate existing spares support problems to deficiencies in the RDEC process. Our results are based on analysis of the 178 NSNs involving 195 SICA assignments in our Phase II sample items, for which RDECs were or should have been submitted by February 1, 1991, to the applicable PICA. Our results at each ICP are discussed below.

Army.

Submissions of RDECs. There were no controls in place to ensure that CECOM submitted RDECs for all the NIMSC 5 items for which it was a SICA. At the time of audit, CECOM was the SICA for 3,983 NIMSC 5 items; however, CECOM's records showed that only 2,868 (72 percent) RDECs were sent to designated PICAs. Of the 40 items in our sample for which CECOM was the SICA, RDECs were not submitted for 7 items. For the 33 RDECs that were submitted, we identified computational errors for 5 items. Requirements computations for most SICA items are done using the same automated methodology that is used for other Army managed repairable items. For 5 of the 33 RDECs submitted, however, requirements were manually computed on an exception basis and were overstated because projected usage was inflated or available materiel from prior completed programs was not considered. We estimated that requirements for the 5 items were overstated by 354 units valued at \$2.5 million.

Receipt of RDECs. In our sample of 68 SICA assigned items for which CECOM was the designated PICA, 15 items that required RDEC submissions were not received and there was no followup to obtain the missing data. When RDECs were not received, SICAs' past demands, recorded in CECOM's records, were used to forecast requirements. Satellite Command, a subordinate unit of CECOM, was the designated PICA for 39 of the 68 SICA assignments in our sample. Because this activity considered SICA requirement submissions to be unreliable, it ignored RDECs received from SICAs and used prior recorded demands in its records to compute requirements. Except for Satellite Command, when RDEC data were received from SICAs, the data were entered in CECOM's automated system; a forecast for other Service users was computed; and that forecast was added to the Army's forecast for its own requirements. However, in two cases the requirements in CECOM's records differed from the RDEC submissions for reasons we could not determine. In one of these cases, SMALC submitted a zero requirement but the CECOM records showed a 5-year requirement of 521 units valued at \$160,989.

Navy.

Submissions of RDECs. Of the 21 items in our sample for which ASO was a designated SICA, RDECs were not submitted for 6 items. One was not sent because of an error and five were not sent because ASO's records did not show SICA assignments. The DoD TIR showed 3,700 NIMSC 5 item assignments for ASO, but ASO's records indicated that RDECs were only required for 3,326 items. Although there were controls in place to ensure that all required RDECs were submitted, no controls existed to ensure that ASO's records agreed with the DoD TIR. We took no exception to the requirement quantities identified on the 15 RDEC submissions processed by ASO.

Receipts of RDECs. At ASO, the designated PICA for 24 SICA assignments in our sample, 16 of 24 required RDEC submissions were not received and there was inadequate followup to obtain missing RDECs. According to ASO's records, RDEC submissions were received for only 656 of the 1,313 NIMSC 5 SICA assignments. Followup procedures were used only if no requirements were received from a particular SICA, but no attempt was made to follow up or account for partial submissions that were received. Similar to CECOM, ASO procedures provide for entering the data in the automated system, using the RDEC data to compute other Services' forecasted requirements, and adding these to the Navy's forecasted requirements. If RDECs were not received, SICAs' past demands, recorded in ASO's records, were used to compute requirements.

Air Force.

Submissions of RDECs. There were neither records at SMALC to identify the RDECs that SMALC submitted to the designated PICAs nor controls to ensure that RDECs were submitted for all NIMSC 5 items for which it was a SICA. SMALC was designated as a NIMSC 5 SICA for 5,364 items. Our sample included 93 of the 5,364 items. Based on the number of RDECs recorded as received from SMALC at the three other ICPS in our review, we estimated that SMALC submitted over 90 percent of the required RDECs to these ICPS. Like the other Services, requirements computations for SICA items were computed using the same automated methodology that was used for other Air Force managed repairable items. We reviewed the RDEC quantities for 66 items that SMALC submitted to the PICAs and found errors for 11 items. These errors involved differences between computed requirements and requirement quantities on the RDECs. In one case, requirements that had been computed were not reflected on the RDECs for reasons we could not determine. In the other 10 cases, RDEC quantities were overstated because of a data transfer error. One-time requirements computed in the SMALC system were duplicated through future periods. For example, a one-time Air Force nonrecurring requirement for 67 units was projected on the RDEC data sent to the PICA, MCLB, Albany as a

requirement for 67 units, per quarter, for 5 fiscal years. MCLB, Albany advised us that they would validate such a requirement before taking supply action.

Receipts of RDECs. SMALC was the PICA for 4,291 NIMSC 5 items; however, there was no way to determine the number of RDECs that were not received or received and not processed. Additionally, there was no evidence that activity personnel attempted to contact the SICAs to obtain missing data. Some RDECs were not printed because SICA submissions were edited to a unique Air Force NSN suffix code. Although some were reprocessed, many of the RDECs were not printed and distributed to the cognizant item managers.

SMALC was the designated PICA for 63 SICA assignments in our sample. Based on SICAs' submissions and SMALC's available records, RDECs for 52 of the 63 items in our sample were submitted. However, records at SMALC indicated that only 17 were actually received and processed by the individual item managers. The remaining 35 could not be accounted for. There were no central records of RDECs received from SICAs or controls to ensure that all required submissions were received and to follow-up on missing data.

At SMALC, RDEC data are printed and distributed to individual item managers. Item managers are required to complete a Requirement and Repairable Generation Worksheet from the RDEC data; and the worksheet information is entered into the Air Force repairable items data system for requirements computations. In contrast to procedures in the Army and Navy, if RDECs are not received or not processed, or if the worksheets are not prepared, no requirements are included in the Air Force system for other Service users.

Marine Corps.

Submissions of RDECs. Although MCLB, Albany, was designated SICA for 41 items in our sample, RDECs were not submitted for 14 of the 41 items. MCLB was the SICA for 5,037 NIMSC 5 items and according to activity records only 3,397 (67 percent) RDECs were sent to the designated PICAs. Individual item managers were responsible for inputting RDECs into the data system for transmission to the appropriate SICAs; however, there were no controls in place to ensure that all required RDECs were submitted. Unlike the other ICPs in our audit, MCLB item managers manually computed RDEC requirements. MCLB procedures established overall policy and functional responsibilities, but did not prescribe a specific methodology for computing requirements. Cognizant personnel advised us that past demands and anticipated changes in item usage were the primary factors used. We reviewed the RDEC quantities for the 27 items that MCLB submitted to the PICAs and questioned the validity of the required quantities for 20 items. For one item, requirements existed but zero quantities were submitted. For

five items, quantities described as provisioning requirements were submitted without substantiation of the quantities computed. For the other 11 items, there were no prior demands, a safety level and reorder point had been established on MCLB's records, and the total quantity of the safety level and the reorder point or a multiple of the total was erroneously submitted as the Marine Corps' requirements for each of the fiscal periods of the RDEC years. For the remaining three items, the requirement quantities in the RDECs were not substantiated by the demand forecasts.

Receipts of RDECs. MCLB, Albany, was the designated PICA for 40 SICA assignments in our sample but 14 of the required 40 RDEC submissions were not received and there were no followup efforts to obtain the missing data. According to MCLB records, RDEC submissions were received for only 727 of the 1,232 NIMSC 5 SICA assignments for which MCLB is the designated PICA. There were no controls to ensure that all required submissions were received or that appropriate followup action was taken. Similar to CECOM and ASO, MCLB procedures provide for entering the data in the automated system, using the RDEC data to compute other Services' forecasted requirements, and adding these to the Marine Corps' forecasted requirements. However, MCLB procedures differ in that if SICA's RDEC requirements are less than the past demands for the other Services, as recorded in MCLB files, then the past demands were used to forecast requirements. Additionally, past demands were used to forecast SICA requirements if RDECs were not received.

Relevance of RDECs. The submission of all required RDECs to the PICA and the accuracy of RDEC requirement quantities are important to properly support the Services' users. Under the Joint Service Regulation, the designated PICA is responsible for computing wholesale stock levels to support all Services for assigned items and for budgeting and funding for the recurring wholesale levels to meet users' requirements. Requirements forecasting processes for most repairable items managed by DoD ICPs are closely related to the end items that are supported. Typically, future requirements are developed by comparing past usage or demands to planned program data, and by identifying end item populations and anticipated tempo of operations. These data are available only at the Service designated SICA. As discussed above, three of the PICA ICPs in our audit established procedures to use recorded past demand data to compute other Services' requirements if RDEC data were not received. In periods of changing programs and operations, use of only this historical data could materially distort future requirements for the supported Services.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the the Commanding General, Army Materiel Command; Commander, Naval Supply Systems Command; Commander, Air Force Logistics Command; and the Deputy Chief of Staff, Installations and Logistics, U.S. Marine Corps:

a. Require secondary inventory control activities to establish procedures to identify and report wholesale stock of Phase II items to primary inventory control activities, and internal controls to detect and correct noncompliance with the asset reporting requirements of the Joint Service Regulation.

b. Require primary inventory control activities to reduce purchase requirements for Phase II items based on assets reported by secondary inventory control activities.

c. Require inventory control points to establish procedures and internal controls, including necessary followup, to ensure that requirements data exchange cards are sent to primary inventory control activities for all required items and that requirements data exchange cards are received for all items for which the inventory control points are designated as the primary inventory control activity.

2. We recommend that the Commanding General, U.S. Army Communications and Electronics Command; Commander, Sacramento Air Logistics Center; and Commanding General, Marine Corps Logistics Base, Albany, establish procedures for validation of requirements projections submitted to primary inventory control activities.

MANAGEMENT COMMENTS

The Army Deputy Chief of Staff for Logistics, Assistant Director for Supply Management, concurred with Recommendations A.1.a., A.1.b., and A.1.c. The Army Materiel Command (AMC) was to initiate correspondence by March 2, 1992, to all Army SICAs and PICAs, requesting a corrective action plan for compliance with the Joint Service Regulation. AMC was to request responses with milestones from PICAs and SICAs within 30 days of the tasking. The Assistant Director for Supply Management partially concurred with the estimated monetary benefits, stating that the Army had no basis to dispute the methodology to compute the monetary benefits but noted that some excess stock retained by CECOM was issued to support Army customer requirements. The Assistant Director for Supply Management also concurred with Recommendation A.2. and will direct Army PICAs and SICAs to establish internal programs and use existing programs in the Commodity Command Standard System to validate SICA reported RDEC requirements.

The Air Force Deputy Chief of Staff for Logistics, Assistant for Logistics Resources, concurred with the intent of Recommendations A.1.a., A.1.c., and A.2. For Recommendation A.1.a., the Assistant for Logistics Resources stated that Air Force procedures provide for reporting assets to the PICAs and that Air Force Logistics Command (AFLC) will research why excess assets were not reported. For Recommendation A.1.c., the Assistant for Logistics Resources stated that an error occurred in transmitting 1991 RDEC data and that a program now exists to process and distribute incoming RDEC data. Appropriate guidance was to be

issued by March 2, 1992, to preclude the error from reoccurring and to ensure ICP personnel process and distribute RDEC data to inventory managers. For Recommendation A.2., AFLC will review, and where appropriate, revise existing procedures to preclude invalid RDEC requirements. A target date was not provided. The Assistant for Logistics Resources concurred with Recommendation A.1.b., and within 60 days of the final audit report, AFLC will issue specific guidance for Air Force PICAs to reduce purchase requirements for Phase II items reported by SICAs.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Army's comments to Recommendations A.1.a., A.1.b., A.1.c., and A.2. are responsive and additional comments on these recommendations are not required. The Navy's comments were received too late for inclusion in this report and will be considered as comments to the final report.

The Air Force's comments to Recommendations A.1.b. and A.1.c. are responsive; however, comments on the estimated monetary benefits associated with Recommendations A.1.b. are required. Specific corrective actions and the planned completion date should also be provided for Recommendation A.1.a. For Recommendation A.2., we request that the Air Force provide a completion date by which existing procedures will be reviewed and where appropriate, revised. A schedule for specific Air Force response requirements follows.

STATUS OF RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			
		<u>Concur Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	<u>Related Issues</u>
1.	Air Force		X	X	M, IC
2.	Air Force			X	

M = monetary benefits; IC = material internal control weaknesses

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B. MANAGEMENT OF THE NONCONSUMABLE ITEM PROGRAM

The objective of the nonconsumable item program, which is to eliminate duplicate wholesale logistics management, was not being accomplished effectively. This condition occurred because the nonconsumable item program lacked management policy and direction and was not monitored properly. There were no established quantitative goals, timetables, or reporting requirements to measure program accomplishments or to detect and correct program deficiencies. Further, inactive items were not removed from the program and some cataloging actions and updates were not processed. As a result, 10,235 items were not reviewed for inclusion in Phase II of the program, items no longer used were not removed from the program, and some items were shipped to the wrong repair depots.

DISCUSSION OF DETAILS

Background

The Joint Service Regulation on the nonconsumable item program requires that repairable items used by more than one Service be identified and reviewed to determine which Service should be the materiel manager of the item. The regulation also requires that assignment of materiel management responsibility be weighted heavily in favor of the Service having the largest technical and maintenance capability for supporting the item. Materiel management responsibility of an item includes computing replacement and overhaul requirements, budgeting and funding, storage and issue, depot level maintenance, cataloging, and disposal.

DoD Manual 4140.32-M, "Defense Inactive Item Program," October 1980, provides policy and establishes uniform guidance and procedures, and assigns responsibilities for the systematic elimination of inactive items of supply from the DoD and General Services Administration Supply Systems and the Federal Catalog System.

The Joint Service Regulation, "Elimination of Duplication in the Management and Logistics Support of Interchangeable and Substitutable Items," August 30, 1984, (Air Force Logistics Command Regulation 400-31, Department of the Army Materiel Development and Readiness Command Regulation 700-30, Naval Materiel Command Instruction 4400.25, Marine Corps Order 4410.24, and Defense Logistics Agency Regulation 4140.66) provides the procedures that the logistics elements of the Services and the Defense Logistics Agency (DLA) have established to eliminate duplicate wholesale management applicable to interchangeable and substitutable items of supply. The procedures provide for the assignment of single wholesale management responsibility for cataloging, acquisition, disposal, and where applicable, depot maintenance for each interchangeable and substitutable family of items.

Nonconsumable Item Program Status

We determined the status of the nonconsumable item program by screening the DoD TIR catalog files, as of February 1991. For the 57,034 items identified as used by two or more Services, Phase II processing was complete for 26,147 items. There were 30,887 items being managed under Phase I of the program, and of these, 20,652 items were reviewed by the Services and an agreement was made to leave the items in Phase I of the program. These items, which are primarily designated as end items of equipment, were not reviewed during this audit. The remaining 10,235 items still need further analysis for possible Phase II processing and were coded as temporary Phase I management (NIMSC 4). There were 69,742 SICA assignments for the 57,034 items used by more than one Service.

Monitoring Program Results

Management emphasis was needed to ensure that nonconsumable item program objectives were being effectively accomplished. The nonconsumable item program committee was formed to monitor the program and administer the Joint Service Regulation. The nonconsumable item program committee, comprised of a representative from each Service logistics headquarters, meets periodically to discuss and correct problems in program implementation. We met with the committee representatives to discuss the overall management of the program. Although the Services' representatives had identified and documented problems with the program and had outlined corrective actions, there was little evidence that the corrective actions were taken and that program accomplishments were being monitored or tracked.

At each of the ICPs visited, we met with the nonconsumable item program representatives who were responsible for monitoring the program at their installations. The representatives at three of the four Service ICPs were assigned to monitor the nonconsumable item program as a collateral duty, not as a full-time assignment. There was no established agenda for correcting program deficiencies at the ICPs and there were no reporting mechanisms established for tracking any program accomplishments.

Management of Temporary Phase I Items

Prompt action has not been taken to eliminate the duplicate wholesale management of over 10,000 Phase I items. Items coded in the TIR catalog with a NIMSC 4 were to be temporarily assigned to Phase I until they could be reviewed for possible inclusion in Phase II of the program. Of the 57,034 items in the program, 10,235 (18 percent) were coded as NIMSC 4. Our sample of 295 items included 85 items coded as NIMSC 4. Of the 85 items, 34 were inactive and should be reviewed for possible elimination from the program. Of the remaining 51 items, documentation was available to determine how long 22 of the items were classified as temporary Phase I items. The 22 items were assigned to

temporary Phase I management an average of 10.7 years. At the four ICPs in our sample, applicable nonconsumable item program representatives did not have any statistics on items that were reviewed and there was no agenda for when the NIMSC 4 items were to be reviewed for possible inclusion in Phase II of the program. We concluded that little emphasis had been placed on completion of the program.

Inactive Program Items

Inactive items should be reviewed for possible exclusion from the program to preclude unnecessary inventory management. Inactive program items are items that were not in demand for the last 2 years or longer, items no longer used by two or more Services, items that were replaced with newer items, and items that were reclassified from repairable items to consumable items. Of the 295 items in our sample, 125 (42 percent) should have been considered for removal from the nonconsumable item program; 37 because of inactivity and 79 that were used by only one Service. The remaining 9 items were replaced by newer items or reclassified by all users as consumable items.

DoD Manual 4140.32-M states that an inactive item can be eliminated from the supply system if the item has been in the supply system for at least 7 years and has experienced no demands in the last 2 years. The Manual also delineates several circumstances for keeping potentially inactive items in the supply system and provides certain criteria and retention codes to guide inventory managers. Based on our discussions with applicable inventory managers and equipment specialists, and by applying the guidelines of DoD Manual 4140.32-M, we identified 37 inactive items that should be considered for removal from the nonconsumable item program. For example, nine of the items selected for review at CECOM were items for which the day-to-day inventory management was performed by the Television and Audio Support Activity, Sacramento. At the Television and Audio Support Activity, we determined that eight of the nine items were obsolete and were no longer required by the activity.

Cataloging Actions

Cataloging actions to identify the depot source of repair (DSOR) were not accomplished, and other cataloging changes that affected the management of a nonconsumable item were not always recorded in the DoD TIR. In August 1987, the Joint Depot Maintenance Analysis Group (JDMAG) Dayton, Ohio, requested DLA to evaluate the feasibility of incorporating the DSOR into the DoD TIR so each Service would have a single source to identify where to send a particular item for repair. In April 1990, the requirement for cataloging the DSOR on the DoD TIR was included in the Joint Service Regulation.

Our review of the March 15, 1991, TIRs for the 295 items in our sample showed that the Services had not recorded the appropriate

DSORs in the DoD TIR. Because the DSORs were not recorded in the DLSC TIR, field units had to rely on the information recorded on their applicable Service records for shipping instructions. In 72 of the 295 cases tested, the DSORs on the supply records of the PICAs differed from the DSORs on the supply records of the SICAs. The SICAs included in our review had about \$3 million of condition code F stock on hand for the 72 items (economically repairable materiel, which requires overhaul or reconditioning). We reviewed 31 of these items to ascertain where the using field units were shipping the stock. In all cases, the assets were incorrectly shipped to the depot recorded on the SICAs' supply records instead of the depot designated to do the repair work. This resulted in unnecessary transportation costs to ship the assets to the appropriate depot for repair and it could delay the repair work.

For example, the supply records at SMALC, the SICA for NSN 1560-01-134-4600, landing flap, incorrectly showed SMALC as the DSOR. The PICA for this item was ASO. ASO's supply records showed the Naval Aviation Repair Depot, Jacksonville, Florida, as the DSOR. Our review of the transaction history for NSN 1560-01-134-4600 showed that a total of 36 condition code F assets had been turned in from using Air Force units during the 12-month period ended May 17, 1991. The 36 assets were incorrectly shipped to SMALC. Later, 23 of the assets were shipped to the Naval Aviation Repair Depot, Jacksonville, Florida, and the remaining 13 assets were shipped to a commercial repair center in Dallas, Texas.

When management of an item changed from one Service to another, the cataloging change was not always reflected in the DLSC TIR. For example, wholesale inventory management responsibility for 6 of the 215 items reviewed at SMALC was transferred to the San Antonio Air Logistics Center. The transfers took place during July 1989; however, as of March 15, 1991, the DoD TIR showed SMALC as the PICA for the items.

When items were reclassified from a repairable item to a consumable item, the reclassification was not recorded on the DoD TIR. For example, at CECOM, the management status for seven of our sampled items was changed from a repairable item to a consumable item between 1 and 6 years before our review. However, the DoD TIR still showed that the items were managed as nonconsumables. The reasons given for not making the changes were that when the Maintenance Division personnel at CECOM changed the items' management status, the status changes either were not sent to the Cataloging Branch or the Cataloging Branch received the change notices but did not process them.

Interchangeable and Substitutable Items

The records associated with the nonconsumable item program did not include all applicable interchangeable and substitutable family items. The Deputy Secretary of Defense memorandum of

March 1974 chartered the Interchangeable and Substitutable Item Subgroup of the Joint Policy Coordinating Group for Defense Integrated Materiel Management to select a single Service or manager for each interchangeable and substitutable family grouping. The subgroup was disestablished in 1984 and the functions of the subgroup were turned over to the DoD Interchangeable and Substitutable Item Committee. The Joint Service Regulation outlines the procedures to implement the objectives of the interchangeable and substitutable program.

At the Navy and Air Force ICPs, we reviewed 60 sample items, including all interchangeable and substitutable relationships for which ASO was the PICA and SMALC was the SICA. ASO's records showed an interchangeable or substitutable relationship for 29 of 60 sampled items. For 17 of the 29 items, SMALC, supply records did not show that an interchangeable and substitutable relationship existed. The DLSC TIRs for the 17 family groups showed a total of 39 NSNs. For 7 of the 17 family groups, SMALC was not registered as a user for 20 of the 39 NSNs. At SMALC, we had the responsible equipment specialists review the characteristics of six interchangeable and substitutable family groups to see if any of the 20 NSNs could be used instead of our sampled items. In most cases, the equipment specialists could not make a determination without first reviewing the actual item drawings, which were not readily available. However, in three instances, the equipment specialist agreed that one of the interchangeable and substitutable items in the family groups could be used instead of our sampled items.

Procurement Actions by SICAs

IG, DoD, Report No. 86-067, addressed significant deficiencies in two major aspects of the nonconsumable item program: reporting of wholesale assets to the designated PICAs and unauthorized procurement actions by SICA activities. Significant problems still exist in the wholesale asset reporting aspects of the program, as discussed in Finding A. To determine if SICAs took corrective action on unauthorized procurements, we matched the SICA NSN assignments to procurement history files at the four ICPs included in our audit tests and at the Navy Ships Parts Control Center. The Navy Ships Parts Control Center was included in this analysis because significant procurement activity was identified there in the prior audit. The Joint Service Regulation provides that SICAs will not purchase PICA centrally procured items except when authorized by the PICA or for emergency requirements.

We randomly selected 40 procurement actions to determine if the conditions identified in the prior audit still existed. We concluded that, with the exception of the Army SICA, CECOM, SICAs did not make unauthorized procurements. Of 20 procurement actions reviewed at CECOM, 8 were made without first obtaining the necessary approval from the PICA. One action, valued at \$81,481, occurred because the applicable PICA was not identified

in CECOM's files. Four actions, valued at \$43,415, were procured by project managers without the item managers' knowledge and three actions, valued at \$41,810, were erroneously procured by the item managers. Although the quantities procured were relatively small, savings could have been realized if the proper procedures had been followed. For example, CECOM procured two electrical plug-in units, NSN 6625-00-261-5139, in March 1990 at a unit cost of \$2,517. The designated PICA last bought the item in February 1989 for \$1,644 a unit. At the time CECOM procured the item, the PICA had available assets that could have satisfied CECOM's requirement and precluded the need for the procurement.

Conclusion

Although the mechanism was in place to monitor and administer the nonconsumable item program, there has been a lack of top management emphasis needed to achieve the program goals. This lack of emphasis is reflected in the nonreporting of assets and inadequate monitoring and reporting of requirements for Phase II items, as discussed in Finding A. This lack of emphasis is also reflected in the lack of quantitative program goals, timetables for accomplishment, and reporting procedures; the inaction on the review of "temporary" Phase I items; the existence of inactive items in the program; the lack of recording required cataloging actions; and inaccurate records related to interchangeable and substitutable items.

RECOMMENDATIONS FOR CORRECTIVE ACTIONS

1. We recommend that the Assistant Secretary of Defense (Production and Logistics) issue a policy directive on the nonconsumable item program that will establish specific responsibilities, quantitative program goals, timetables for accomplishment, and reporting procedures. The policy directive should also require the Services to establish controls and review programs to evaluate progress.
2. We recommend that the Commanding General, the Army Materiel Command; Commander, Naval Supply Systems Command; Commander, Air Force Logistics Command; and the Marine Corps Deputy Chief of Staff (Installations and Logistics):
 - a. Review temporary Phase I items for inclusion into Phase II of the nonconsumable item program,
 - b. Eliminate inactive items from the program,
 - c. Promptly input depot sources of repair and other cataloging changes into the DoD Total Item Record, and
 - d. Incorporate all applicable interchangeable and substitutable items into the nonconsumable item program.
3. We recommend that the Assistant Secretary of the Army

(Research, Development, and Acquisition) establish controls to ensure that procurement actions for items managed by secondary inventory control activities are coordinated with the applicable primary inventory control activities.

MANAGEMENT COMMENTS

The Army Deputy Chief of Staff for Logistics, Assistant Director of Supply Management, concurred with Recommendations B.2.a., B.2.b., B.2.c., and B.2.d. and stated that by April 2, 1992, Army PICAs will formulate and forward an action plan to AMC to facilitate compliance with AMC-R 700-99. The Assistant Director for Supply Management also concurred with Recommendation B.3., stating that by April 15, 1992, the Assistant Secretary of the Army (Research, Development, and Acquisition) will direct AMC to coordinate SICAs procurement actions with PICAs to avoid unnecessary and potential excess buys.

The Air Force Deputy Chief of Staff for Logistics, Assistant for Logistics Resources, concurred with the intent of Recommendations B.2.a., B.2.b., B.2.c., and B.2.d. For Recommendation B.2.a., AFLC will propose a periodic review cycle for Phase I items to Air Force and Service ICPs by November 1992. For Recommendations B.2.b., B.2.c., and B.2.d., the Air Force requested clarification and additional data to investigate the reported problems in Air Force policies, procedures, or systems. Neither corrective action nor a completion date was identified for Recommendation B.2.b. For Recommendations B.2.c. and B.2.d., AFLC will determine if deficiencies exist in Air Force procedures and will complete action by September 1992.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Army's comments to Recommendations B.2.a., B.2.b., B.2.c., B.2.d., and B.3. are responsive and additional comments are not required.

The Air Force's comments to Recommendation B.2.a. are responsive and additional comments are not required. We provided the requested information to the Air Force on Recommendations B.2.b., B.2.c., and B.2.d. in a separate correspondence. Specific corrective actions and planned completion dates are requested from the Air Force for these recommendations.

Comments from the Assistant Secretary of Defense (Production and Logistics) and the Navy were received too late to be included in this final report and will be considered as comments to the final report. A schedule for specific response requirements follows.

STATUS OF RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			
		<u>Concur</u> <u>Nonconcur</u>	<u>Proposed</u> <u>Action</u>	<u>Completion</u> <u>Date</u>	<u>Related</u> <u>Issues</u>
2.	Air Force		X	X	IC *

*IC = material internal control weaknesses

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PART III - ADDITIONAL INFORMATION

- APPENDIX A - Selection of Audit Sites, Audit Tests, and Audit Sample Projections
- APPENDIX B - Nonconsumable Item Materiel Support Codes
- APPENDIX C - Wholesale Inventories of Sample Items at Secondary Inventory Control Activities
- APPENDIX D - Wholesale Inventories at Secondary Inventory Control Activities
- APPENDIX E - Summary of Potential Benefits Resulting from Audit
- APPENDIX F - Activities Visited or Contacted
- APPENDIX G - Report Distribution

APPENDIX A: SELECTION OF AUDIT SITES, AUDIT TESTS, AND AUDIT
SAMPLE PROJECTIONS

Audit Sites

The DLSC, Battle Creek, Michigan, a field activity of DLA, Alexandria, Virginia, is designated as the DoD cataloging agent for all items in the DoD supply system. Items in the DoD supply system are cataloged on the TIR. The Services or DLA ICPs, upon determining a need for an item to be in the supply system, request DLSC to catalog the item and assign a NSN. The ICP that initiates the request for cataloging is assigned as the PICA. When another Service identifies a need for an item, previously assigned to a PICA, the Service requests the PICA to initiate cataloging action to have the Service entered on the TIR as a registered user. Repairable items used by more than one Service are coded in the TIR to show the PICA and SICA assignments for the Services.

From an extract of the DoD TIR dated March 1, 1991, we determined that about 584,000 stock numbered items were in the DoD supply system classified as repairable (nonconsumable) items. Of the 584,000 repairable items, 57,034 were classified as used by more than one Service. For the 57,034 items used by more than one Service, there were 69,742 SICA assignments. The 69,742 SICA assignments were shared by 35 inventory control activities of the Services and the Coast Guard. All but 3,427 of the SICA assignments were made to SICAs within the Services.

We limited our review to four SICAs, one each from the Army, Navy, Air Force, and Marine Corps. We selected the activities with the highest number of SICA item assignments in each Service. Of the 69,742 SICA assignments on the DoD TIR, the following four SICAs accounted for 36,501 (52.3 percent) assignments.

CECOM	6,536
ASO	13,395
SMALC	8,398
MCLB, Albany	8,172
Total	<u>36,501</u>

Audit Tests

We statistically sampled 295 NSNs from the universe of 36,501 SICA assignments. For each of the ICPs, we made random selections from the SICA totals. Our selections were weighted toward the total number of PICA assignments for each of the above

APPENDIX A: SELECTION OF AUDIT SITES, AUDIT TESTS, AND AUDIT SAMPLE PROJECTIONS (cont'd.)

ICPs. Of the 57,034 repairable items used by more than one Service, the number of PICA assignments for the four ICPs was as follows.

CECOM	14,310
ASO	6,295
SMALC	5,674
MCLB	1,615
Total	<u>27,894</u>

Our sample resulted in the following PICA/SICA combinations.

	<u>PICA</u>	<u>SICA</u>	<u>SICA</u> */	<u>Total</u>
CECOM	110	50	17	177
ASO	80	50	0	130
SMALC	70	145	0	215
MCLB	35	50	5	90
Total	<u>295</u>	<u>295</u>	<u>22</u>	<u>612</u>

*/Multiple SICA relationships. (For example, CECOM is an additional SICA for 17 items for which ASO, SMALC, or MCLB is also a SICA for an NSN in our audit sample.)

Our sample was comprised of 612 combinations of PICA/SICA relationships. In addition to the 317 SICA assignments (295 plus 22) for the ICPs in our audit tests, our sample included 32 SICA assignments that related to 4 other ICPs. Of the 32 SICA assignments, we reviewed 29 that were assigned to the Navy Ships Parts Control Center, Mechanicsburg, Pennsylvania, in following up on conditions disclosed in our prior audit. The remaining three ICPs were not reviewed.

Audit Sample Projections

Of the 317 SICA assignments at the four locations in our audit, 195 were managed under Phase II (NIMSC 5) of the nonconsumable item program. The 195 Phase II SICA assignments consisted of 178 NSNs. Of the 178 NSNs, 80 NSNs had available wholesale stock, valued at \$1.5 million reported on the SICA stock status reports. We determined that \$729,992 or about 50 percent of the \$1.5 million in stock could have been used to fill PICA requirements, that is, assets could have been used to satisfy deficits in the PICAs approved force acquisition objective. The total value of available wholesale inventory for NIMSC 5 items

APPENDIX A: SELECTION OF AUDIT SITES, AUDIT TESTS, AND AUDIT
SAMPLE PROJECTIONS (cont'd.)

reported on the records of the four SICAs was \$272 million. Of the \$272 million in reported inventory, we project that \$125.3 million could be used to fill requirements.

The calculations were performed across the four sites with a projected figure of \$125.3 million. The projections were done with a sampling error of + \$31.4 million and a 90-percent confidence level. Decreasing the value of required materiel by the estimated cost of repair (35 percent) for not ready for issue condition assets, we adjusted the \$125.3 million to derive estimated monetary benefits of \$111.1 million, + \$27.8 million. The 35 percent is the complement of the 65 percent financial credit to be provided by the PICA, in accordance with the Joint Service Regulation, when SICAs return NIMSC 5 unserviceable assets.

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APPENDIX B: NONCONSUMABLE ITEM MATERIEL SUPPORT CODES

<u>Code</u>	<u>Definition</u>
1	Exception item (end item of equipment) - SICA-managed end items of equipment assigned to another service PICA that is responsible for the wholesale logistics support functions of cataloging, acquisition, and disposal. The SICA is responsible for the wholesale stock, store, and issue function in support of SICAs and has retained depot repair capability where applicable.
2	Exception item (depot repairable component or SICA managed consumable) - SICA-managed depot repairable components or SICA-managed consumables, wherein the SICA cannot use repaired items assigned to another Service which has responsibility for the logistics functions of cataloging, acquisition, and disposal. The SICA has retained the wholesale stock, store, and issue functions in support of SICAs and has retained depot repair capability, where applicable.
3	End item primary inventory control activity - SICA-managed end items or equipment assigned to another service PICA that is responsible for the wholesale logistics support functions of cataloging, acquisition, and disposal; depot maintenance, if required, to be provided by a depot maintenance interservice support agreement. The SICA is responsible for the wholesale stock, store, and issue functions for SICAs.
4	Depot repairable component (Phase I temporary) - SICA-managed depot repairable components assigned to another Service PICA that is responsible for the logistics functions of cataloging, acquisition, and disposal; and depot maintenance to be provided by a depot maintenance interservice support agreement. The SICA is responsible for the wholesale stock, store, and issue functions for SICA activities. This code is temporarily assigned to items that have not completed Phase II item review processing.

APPENDIX B: NONCONSUMABLE ITEM MATERIEL SUPPORT CODES (cont'd.)

<u>Code</u>	<u>Definition</u>
5	Depot repairable component (Phase II) - SICA-managed depot repairable components assigned to another Service that is responsible for the logistics functions of cataloging, acquisition, disposal, and depot maintenance. The assigned Service also performs the wholesale stock, store, and issue functions and establishes budgets and funds the wholesale stock level requirement. Supply requirements will be submitted to the PICA on requisitions that are funded by a designated point within the SICA. Unserviceable SICA assets will normally be returned to the PICA for credit. The SICA will provide item and program data required by the PICA to meet the materiel support commitments.
6	Requisitioning activity funded items - This code identifies items for which parent Services have authorized SICAs to submit requisitions directly to the PICA. SICA Services usually managed these items as consumable (expense).
7	Items under the cognizance of the Joint Conventional Ammunition Production Group. Supply support will be determined by the DoD Single Manager for Conventional Ammunition. Provisions of this regulation will not apply.
8	Depot repairable component (Phase I) - SICA-managed depot repairable components that have been reviewed for migration to Phase II, but will be retained under Phase I management. The PICA has responsibility for the logistics functions of cataloging, acquisition, and disposal and depot maintenance to be provided by a depot maintenance interservice support agreement. The SICA is responsible for wholesale stock, store, and issue functions for SICAs.
9	Exception item (depot maintenance review not completed). This code identifies items wherein assignment for depot repair has not been established. PICA responsibilities are limited to cataloging, acquisition, and disposal. Upon completion of depot maintenance review and after assignment for

APPENDIX B: NONCONSUMABLE ITEM MATERIEL SUPPORT CODES (cont'd.)

<u>Code</u>	<u>Definition</u>
9 (cont'd.)	depot repair is made, code 9 items will be reassigned to code 1, 2, 3, 5, 6, or 8.
0	DLSC file conversion code. This code was assigned by DLSC to existing wholesale interservice supply support agreement type recording during initial file conversion program. This code is reassigned to code 1, 2, 3, 5, 6, or 8 upon completion of item review.

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APPENDIX C: WHOLESALE INVENTORIES OF SAMPLE ITEMS AT SECONDARY INVENTORY CONTROL ACTIVITIES

	<u>Items Reviewed</u>	<u>Items Not Reported</u>	<u>Value Not Reported</u>
ASO	21	6	\$ 118,447
CECOM	40	18	471,093
SMALC	93	43	705,617
MCLB	<u>41</u>	<u>20</u>	<u>\$ 164,829</u>
Total	<u>195</u>	<u>87</u>	<u>\$1,459,986</u>

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APPENDIX D: WHOLESALE INVENTORIES AT SECONDARY INVENTORY CONTROL ACTIVITIES

	Number of		Condition Code				
	<u>Items</u>	<u>Total</u>	<u>A</u>	<u>1/</u>	<u>F</u>	<u>2/</u>	<u>Other</u>
ASO	1,754	\$96.9	\$51.9		\$42.8		\$ 2.2
CECOM	1,381	46.0	37.7		7.7		.6
SMALC	3,689	57.5	51.9		5.5		.1
MCLB	<u>2,628</u>	<u>71.6</u>	<u>39.7</u>		<u>20.2</u>		<u>11.7</u>
TOTAL	<u>9,452</u>	<u>\$272.0</u>	<u>\$181.2</u>		<u>\$76.2</u>		<u>\$14.6</u> ^{3/}

1/ General stocks ready for issue

2/ General stocks unserviceable in need of repair

3/ The \$14.6 million in wholesale inventory was reported in several condition codes indicating that the inventory was issuable.

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APPENDIX E: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
A.1.a	<u>Internal Control.</u> Establish procedures for identifying and reporting inventory held by SICAs.	<u>Nonmonetary.</u>
A.1.b.	<u>Economy and Efficiency.</u> Use of on-hand inventory held by SICAs to fill existing supply system requirements of PICAs, instead of PICAs procuring new inventory.	<u>Funds Put to Better Use.</u> One-time savings are estimated at \$111.1 million.
A.1.c and A.2.	<u>Internal Control.</u> Controlling and processing RDEC data for use in the requirements determination process by PICAs for Phase II nonconsumable items.	<u>Nonmonetary.</u>
B.1. thru B.2.d.	<u>Internal Control.</u> Provide oversight and improve management of the nonconsumable item program.	<u>Nonmonetary.</u>
B.3.	<u>Internal Control.</u> Establish procedures for PICAs and SICAs to coordinate on procurement actions.	<u>Nonmonetary.</u>

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APPENDIX F: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Supply Management Policy, Washington, DC

Department of the Army

Headquarters, Deputy Chief of Staff (Logistics), Supply and Maintenance Policy, Washington, DC
Headquarters, Army Materiel Command, Alexandria, VA
U.S. Army Communications and Electronics Command, Fort Monmouth, NJ
Headquarters, Army Depot Systems Command, Chambersburg, PA
Tobyhanna Army Depot, Tobyhanna, PA
Army Television Audio Support Activity, Sacramento, CA

Department of the Navy

Headquarters, Naval Supply Systems Command, Washington, DC
Headquarters, Naval Air Systems Command, Washington, DC
Navy Aviation Supply Office, Philadelphia, PA
Naval Ships Parts Control Center, Mechanicsburg, PA

Department of the Air Force

Headquarters, Deputy Chief of Staff (Logistics and Engineering), Supply Policy, Washington, DC
Headquarters, Air Force Logistics Command, Dayton, OH
San Antonio Air Logistics Center, San Antonio, TX
Sacramento Air Logistics Center, Sacramento, CA
Warner Robins Air Logistics Center, Robins Air Force Base, GA

Marine Corps

Headquarters, U.S. Marine Corps (Logistics), Washington, DC
Marine Corps Logistics Base, Albany, GA

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Cameron Station, Alexandria, VA
Defense Logistics Servicing Center, Battle Creek, MI
Defense Contract Management Area, Boston, MA
Defense Plant Representative Office, United Technologies, Sikorsky Aircraft Division, Stratford, CT

Miscellaneous

Joint Depot Maintenance Analysis Group, Gentile Air Force Station, Dayton, OH

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APPENDIX G: REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and
Comptroller)
Air Force Audit Agency

Defense Agency

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange

Non DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information
Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Ranking Minority Member, Senate Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
Ranking Minority Member, House 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

Department of the Army Comments

Department of the Air Force Comments

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MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON, DC 20310-0500



DALO-SMP 92000231

24 FEB 1992

MEMORANDUM THRU

DEPUTY CHIEF OF STAFF FOR LOGISTICS

~~DIRECTOR OF THE ARMY STAFF~~ *for NHH 25 Feb 92*
MARCIA R. MORGAN LTC. COL. ADAS *2/26/92*
ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)

FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE
Logistics) ASA (I&E)

SUBJECT: Audit Report on the Management of Repairable Items Used by More than One Service (Project No. 1LD-0003)--INFORMATION MEMORANDUM

Subject audit (Tab A) has been reviewed by the Office of the Deputy Chief of Staff for Logistics and the Army Materiel Command. Response is provided at Tab B.

2 Encls

Billie W. Turmenne
BILLIE W. TURMENNE
Assistant Director for
Supply Management
Directorate for Supply
and Maintenance

CF:
DAS
SAIG-PA

AMC (AMCLG-MS) - Concur, Jo Rieke/274-5708 (datafax)
OASA(I,L&E) - Concur, Jay Briggs/697-8003 (conference)

Mrs. Finnicum/52209

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd.)

DODIG DRAFT REPORT - DATED 26 DECEMBER 1991
DODIG CODE 1LD-0003

DRAFT AUDIT REPORT ON THE MANAGEMENT OF
REPARABLE ITEMS USED BY MORE THAN ONE SERVICE

FINDINGS AND RECOMMENDATIONS TO BE ADDRESSED IN
THE ARMY RESPONSE TO THE DRAFT REPORT

FINDINGS

FINDING A. ASSET REPORTING AND REQUIREMENTS FOR PHASE II ITEMS. Wholesale assets of Phase II items, valued at about \$272 million, were retained by SICAs and not reported to the designated PICAs. Also, the requirements of using Services for all Phase II items were not being submitted to the designated PICAs; and for requirements submitted, errors were identified in about one fourth of the items reviewed. These conditions occurred because adequate reporting procedures had not been established or were not followed, and because internal controls had not been established to ensure submission and receipt of the Services' requirements. As a result, we estimated that \$125.3 million of the wholesale assets not reported by the SICAs could have been used to fill PICA requirements with resulting estimated monetary benefits of \$111.1 million. In addition, requirements of using Services were not accurately included in DOD wholesale requirements developed by the PICAs.

Recommendation 1a. Require Secondary Inventory Control Activities to establish procedures to identify and report wholesale stock of Phase II items to primary inventory control activities, and internal controls to detect and correct noncompliance with the asset reporting requirements of the Joint Service Regulation.

ARMY RESPONSE. Concur. The Army Materiel Command will initiate correspondence by 2 March 1992 to all Army SICAs/PICAs requesting a plan of corrective actions to facilitate compliance with AMC-R 700-99. Response, with milestones, will be due to AMC within 30 days of receipt of tasking correspondence. Action plans will include but will not be limited to the following actions: (1) Review projections of the Requirements Data Exchange Card (RDEC) for all Nonconsumable Item Materiel Support Code (NIMSC) 5 items. SICAs should use automated programs designed for this purpose where feasible. Emphasis should be placed on correct requirement and density data for all new items entering the system. (2) Review requirement data bases for all nonconsumable items prior to budget stratification action. (3) Develop and monitor an internal program to compare forecasted requirements with the actual requirements submitted.

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd.)

RECOMMENDATION 1b. Require PICAs to reduce purchase requirements for Phase II items based on assets reported by SICAs.

ARMY RESPONSE. Concur. Army PICAs will be required to request data and verify requirements from other SICA services. Additionally, Army PICAs will be directed to contact other service SICAs and discuss the supply posture of the item. The Army Materiel Command will initiate correspondence by 2 March 1992 to all Army PICAs requesting a plan of corrective actions to facilitate compliance with AMC-R 700-99. AMC will also request a response, with milestones, within 30 days of receipt of tasker.

Partially concur with the estimated monetary benefits. The Army has no basis upon which to dispute the methodology used to compute the potential monetary savings. However, it should be noted that some of the excess stock retained by CECOM were issued to support Army customer requisitions.

RECOMMENDATION 1c^{and 2} Require inventory control points to establish procedures and internal controls, including necessary follow-up, to insure that Requirements Data Exchange Cards (RDECs) are sent to PICAs for all required items and that RDECs are received for all items for which the inventory control points are designated as the primary inventory control activities.

ARMY RESPONSE. Concur. Army PICAs and SICAs will be directed to establish internal programs and use existing programs in the Commodity Command Standard System (CCSS) to generate RDECs and report excess stock to the PICA and to validate requirements reported by the RDECs received from SICAs. Internal programs must include a check to determine that all NIMSC 5 items have RDECs generated to reflect correct requirements. Army PICAs and SICAs will be directed to follow-up on any questionable action by other service PICAs or SICAs. The Army Materiel Command will initiate correspondence by 2 March 1992 to all Army PICAs and SICAs requesting a plan of incorporating these corrective actions to facilitate compliance with AMC-R 700-99. AMC will require a response with milestones within 30 days.

Army depot level reparable (DLRs) were capitalized into the wholesale Army Stock Fund inventory on 1 Oct 90. Beginning on 1 Apr 92, the Army will have to "pay" for the item as the item will no longer be PA funded. It is anticipated that this change will result in more efficient management of the items.

FINDING B. MANAGEMENT OF THE NONCONSUMABLE ITEM PROGRAM. The objective of the nonconsumable item program, which is to eliminate duplicate wholesale logistics management, was not being accomplished effectively. This condition occurred because the nonconsumable program lacked management policy and direction and

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd.)

was not monitored properly. There were no established quantitative goals, timetables, or reporting requirements to measure program accomplishments or to detect and correct program deficiencies. Further, inactive items were not removed from the program and some cataloging actions and updates were not processed. As a result, about 10,000 items were not reviewed for inclusion in Phase II of the program, items no longer used were not removed from the program, and some items were shipped to the wrong depots.

RECOMMENDATION 2a. Review Phase I items for inclusion into Phase II of the nonconsumable item program.

ARMY RESPONSE. Concur. The Army Materiel Command will initiate correspondence by 1 March 1991 directing all Army PICA to establish a plan of corrective actions with milestones to facilitate compliance with AMC-R 700-99. Plan will be due back to AMC within 30 days. Army PICAs will be required to review items in Phase I status (including items assigned NIMSC 8 and 0) and negotiate Phase II agreements with other Service SICAs where feasible (AMC-R 700-99, Chapter 3).

RECOMMENDATION 2b. Eliminate inactive items from the program.

ARMY RESPONSE. Concur. Army PICAs will be required to follow the proper procedure to eliminate inactive items from the program (AMC-R 700-99, Chapter 5). The Army Materiel Command will direct all Army PICAs to prepare a plan of corrective actions to facilitate compliance with AMC-R 700-99. Plan with milestones will be due within 30 days.

RECOMMENDATION 2c. Promptly input Depot Source of Repair (DSOR) and other cataloging changes into the Defense Logistics Services Center Total Item Record (TIR).

ARMY RESPONSE. Concur. Army PICAs will be required to review items for Depot Source of Repair Code (DSOR) and input the DSOR to the TIR if one is not recorded. Army PICAs will be directed by AMC to prepare and forward a corrective plan of action with milestones within 30 days of receipt of tasking memorandum which will be released not later than 2 March 1992.

RECOMMENDATION 2d. Incorporate all interchangeable and substitutable (I&S) items into the nonconsumable item program.

ARMY RESPONSE: Concur. AMC will direct all Army PICAs to add I&S data to applicable nonconsumable items (DARCOM-R 700-30, Chapter 4) and properly code the DMISA and RDECs. Furthermore, all Army PICAs will be required to prepare and forward a corrective plan of action with milestones within 30 days of receipt of AMC correspondence (to be released not later than 2 March 1992).

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd.)

RECOMMENDATION 3. The Assistant Secretary of the Army (Research, Development, and Acquisition) establish controls to ensure that procurement actions for items managed by SICAs are coordinated with the applicable PICAs.

ARMY RESPONSE. Concur. Assistant Secretary of the Army (Research, Development, and Acquisition) will direct AMC to coordinate procurement actions by the SICAs with the PICAs to avoid unnecessary and potential excess buys. Memorandum to AMC will be released not later than 15 Apr 92.

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MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D. C.

19 FEB 1992

MEMORANDUM FOR ASSISTANT INSPECTION GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: DoD(IG) Draft Report, "Management of Repairable Items
Used by More Than One Service," (Project No. 1LD-0003) -
ACTION MEMORANDUM

This is in reply to your memorandum for Assistant Secretary of
the Air Force (Financial Management and Comptroller) requesting
Air Force comments on the subject report. Management comments are
attached. Our point of contact is Mr Jerome Yates, (703) 697-
2369.

1 Atch
Management Comments

A handwritten signature in cursive script, reading "Paul A. Thompson".

THOMPSON, COL, USAF
Assistant for Log Resources
Inspectorate of Supply
DCS/Logistics

MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE (cont'd.)

MANAGEMENT COMMENTS

DoD(IG) Draft Report, Management of Repairable Items
Used by More Than One Service, Project No. 1LD-0003

RECOMMENDATION 1. a., pg 23: Require secondary inventory control activities to establish procedures to identify and report wholesale stock of Phase II items to primary inventory control activities, and internal controls to detect and correct noncompliance with the asset reporting requirements of the Joint Service Regulation.

AIR FORCE COMMENTS: Concur with intent of recommendation. The Air Force's item manager wholesale requisition process (D035A) subsystem currently maintains a record, by Stock Record Account Number (SRAN), of bases and depot level excess items (Phase II items included) and systematically generates excess reports to the Primary Inventory Control Points (PICAs).

The D035A system processes Phases II as follows:

If excess assets are reported as unserviceable, an FTE (Report of Excess) will be forwarded to the PICA.

If excess assets are reported as serviceable the system will hold the FTE for 60 days, in an attempt to redistribute the assets to Air Force activities. If no requirement has been submitted the FTE will be forwarded to the PICA.

A 30 day suspense will be established for each FTE output to a PICA. If an FTR (Response to Report of Excess) is not received within 30 days, an FTF (Follow-up on Report of Excess) will be generated.

If, after the FTE has been submitted and before the FTR is received, the asset is requested, a FTC (Cancellation of an Excess Report) will be generated for the quantity no longer excess. The Air Force Logistics Command agrees to research why the D035A system did not report assets as cited on page 13 of the report (complete action by Sep 92).

RECOMMENDATION 1 b., pg 23: Require primary inventory control activities to reduce purchase requirements for Phase II items based on assets reported by Secondary Inventory Control Activities (SICAs).

AIR FORCE COMMENTS: Concur with recommendation. Air Force PICAs will reduce purchase requirements for Phase II items reported by SICAs. Specific guidance will be issued by Air Force Logistics Command 60 days after the final report.

MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE (cont'd.)

RECOMMENDATION 1. c., pg 24: Require inventory control points to establish procedures and internal controls, including necessary followup, to ensure that requirements data exchange cards are sent to primary inventory control activities for all required items and that requirements data exchange cards are received for all items for which the inventory points are designated as the primary inventory control activity.

AIR FORCE COMMENTS: Concur with intent of recommendation. In the Air Force the ICPS are not responsible to ensure that RDECs are sent to the PICA activities. All RDEC requirements are centrally transmitted from Tinker AFB via AUTODIN. In 1991, the wrong tape was inadvertently transmitted (i.e., 30 Jun 91 data was transmitted instead of 30 Sep 91 data) and was the reason the auditor found items where the requirements (on the 30 Sep computation) did not match those sent to the PICA services (from 30 Jun). Every effort will be made to ensure that such an error does not recur. Guidance will be issued to the appropriate office at Tinker AFB by 2 Mar 92.

Regarding the receipt of SICA requirements and the inclusion of such requirements in our PICA computations, we have made efforts to ensure that these requirements are received and distributed to the appropriate item managers. A program is now available which will process the incoming SICA data, into a usable format, and print out products for distribution to the PICAs. A letter will be sent to the ICPS by 2 Mar 92, reminding them to process and distribute the data.

RECOMMENDATION 2, pg 24: Recommend that the Commanding General, U.S. Army Communications and Electronic Command; Commander, Sacramento Air Logistics Center; and Commanding General, Marine Corps Logistics Base, Albany, establish procedures for validation of requirements projections submitted to primary inventory control activities.

AIR FORCE COMMENTS: Concur with intent of recommendation. Procedures for validation of requirements projections submitted to Air Force PICAs will be reviewed. AFLCM 57-4 already requires and establishes procedures that all recoverable (including Phase II items) item requirements be validated. Air Force Logistics Command will revise existing procedures where appropriate to preclude invalid requirements.

RECOMMENDATION 2, pgs 36 and 37: Recommend that the Commanding General, the Army Material Command; Commander, Naval Supply System Command; Commander, Air Force Logistics Command; and the Marines Corps Deputy Chief of Staff (Installations and Logistics):

- a. Review Phase I items for inclusion into Phase II of the nonconsumable item program.

MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE (cont'd.)

- b. Eliminate inactive items from the program.
- c. Promptly input Depot Source Of Repair (DSOR) and other cataloging changes into the Defense Logistics Service Center (DLSC), Total Item Record (TIR).
- d. Incorporate all applicable interchangeable and substitutable items into the nonconsumable item program.

AIR FORCE COMMENTS 2. a., pgs 36 and 37: Concur with intent of recommendation. However, in AFLCR 400-21 there are sufficient procedures established to ensure that any potential Phase I items be reviewed for transfer into Phase II. The Air Force Logistics Command will propose a periodic review cycle for Phase I items. Once a specific time frame has been agreed to, the Air Force will propose this Phase I review cycle to the other services by November 1992.

AIR FORCE COMMENTS 2. b., pgs 36 and 37: Concur with intent of recommendation. A point of clarification is required, if an item has only one service user, then this item should be eliminated from the Wholesale Inventory Management and Logistics Support of Multiservice Used Nonconsumable Items Program, but not eliminated from the Supply System.

AIR FORCE COMMENTS 2. c., pgs 36 and 37: Concur with intent of recommendation. However, PICA and SICA DSOR codes not matching in the DLSC TIR are not always a problem. At this time, the DSOR codes are not used to ship assets for repair. The source for shipping instructions still lie with the individual applicable service record code, which in the Air Force is the Recoverable Item Movement Control System (RIMCS). In fact, if a ship to location of the SICA is different than the PICA, then this does not necessarily constitute a problem. Under certain conditions (NIMSC 4 and a Depot Maintenance Interservice Support Agreement) the SICA activity may repair their own items.

Request the auditors identify what data system was reviewed at SM-ALC and provide the stock numbers referenced. Air Force Logistics Command will investigate the findings to determine if a problem exists (complete action by Sep 92). Finally, in order to properly input cataloging data into the DLSC TIR, Air Force Logistics Command will determine whether deficiencies exist in Air Force policies, procedures or systems (complete action by Sep 92).

AIR FORCE COMMENTS 2. d., pgs 36 and 37: Concur with intent of recommendation. AFLCR 400-31, AFM 67-1 Vol 1, Part 1, Chapter 7 and AFLCR 72-2 implement the recommendation.

Request the auditors to identify what data system was reviewed at SM-ALC and provide the stock numbers identified as having variations of PICA and SICA relationships.

MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE (cont'd.)

Air Force Logistics Command will investigate the findings to determine if a problem exists (complete action by Sep 92).

LIST OF AUDIT TEAM MEMBERS

Shelton R. Young, Director, Logistics Support Directorate
Gordon P. Nielsen, Deputy Director
Charles F. Hoeger, Program Director
Joseph P. Golden, Project Manager
John W. Henry, Team Leader
Alexander L. McKay, Team Leader
John P. Ferrero, Auditor
David R. Hasz, Auditor
Alicia L. Mole, Auditor
Herman J. Tolbert, Auditor