

**A** *udit*



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ITEMS EXCLUDED FROM THE  
DEFENSE LOGISTICS AGENCY  
DEFENSE INACTIVE ITEM PROGRAM

Report No. D-2001-131

May 31, 2001

Office of the Inspector General  
Department of Defense

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<b>Abstract</b> This report, the third in a series of reports on obsolete national stock number (NSN) items, discusses NSNs excluded from the Defense Logistics Agency (DLA) Defense Inactive Item Program. Inspector General, DoD, Report No. D-2000-185, "Allegations to the Defense Hotline Concerning Management of Obsolete Reparable Items," September 7, 2000, discusses obsolete NSNs in Navy weapon system files. Inspector General, DoD, Report No. D-2001-035, "Management of Potentially Inactive Items at the Defense Logistics Agency," January 24, 2001, discusses obsolete NSNs in DLA supply files. The DLA Defense Inactive Item Program provides for the systematic elimination of inactive, or obsolete, NSNs from the DLA supply system. An NSN is considered obsolete if the NSN is inactive and there are no current or future requirements anticipated by any registered user or the integrated materiel manager of the NSN. Obsolete NSNs that are not deleted from the DoD supply system needlessly consume cataloging and supply system files, machine time, personnel resources, and warehouse space. Excluded from the Defense Inactive Item Program are NSNs with no registered users other than DLA and inhibited NSNs. DLA policy requires review of those NSNs. DLA supply records, excluding the clothing and textile, medical, and subsistence commodities, included 126,390 NSNs that were excluded from the DLA Defense Inactive Item Program.		<b>Monitoring Agency Acronym</b>
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### **Acronyms**

DIIP	Defense Inactive Item Program
DLA	Defense Logistics Agency
DMSMS	Diminishing Manufacturing Sources and Materiel Shortages
IIRC	Inactive Item Review Code
IM	Item Manager
NSN	National Stock Number
SAMMS	Standard Automated Materiel Management System



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
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May 31, 2001

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Items Excluded From the Defense Logistics Agency  
Defense Inactive Item Program (Report No. D-2001-131)

We are providing this report for review and comment. This report is one in a series addressing obsolete national stock number items in the DoD supply system. The Defense Logistics Agency did not respond to the draft report.

DoD Directive 7650.3 requires that all recommendations and unresolved issues be resolved promptly. Therefore, we request that the Defense Logistics Agency provide comments by July 2, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Tilghman A. Schraden at (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Terry Wing at (215) 737-3883 (DSN 444-3883) (twing@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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Acting Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. D-2001-131

(Project No. D1999LD-0028.002)

May 31, 2001

### Items Excluded From the Defense Logistics Agency Defense Inactive Item Program

#### Executive Summary

**Introduction.** This report, the third in a series of reports on obsolete national stock number (NSN) items, discusses NSNs excluded from the Defense Logistics Agency (DLA) Defense Inactive Item Program. Inspector General, DoD, Report No. D-2000-185, "Allegations to the Defense Hotline Concerning Management of Obsolete Repairable Items," September 7, 2000, discusses obsolete NSNs in Navy weapon system files. Inspector General, DoD, Report No. D-2001-035, "Management of Potentially Inactive Items at the Defense Logistics Agency," January 24, 2001, discusses obsolete NSNs in DLA supply files.

The DLA Defense Inactive Item Program provides for the systematic elimination of inactive, or obsolete, NSNs from the DLA supply system. An NSN is considered obsolete if the NSN is inactive and there are no current or future requirements anticipated by any registered user or the integrated materiel manager of the NSN. Obsolete NSNs that are not deleted from the DoD supply system needlessly consume cataloging and supply system files, machine time, personnel resources, and warehouse space. Excluded from the Defense Inactive Item Program are NSNs with no registered users other than DLA and inhibited NSNs. DLA policy requires review of those NSNs. DLA supply records, excluding the clothing and textile, medical, and subsistence commodities, included 126,390 NSNs that were excluded from the DLA Defense Inactive Item Program.

**Objectives.** Our overall audit objective was to evaluate the processes that the Military Departments and DLA used to identify and delete items in weapon system files that had obsolete NSNs. This report addresses DLA management of NSNs excluded from the DLA Defense Inactive Item Program. We also reviewed the management control program as it applied to the audit objective. Subsequent reports will address obsolete NSNs in Military Department and DLA supply system files.

**Results.** NSNs excluded from the Defense Inactive Item Program had not been reviewed to determine whether the NSNs were either obsolete or erroneously inhibited from the program. Random statistical samples indicated that 78,078 (84 percent) of 93,258 NSNs with no registered users other than DLA were obsolete and should have been deleted from the supply system and that 8,742 (26 percent) of 33,132 NSNs were

erroneously inhibited from the program. As a result, DLA was incurring unnecessary supply management costs and erroneously inhibited NSNs were not considered for inclusion in the program. Using a DLA cost study, we projected that DLA could avoid \$61.2 million of costs by eliminating unnecessary cataloging and supply system files and by reducing inventory for obsolete NSNs. For details on the audit results, see the Finding section of this report. See Appendix A for a discussion of our review of the management control program.

**Summary of Recommendations.** We recommend that the Director, DLA, establish controls to ensure NSNs with no registered users other than DLA are appropriately deleted from the supply system and to ensure that NSNs inhibited from the inactive item program are reviewed on a regular basis to determine whether the exclusions are valid.

**Management Comments.** We provided a draft of this report on March 23, 2001. DLA did not respond to the draft report. Therefore, we request that DLA provide comments in response to the final report by July 2, 2001.

# Table of Contents

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<b>Executive Summary</b>	i
<b>Introduction</b>	
Background	1
Objectives	2
<b>Finding</b>	
Items Excluded From the Defense Inactive Item Program	3
<b>Appendixes</b>	
A. Audit Process	
Scope	8
Methodology	9
Management Control Program Review	11
Prior Coverage	12
B. Report Distribution	13

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## Background

This report, the third in a series of reports on obsolete national stock number (NSN) items, discusses NSNs excluded from the Defense Logistics Agency (DLA) Defense Inactive Item Program (DIIP). Inspector General, DoD, Report No. D-2000-185, "Allegations to the Defense Hotline Concerning Management of Obsolete Repairable Items," September 7, 2000, discusses obsolete NSNs in Navy weapon system files. Inspector General, DoD, Report No. D-2001-035, "Management of Potentially Inactive Items at the Defense Logistics Agency," January 24, 2001, discusses obsolete NSNs in DLA supply files.

**DLA Materiel Management.** DLA supply centers are assigned the primary responsibility for materiel management for a group of items used by either a particular Service or by DoD as a whole. Materiel management responsibilities include cataloging,<sup>1</sup> requirements computation, procurement direction, distribution management, and disposal direction. DLA supply centers manage more than 4.1 million NSNs and support more than 1,400 weapon systems.

**DoD Guidance.** DoD Manual 4140.32-M, "Defense Inactive Item Program (DIIP)," August 1992, states that items no longer needed to support the mission of DoD organizations, other Federal agencies, or the International Logistics Program needlessly consume cataloging and supply system files, machine time, personnel resources, and warehouse space with serious effect on the total supply system. DoD managers at every level are expected to place serious and continuous emphasis on the purging of unneeded items from the materiel inventory and active catalog files. The manual requires DoD organizations to consider those items having no demand for 5 years or more for inclusion in the DIIP.

**DLA Guidance.** DLA Manual 4140.2, "Supply Operations Manual," July 1, 1999, provides policy, uniform guidance, and procedures for DLA supply centers to systematically review and eliminate inactive, or obsolete, items of supply from the DLA supply system. An item is considered obsolete if the NSN is inactive and there are no current or future requirements anticipated by any registered user or the integrated materiel manager of the NSN. The manual requires that the commander of each supply center designate a DIIP monitor to act as the focal point for all matters concerning the DIIP. DIIP monitor responsibilities include reviewing NSNs excluded from the DIIP; initiating timely actions to delete an obsolete item from the DLA supply system after user interest has been withdrawn; and assessing the overall progress and effectiveness of the DIIP.

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<sup>1</sup> The act of naming, classifying, describing, and numbering each item repetitively used, purchased, stocked, or distributed so as to distinguish each item from every other item. Also, included is the maintenance of information related to the item and the dissemination of that information to item users.

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**DLA DIIP.** The DIIP provides for the systematic elimination of obsolete NSNs from the DLA supply system. DLA uses inactive item review codes (IIRC) to indicate the status of NSNs in the DIIP. NSNs assigned IIRCs of X or P are excluded from the DIIP.

**IIRC-X NSNs.** When all users have withdrawn their interest and their requirements for an NSN, the DLA Standard Automated Materiel Management System (SAMMS) assigns DLA as a user for the NSN to preclude it from automatically being deleted from the supply system and assigns the NSN an IIRC of X. Each month, SAMMS checks each IIRC-X NSN against supply data to determine whether the decision to retain or delete the NSN from the DLA supply system requires item manager (IM) review. If IM review is required, supply data is sent to the IM. If IM review is not required, SAMMS should automatically delete DLA as a user of the item and initiate actions to delete the item. As of March 2000, DLA supply records, excluding the clothing and textile, medical, and subsistence commodities, included 93,258 IIRC-X NSNs.<sup>2</sup>

**IIRC-P NSNs.** DLA inhibits NSNs from the DIIP by assigning an IIRC of P. DLA inhibits NSNs from the DIIP for several reasons, including when an NSN is in the Diminishing Manufacturing Sources and Materiel Shortages (DMSMS) program. DMSMS refers to the loss or impending loss of manufacturers of items or suppliers of items or raw materials. As of July 2000, there were 33,132 IIRC-P NSNs in DLA supply records, excluding the clothing and textile, medical, and subsistence commodities.

## Objectives

Our overall audit objective was to evaluate the processes that the Military Departments and DLA used to identify and delete items in weapon system files that had obsolete NSNs. This report addresses DLA management of NSNs excluded from the DIIP. We also reviewed the management control program as it applied to the audit objective. Subsequent reports will address obsolete NSNs in Military Department and DLA supply system files. See Appendix A for a discussion of the audit scope and methodology, our review of the management control program, and prior audit coverage.

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<sup>2</sup> NSNs for which the “date of last demand” field in the supply record indicated a demand within the last 5 years were excluded. Included in the 93,258 IIRC-X NSNs are those with no date in the date of last demand field.

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## Items Excluded From the Defense Inactive Item Program

NSNs excluded from the DIIP had not been reviewed to determine whether IIRC-X NSNs were obsolete and whether IIRC-P NSNs were erroneously inhibited from the DIIP. Random statistical samples indicated that 78,078 (84 percent) of the 93,258 IIRC-X NSNs were obsolete and should have been deleted from the supply system and that 8,742 (26 percent) of the 33,132 IIRC-P NSNs were erroneously inhibited from the DIIP. Those problems occurred because management controls for the DIIP were ineffective: DLA systems were not working as intended and did not provide complete information to DIIP monitors; the DIIP was perceived as a low priority; and DIIP monitors did not regularly review IIRC-P NSNs. As a result, DLA was incurring unnecessary supply management costs and erroneously inhibited NSNs were not considered for inclusion in the DIIP. Using a DLA cost study, we projected that DLA could avoid \$61.2 million of costs by eliminating unnecessary cataloging and supply system files and by reducing inventory for obsolete NSNs.

### DIIP Process

**Selection of NSNs.** Each year, SAMMS screens all NSNs in the DLA supply centers' supply control file to determine the NSNs that are eligible for the DIIP. Two criteria for determining eligible NSNs are that the NSN has been in the Federal Supply System for 7 years and that the NSN has experienced no demand in the past 2 years. After eligible NSNs have been identified, SAMMS screens the NSNs against catalog and supply data to determine whether they should be excluded from the DIIP. NSNs are excluded from the DIIP for various reasons, including when an NSN is assigned an IIRC of either X or P. NSNs that are included in the DIIP are referred to registered users, primarily the Military Departments. The Military Departments are required to review the NSNs referred by DLA and notify the supply centers to either delete or retain the NSNs.

**IIRC-X NSNs.** DLA Manual 4140.2 provides that SAMMS automatically delete DLA as a user of IIRC-X NSNs and initiate actions to delete the NSNs from the supply system. Additionally, if the NSNs have stock on hand or assets due in, IMs are provided supply data to review to cancel any due-in assets and initiate disposal action for any stock on hand.

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**IIRC-P NSNs.** DLA Manual 4140.2 requires that supply center personnel (DIIP monitors and IMs) review IIRC-P NSNs each year and that DLA supply center and headquarters personnel perform periodic audits to determine whether the reasons for inhibiting NSNs from the DIIP are valid. When the reason for assigning an IIRC of P to an NSN is no longer valid, the DIIP monitor changes the IIRC to N and the NSN is then considered for inclusion in the DIIP.

## **Review of Excluded NSNs**

NSNs excluded from the DIIP had not been reviewed to determine whether IIRC-X NSNs were obsolete and whether IIRC-P NSNs were erroneously inhibited from the DIIP.

We reviewed random statistical samples of 120 of 93,258 IIRC-X NSNs and 110 of 33,132 IIRC-P NSNs. We discussed each sample NSN with responsible DLA personnel to determine whether the NSNs had been reviewed in accordance with DLA procedures, and, if not reviewed, whether the NSNs were either obsolete or erroneously inhibited from the DIIP. We concluded that the required reviews had not been made, primarily because management controls were ineffective. Projecting across the sample universes, 78,078 (84 percent) of the 93,258 IIRC-X NSNs were obsolete and should have been deleted from the supply system and 8,742 (26 percent) of the 33,132 IIRC-P NSNs were erroneously inhibited from the DIIP. Appendix A provides a detailed discussion of the sampling methodology and projected audit results.

## **Management Controls**

Management controls to ensure that IIRC-X and IIRC-P NSNs were reviewed to identify NSNs that were either obsolete or erroneously inhibited from the DIIP were ineffective because SAMMS was not working as intended and did not provide complete information to DIIP monitors; the DIIP was perceived as a low priority; and DIIP monitors did not regularly review IIRC-P NSNs.

**SAMMS.** SAMMS did not automatically delete IIRC-X NSNs from the supply system and did not provide sufficient information to DIIP monitors to alert them that it was not working as intended. Our analysis of supply data showed the SAMMS problem had existed for a considerable period of time. Of the 93,258 IIRC-X NSNs, 46,037 (49 percent) had an inactive item review date prior to 1998. Additionally, there were no reports available to DIIP monitors to show the specific IIRC-X NSNs and the length of time the NSNs had been in an

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IIRC-X status. That type of information would be useful in monitoring and improving the DIIP and would have alerted DIIP monitors of the SAMMS problem.

**DIIP Priority.** We discussed the lack of NSN reviews with IMs at the DLA supply centers, and they stated that reviewing IIRC-X and IIRC-P NSNs was not a high priority. The IMs primarily concentrated on managing NSNs that had current or future requirements. The IMs were not aware that IIRC-X NSNs had not been automatically deleted and generally could not provide us with valid reasons why IIRC-P NSNs were inhibited from the DIIP.

**DIIP Monitors and IIRC-P NSNs.** DIIP monitors had not reviewed IIRC-P NSNs and DLA headquarters and supply center personnel had not conducted periodic audits of the NSNs to validate that the reasons for inhibiting them from the DIIP remained valid. Of the 33,132 IIRC-P NSNs, 7,625 (23 percent) had an inactive item review date prior to 1998.

NSNs can be inhibited from the DIIP under the DMSMS program. DMSMS situations occur when manufacturers of items or suppliers of raw materials cease operations, making procurement of additional systems and spare parts impossible. DMSMS situations can also preclude repair of equipment. The DMSMS program requires on-hand and due-in stocks to be conserved by limiting automatic issues and challenging excessive requisitions. Although DMSMS can be a valid reason for inhibiting NSNs from the DIIP, the NSN should have on-hand or due-in stock to qualify for the program. Among our sample of 110 IIRC-P NSNs were 8 that the Defense Supply Center Columbus had inhibited from the DIIP under the DMSMS program, although the supply records for those NSNs showed no on-hand or due-in stock that needed to be conserved. Hence, there was no valid reason for inhibiting the eight NSNs.

## **Supply Center Actions**

When we notified the DLA supply centers of the problems identified during the audit, the centers took positive management actions to correct the problems. Regarding the required annual review of IIRC-P NSNs, the Defense Supply Center Philadelphia developed and is using a monthly web-based program to assist IMs in reviewing NSNs and processing the appropriate IIRCs; the Defense Supply Centers Columbus and Richmond are in the process of automating the review process. Regarding the review of IIRC-X NSNs, the supply centers have identified the cause of SAMMS not automatically deleting IIRC-X NSNs and are in the process of correcting the problem.

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## Cost of Maintaining Inactive NSNs

In September 1999, the DLA Office of Operations Research and Resource Analysis published a study to provide cost data in support of item reduction studies. The study included cost avoidance data for eliminating an existing NSN from the DLA supply system. The following table shows the results of the study.

### Cost of Maintaining NSNs

<u>Category</u>	<u>Cost</u>
Average annual cost to maintain a stocked NSN	\$ 400
Average annual cost to maintain a non-stocked NSN	200
Average cost to delete a stocked or non-stocked NSN	57
Remaining life-cycle cost avoided by eliminating a stocked NSN	1,495
Remaining life-cycle cost avoided by eliminating a non-stocked NSN	747

Using the cost data from the DLA study, we projected \$61.2 million could be avoided if the 78,078 IIRC-X NSNs we projected to be obsolete were deleted from the supply system. To calculate the \$61.2 million, we determined how many of the 78,078 NSNs were stocked and how many were non-stocked and multiplied the number of NSNs in each category by the appropriate remaining life-cycle cost. The average life cycle of the 78,078 NSNs that were deleted was 4 years. From the combined total, we subtracted the cost to delete each NSN from the supply system to determine the net cost avoidance.

We updated our March 2000 database of NSNs with no registered users other than DLA in December 2000 and found that the number of IIRC-X NSNs had increased to 102,538. Therefore, the number of NSNs that should be deleted and the projected monetary benefits will be greater than the \$61.2 million identified by the audit.

## Recommendations

We recommend that the Director, Defense Logistics Agency, establish controls:

1. To ensure that the Standard Automated Materiel Management System automatically deletes the Defense Logistics Agency as a user of national stock number items with an inactive item review code of X and initiates action to delete the items from the supply system. Those controls should include:

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a. Providing Defense Inactive Item Program monitors with a list of all national stock numbers with an inactive item review code of X and the length of time each national stock number has had that inactive item review code.

b. Requiring Defense Inactive Item Program monitors to perform periodic evaluations of national stock number items with an inactive item review code of X to ensure those items are being appropriately deleted.

2. To ensure that national stock number items with an inactive item review code of P are reviewed on a regular basis to validate the rationale for inhibiting the items from the Defense Inactive Item Program. Those controls should ensure that national stock number items inhibited because of the Diminishing Manufacturing Sources and Materiel Shortages program have stock on hand or due in.

## **Management Comments Required**

DLA did not comment on the draft report. We request that DLA provide comments on the final report.

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## Appendix A. Audit Process

### Scope

We reviewed random statistical samples of 120 of 93,258 IIRC-X NSNs to determine whether the NSNs were obsolete and 110 of 33,132 IIRC-P NSNs to evaluate the rationale for inhibiting the NSNs from the DIIP. NSNs were taken from DLA supply records, excluding the clothing and textile, medical, and subsistence commodities, as of March 2000 (IIRC-X NSNs) and July 2000 (IIRC-P NSNs). For each NSN in our sample, we interviewed the responsible Defense Supply Center IM to determine whether the NSN was either obsolete or erroneously inhibited from the DIIP. We interviewed IMs located at all three Defense Supply Centers: Columbus, Ohio; Philadelphia, Pennsylvania; and Richmond, Virginia. We interviewed DIIP monitors at each of the three supply centers to determine their role in the process to ensure that the DIIP was working as intended. The documents we reviewed included DLA standard operating procedures, DoD and DLA guidance, catalog files, demand histories, and supply records and were dated from August 1992 through January 2001.

**DoD-Wide Corporate Level Government Performance and Results Act Coverage.** In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measure.

**FY 2001 DoD Corporate Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

**FY 2001 Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. **(01-DoD-2.3) FY 2001**

**Performance Measure 2.3.6:** Disposal of excess National Defense Stockpile inventory and reduction of supply inventory. **(01-DoD-2.3.6)**

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

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

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

## Methodology

We reviewed random statistical samples of 120 of 93,258 IIRC-X NSNs to determine whether the NSNs were obsolete and 110 of 33,132 IIRC-P NSNs to evaluate the rationale for inhibiting the NSNs from the DIIP.

**Use of Computer-Processed Data.** We relied on computer-processed data provided by DLA to determine NSNs assigned IIRCs of X or P. We did not perform a formal reliability assessment of the computer-processed data. However, to the extent that we reviewed the data, we did not find any errors that would preclude use of the data to meet the audit objectives or that would change the conclusions in this report.

**Universe and Sample.** DLA provided the audit team databases of NSNs assigned IIRCs of X or P. The database of IIRC-X NSNs was provided from March 2000 supply records of NSNs, excluding those in the clothing and textile, medical, and subsistence commodities, for which the “date of last demand” field in SAMMs either indicated no demand for more than 5 years or was blank. That database contained 93,258 NSNs. The database of IIRC-P NSNs was from July 2000 supply records, excluding clothing and textile, medical, and subsistence commodities. That database contained 33,132 NSNs.

**Statistical Sampling Methodology.** The purpose of the statistical sampling plan was to estimate the number of IIRC-X NSNs that were obsolete and the number of IIRC-P NSNs that were erroneously inhibited from the DIIP. The sampling design used to determine whether or not NSNs were obsolete or erroneously inhibited from the DIIP was a stratified attribute design. The universes were distributed across four locations. SAMMS identified one location as the Defense Electronics Supply Center, even though the center had been disestablished and management of NSNs managed by the center had been assumed by the Defense Supply Center Columbus. Tables A-1 and A-2 show the distribution of the NSNs from the universe and in our samples at each of the

four locations (Defense Electronics Supply Center [DESC], Defense Supply Center Columbus [DSCC], Defense Supply Center Philadelphia [DSCP], and Defense Supply Center Richmond [DSCR]).

**Table A-1. IIRC-X NSNs**

<u>Location</u>	<u>Universe</u>	<u>Sample</u>
DESC	34,240	45
DSCC	23,772	30
DSCP	7,429	30
DSCR	<u>27,817</u>	<u>15</u>
<b>Total</b>	<b>93,258</b>	<b>120</b>

**Table A-2. IIRC-P NSNs**

<u>Location</u>	<u>Universe</u>	<u>Sample</u>
DESC	29,780	60
DSCC	298	15
DSCP	2,752	20
DSCR	<u>302</u>	<u>15</u>
<b>Total</b>	<b>33,132</b>	<b>110</b>

Of the 120 IIRC-X NSNs reviewed, 100 were obsolete, and of the 110 IIRC-P NSNs, 51 were erroneously excluded from the DIIP. Based on the sample results for the IIRC-X NSNs, we projected with a 95-percent confidence level that between 71,865 and 84,290 of the 93,258 IIRC-X NSNs in the universe should be deleted from the supply system. The midpoint of that range is 78,078 NSNs. Likewise, we projected with a 95-percent confidence level that between 5,559 and 11,925 of the 33,132 IIRC-P NSNs were erroneously inhibited from the DIIP. The midpoint of that range is 8,742 NSNs.

**Use of Technical Assistance.** Personnel in the Quantitative Methods Division, Office of the Assistant Inspector General for Auditing, DoD, developed the statistical sampling plan and selected the random sample for this audit.

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**Audit Type, Dates, and Standards.** This economy and efficiency audit was performed from October 2000 through February 2001 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

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

## **Management Control Program Review**

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of DLA management controls over the review of IIRC-X NSNs and IIRC-P NSNs. We reviewed management's self-evaluation applicable to those controls.

**Adequacy of Management Controls.** As defined by DoD Instruction 5010.40, we identified material management control weaknesses in the review of IIRC-X NSNs and IIRC-P NSNs to determine whether IIRC-X NSNs should be deleted from DLA supply system files and to determine whether reasons for inhibiting IIRC-P NSNs were valid. Management controls were not effective to ensure that IIRC-X NSNs and IIRC-P NSNs were reviewed. Recommendations 1. and 2. in this report, if implemented, will correct the material weaknesses and could result in potential monetary benefits in excess of \$61.2 million. A copy of the report will be provided to the senior official responsible for management controls in DLA.

**Adequacy of Management's Self-Evaluation.** DLA did not identify reviewing IIRC-X and IIRC-P NSNs as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

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## **Prior Coverage**

During the past 5 years, the Inspector General, DoD, and the Air Force Inspection Agency have issued reports discussing obsolete NSNs. Unrestricted Inspector General, DoD, reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

### **Inspector General, DoD**

Inspector General, DoD, Report No. D-2001-035, "Management of Potentially Inactive Items at the Defense Logistics Agency," January 24, 2001

Inspector General, DoD, Report No. D-2000-185, "Allegations to the Defense Hotline Concerning Management of Obsolete Repairable Items," September 7, 2000

### **Air Force**

Air Force Inspection Agency, Report No. PN 00-502, "Purging Obsolete Aircraft Major-End Items," September 19, 2000

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Deputy Under Secretary of Defense (Logistics and Materiel Readiness)  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

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

### **Other Defense Organizations**

Director, Defense Logistics Agency  
Commander, Defense Supply Center Columbus  
Commander, Defense Supply Center Philadelphia  
Commander, Defense Supply Center Richmond

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Efficiency, Financial Management, and

Intergovernmental Relations, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International

Relations, Committee on Government Reform

House Subcommittee on Technology and Procurement Policy, Committee on

Government Reform

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