

September 18, 2002



Supply Inventory Management

Defense Logistics Agency Managed
Items Supporting Air Force Weapon
Systems
(D-2002-149)

Department of Defense
Office of the Inspector General

Quality

Integrity

Accountability

Report Documentation Page

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Acronyms

ALC	Air Logistics Center
DIIP	Defense Inactive Item Program
DLA	Defense Logistics Agency
IIRN	Inactive Item Review Notification
NSN	National Stock Number
SAMMS	Standard Automated Materiel Management System



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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September 18, 2002


MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on Defense Logistics Agency Managed Items Supporting
Air Force Weapon Systems (Report No. D-2002-149)

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

Comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Tilghman A. Schraden (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Terrance P. Wing at (215) 737-3883 (DSN 444-3883) (twing@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.


David K. Steensma
Deputy Assistant Inspector General
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Office of the Inspector General of the Department of Defense

Report No. D-2002-149

(Project No. D2001LD-0128.002)

September 18, 2002

**Defense Logistics Agency Managed Items Supporting
Air Force Weapon Systems**

Executive Summary

Who Should Read This Report and Why? DoD personnel who are involved in materiel management should read this report. The report discusses compliance with procedures used to ensure that national stock number (NSN) items are not inappropriately deleted from the Defense Logistics Agency (DLA) supply system.

Background. This report, the last in a series of reports on terminal NSNs, addresses an Air Force concern that NSNs supporting Air Force weapon systems were inappropriately deleted from the DLA supply system. Since 1991, the Air Force transferred management of about 494,000 NSNs to DLA. Of the 494,000 NSNs transferred, 92,000 were subsequently deleted from the supply system.

DLA established the weapon system support program to enhance the readiness and sustainability of the Military Departments by providing the maximum level of support for DLA-managed NSNs with a weapon system application. Personnel at DLA supply centers are required to notify the Military Departments when, as a result of the DLA Defense Inactive Item Program process, DLA initiates actions to delete NSNs in the weapon system support program. The DLA Defense Inactive Item Program provides for the systematic elimination of inactive, or obsolete, NSNs from the DLA supply system. As of March 2002, 308 Air Force weapon systems were in the DLA weapon system support program.

Results. DLA and Air Force Defense Inactive Item Program procedures were not being followed and NSNs required to support Air Force weapon systems had been inappropriately deleted from the supply system. Air Force personnel reviewed 756 NSNs associated with 8 Air Force weapon systems that we judgmentally selected to determine whether NSNs deleted from the DLA supply system were still required. Of the 756 NSNs, the Air Force identified 571 that had been inappropriately deleted from the DLA supply system. As a result, NSNs were not available to support Air Force weapon systems and Air Force weapon system readiness could be adversely affected. Additionally, DLA disposed of assets, valued at \$153,000, that were required to support Air Force weapon systems, and DLA and the Air Force will incur unnecessary supply management costs to reinstate catalog and supply files for inappropriately deleted NSNs.

Establishment of controls to comply with existing Defense Inactive Item Program procedures should ensure that NSNs are not inappropriately deleted from the supply system. (See the Finding section for the detailed recommendations.)

Management Comments. DLA and the Air Force concurred with the recommendations. DLA stated that it had frozen assets to prevent disposal if an NSN was canceled as a result of the Defense Inactive Item Program and the Air Force was a user of the item. DLA further stated that the Air Force is reviewing NSNs canceled through the Defense Inactive Item Program to determine those NSNs that require reinstatement. The Air Force stated that it is monitoring revised Defense Inactive Item Program procedures and tracking the progress of the Defense Inactive Item Program review process. The Air Force further stated that when DLA establishes procedures to notify it of the pending deletion of NSNs that are in the weapon system program, it will establish a system to review the NSNs before they are deleted from the supply system. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Management Actions. DLA and the Air Force have taken actions to improve the DLA Defense Inactive Item Program process. DLA and the Air Force are in the process of reinstating approximately 20,000 NSNs with Air Force interest that had been deleted from the supply system during the FY 2000 and FY 2001 DLA Defense Inactive Item Program processes. Reinstated NSNs will be included in the DLA Defense Inactive Item Program in the future. On January 29, 2002, DLA requested that its supply centers not send assets to disposal for those NSNs that had Air Force user interest withdrawn through the Defense Inactive Item Program. The Air Force has revised its procedures for responding to DLA Defense Inactive Item Program transactions. (See the Finding section for a discussion of management actions.)

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Background

Materiel Management. Defense Logistics Agency (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,¹ requirements computation, procurement direction, distribution management, and disposal direction.

DoD Defense Inactive Item Program 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 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. DLA is assigned the responsibilities of administering the DIIP and reviewing and evaluating the operations of the DIIP on a continuous basis.

DLA DIIP Procedures. 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 through the DLA DIIP. In the DIIP, DLA supply centers send potentially inactive national stock number (NSN) items to registered users, primarily the Military Departments, to review and notify the supply centers to either delete or retain the NSNs.

DLA Manual 4140.3, “Materiel Management Manual,” August 1988, provides guidance for the management of items in the DLA weapon system support program. DLA established the weapon system support program to enhance the readiness and sustainability of the Military Departments by providing the maximum level of support for DLA-managed NSNs with a weapon system application. When DLA initiates actions to delete NSNs in the weapon system support program as a result of the DIIP process, the manual requires that the supply center monitor for the weapon system support program notify the Military Departments to obtain their concurrence or nonconcurrence. As of March 2002, 308 Air Force weapon systems were in the DLA weapon system support program.

Air Force DIIP Procedures. Air Force Manual 23-110, “United States Air Force Supply Manual,” January 1, 2002, provides policy and procedures for Air Force

¹ 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.

organizations to respond to the DLA DIIP. The Air Force cataloging office, Air Force Logistics Command, is responsible for directing and administering the DIIP within the Air Force.

Objectives

The overall audit objective for this series of reports was to evaluate the DLA management of terminal NSN items. This report, the last in the series, addresses an Air Force concern that NSNs supporting Air Force weapon systems were inappropriately deleted from the DLA supply system. We also reviewed the management control programs as they applied to the audit objective. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program, and see Appendix B for prior coverage related to the audit objectives.

Items Supporting Air Force Weapon Systems

DLA and Air Force DIIP procedures were not being followed and NSNs required to support Air Force weapon systems had been inappropriately deleted from the supply system. Air Force personnel reviewed 756 NSNs associated with 8 Air Force weapon systems that we judgmentally selected to determine whether NSNs deleted from the DLA supply system were still required. Of the 756 NSNs, the Air Force identified 571² that had been inappropriately deleted from the DLA supply system. Those conditions occurred because DLA and Air Force management controls to ensure that NSNs were not inappropriately deleted from the DLA supply system were ineffective. As a result, NSNs were not available to support Air Force weapon systems and Air Force weapon system readiness could be adversely affected. Additionally, DLA disposed of assets, valued at \$153,000, that were required to support Air Force weapon systems, and DLA and the Air Force will incur unnecessary supply management costs to reinstate catalog and supply files for inappropriately deleted NSNs.

DIIP Process

DLA. Each October, the DLA Standard Automated Materiel Management System (SAMMS) screens all NSNs in the DLA supply centers' supply control files to determine the NSNs that are eligible for the DIIP. After eligible NSNs have been identified, SAMMS screens the NSNs against catalog and supply data to determine whether the NSNs qualify for the DIIP. NSNs with registered users, primarily the Military Departments, qualify for the DIIP and are referred to the Military Departments to review the NSNs and notify the supply centers to either delete or retain the NSNs. Referrals are made using an inactive item review notification (IIRN). A Military Department receives an IIRN for each NSN that shows it as a registered user. If a Military Department does not respond to an IIRN by May of the following year, the supply centers send a followup IIRN. If the supply centers do not receive a reply within 60 days of the date of the followup IIRN, the supply centers will remove the Military Department as a registered user. If there are no registered users of an NSN, the supply centers initiate the process to delete the NSN from the DLA supply system.

² Judgment sample does not generalize to universe.

Air Force. Air Force Manual 23-110 provides that the Air Force cataloging office receive and process IIRNs to and from DLA. The cataloging office is required to transmit the IIRNs to Air Logistics Centers (ALCs). ALCs provide worldwide logistics management and depot-level maintenance for Air Force weapon systems. The ALCs send the IIRNs to Air Force users for their review to determine whether NSNs should be retained or deleted. After the users' review, IIRNs are sent back to the ALCs for further processing and validation of user decisions to delete NSNs.

NSNs Deleted From the Supply System

DLA-managed NSNs supporting Air Force weapon systems were inappropriately deleted from the DLA supply system. We selected a judgmental sample of 3,102 NSNs associated with 8 Air Force weapon systems for the Air Force to review to determine whether NSNs deleted from the DLA supply system were still required. Six of the weapon systems were coded in the DLA weapon system support program as those that are most critical to the Air Force. The six systems included the E-3A Airborne Warning and Control System, the C-141 *Starlifter*, and the F-15 *Eagle*.

Because of the amount of time required to research the NSNs, Air Force personnel only reviewed 756 of the 3,102 NSNs that were provided to them and identified 571 that had been inappropriately deleted from the DLA supply system. Air Force personnel explained that reviewing the NSNs was a labor-intensive effort because information on the NSNs was no longer in the Air Force supply system and had to be manually researched. Information is automatically deleted from Air Force systems by electronic transactions from DLA. When DLA deletes an NSN from its supply system, DLA also sends a transaction to the Air Force that deletes the NSN from the Air Force supply system. The Air Force should review those transactions before allowing the NSN to be deleted from the supply system.

Air Force personnel stated they believed that the number of NSNs inappropriately deleted from the supply system was significant because of longstanding problems with Air Force responses to the DLA DIIP. Air Force personnel stated that since 1991 the Air Force had transferred management of about 494,000 NSNs to DLA, of which approximately 92,000 were subsequently deleted from the DLA supply system. Air Force personnel were concerned that the deletion of those NSNs may have a serious impact on readiness.

-
- In February 2001, an ALC equipment specialist stated that many of the items transferred to DLA for management that were unique to Air Force weapon systems were being disposed of, which was why the Air Force was in so much trouble trying to support its customers. Our analysis of DLA disposal records associated with the 571 NSNs that Air Force personnel stated had been inappropriately deleted indicated that \$153,000 of assets were sent to property disposal.
 - On August 14, 2001, the program manager for the Air Launched and Advanced Cruise Missile weapon systems wrote a memorandum to DLA concerning the continued decline of DLA support for the systems. In the memorandum, he stated that approximately 90 percent of the 2,500 NSNs transferred to DLA had already been coded terminal in Air Force systems and his office had never received any prior notice that the NSNs were coded terminal. He further stated that the Air Force was granted disposal exemption for the weapon systems several years ago, but he continued to experience NSN terminations and asset disappearances. He also told DLA that he could not allow system disconnects or inapplicable generic logic to degrade his mission any longer.
 - In October 2001, the program manager for the B-2 *Stealth* bomber stated that hundreds of DLA-managed NSNs supporting the B-2 had been terminated over the last several years without the knowledge or coordination of affected Air Force organizations. The program manager stated that the vast majority of the terminations had most likely been a direct result of a breakdown in the DLA DIIP process.

We noted a specific instance where NSN 1560-01-317-0218 (aircraft frame), supporting the E-3A aircraft, had been inappropriately deleted from the DLA supply system sometime after March 2000. The NSN was reinstated in the supply system on July 11, 2001. As of March 2000, DLA supply records showed that the NSN had no registered users and the NSN was assigned an inactive item review code of “Y” (item manager review required to retain or delete). Air Force personnel identified the NSN as a critical asset to the operation of the aircraft and the DLA weapon system file showed that the “failure of this part will make the end item inoperable.” As of May 7, 2002, three requisitions from the Air Force Oklahoma Distribution Depot for a total quantity of six of the NSN were on backorder. Each requisition was coded with a priority designator 02. Priority designator 02 is used to identify requirements for immediate installation on, or repair of, mission-essential materiel and without which the force or organization is unable to perform its assigned operational mission.

Management Controls

DLA and Air Force management controls to ensure that NSNs were not inappropriately deleted from the DLA supply system were ineffective. DLA item managers and DLA weapon system support program monitors did not have procedures to ensure compliance with applicable guidance to preclude the deletion of NSNs supporting Air Force weapon systems from the DLA supply system. Additionally, Air Force management controls did not effectively ensure that DLA DIIP IIRN transactions were reviewed and promptly returned to DLA.

Item Managers. DLA item managers did not comply with DLA Manual 4140.2. DLA Manual 4140.2 requires that the item manager contact the supply center weapon system support program monitor to coordinate the deletion of the code that identifies the NSN as a weapon system item. That procedure precludes the automatic deletion of assets on hand without proper notification to users, and it precludes the erroneous deletion of an NSN from supply files and the subsequent need for reactivation. DLA item managers stated that the proper coordination was not done, primarily because the coordination was not a required part of the automated decision process for deleting an NSN.

Weapon System Support Program Monitor. DLA weapon system support program managers did not comply with DLA Manual 4140.3. DLA Manual 4140.3 requires that supply center weapon system program managers notify the Military Departments when actions are initiated to delete NSNs in the weapon system program. Supply center weapon system program monitors stated that they were not aware of the requirement and that DLA did not have detailed procedures that described how and when the NSNs should be sent to the Military Departments or how the Military Departments should indicate their concurrence or nonconcurrence to DLA.

Air Force Responses to DLA IIRNs. Air Force personnel did not comply with Air Force Manual 23-110. Air Force Manual 23-110 requires the cataloging office to transmit the IIRNs from DLA to ALCs. The ALCs then send the IIRNs to Air Force users for their review. The Air Force stated that it had significant problems in complying with Air Force DIIP procedures. Those problems included not responding directly to DLA on DIIP IIRNs and not forwarding the IIRNs to the appropriate users for their decision on whether to retain or delete the NSNs. The problems are longstanding. For example, at one ALC, personnel informed us that they had not been involved in the DIIP for the last 8 years.

Management Actions

DLA Management Actions. DLA and the Air Force officials stated that actions had been initiated to reinstate approximately 20,000 NSNs with Air Force user interest that had been deleted from the supply system during the FY 2000 and FY 2001 DLA DIIP processes. According to Air Force personnel, DLA required that the Air Force complete a supply support request for each NSN to be reinstated in the supply system. A supply support request is used to inform DLA of the user's projected requirements and obtain future logistics support for those requirements. Air Force personnel indicated that the process was labor-intensive and costly. DLA personnel stated that the Defense Logistics Information Service could easily reactivate NSNs because it maintains cataloging records for a period of time after NSNs are deleted from supply center files. DLA should consider the complete process in determining the most efficient and cost-effective method to reinstate catalog and supply files for NSNs that had been inappropriately deleted from the supply system.

On January 29, 2002, DLA requested that its supply centers not send assets to disposal for those NSNs for which Air Force user interest had been withdrawn through the DIIP. Additionally, DLA is in the process of restoring the Air Force as a registered user for 70,000 NSNs that had had Air Force user interest withdrawn but which had not been deleted from the supply system. The 70,000 NSNs would have been deleted from the supply system if the Air Force had been the only registered user. The 70,000 NSNs had not been deleted because there was other Military Department interest in the NSNs. NSNs that will be reinstated or that had Air Force user interest restored will be included in future DLA DIIP processes.

Air Force Management Actions. The Air Force began corrective action during the audit by revising its procedures for responding to DLA DIIP transactions. For the FY 2002 DIIP, the Air Force instituted actions that included changes to its computer system and revisions to the process of sending IIRNs to NSN users for review. Because of the changes, IIRNs transmitted by DLA are now received automatically by the Air Force Master Item Identification Control System (D043). If the D043 system indicates that the Air Force is a registered user of an NSN, the system will automatically transmit to DLA an IIRN notifying DLA to retain the NSN (a retain notification). If the D043 system does not indicate that the Air Force is a registered user, the system will transmit the IIRN to the Stock Number Users Directory System (D071).

The D071 determines whether any Air Force bases have an interest in an NSN. If there is interest, a retain notification is transmitted to DLA. When there is no Air Force base interest, the IIRN is transmitted to the Edit and Routing System (D043C). The D043C system then transmits the IIRN to the appropriate ALC

equipment specialist for review. When an equipment specialist cannot be identified, the system transmits the IIRN to the ALC DIIP monitor for review. If after 145 days there is no response by the equipment specialist or DIIP monitor to delete or retain the NSN, the D043C automatically generates a retain notification to DLA. The new procedure is an improvement toward preventing NSNs from being inappropriately deleted, but does not provide any incentive or assurance that personnel will make the required reviews. Additional controls are needed to ensure that the required reviews are properly performed within 145 days, before an automatic retain notification is sent.

To assess the revised procedures' effectiveness, we requested statistics from the Air Force on the FY 2002 DIIP. For the FY 2002 DIIP process, the Air Force received 158,678 IIRNs from DLA. The Air Force sent 86,340 retain notifications to DLA and sent 389 IIRNs notifying DLA to delete NSNs. The remaining 71,949 IIRNs were transmitted to the ALCs for further review. The statistics indicated that the revised procedures had improved Air Force responsiveness to IIRN transactions from DLA. The Air Force should review the procedures at the end of the FY 2002 DIIP process to ensure they are effective.

Management Comments on the Finding

DLA concurred with the finding and stated that it had frozen assets to prevent disposal if an item was canceled as a result of the DIIP and if the Air Force was a user of the item. DLA further stated that the weakness identified in the audit will be reported in the DLA Annual Statement of Assurance.

Recommendations and Management Comments

1. We recommend that the Director, Defense Logistics Agency establish controls to ensure that national stock number items supporting current weapon systems are not deleted from the supply system. Those controls should include procedures to:

a. Comply with the Defense Logistics Agency Manual 4140.2 requirement that Defense Logistics Agency item managers contact the supply center monitor for the weapon system support program to coordinate the deletion of the code that identifies the national stock number item as a weapon system item.

b. Comply with the Defense Logistics Agency Manual 4140.3 requirement that the supply center monitor for the weapon system support program notify the Military Departments when a national

stock number item supporting a weapon system is to be deleted from the supply system as a result of the Defense Inactive Item Program process.

DLA Comments. DLA concurred, estimating that actions to implement the recommendations will be completed January 2003.

2. We recommend that the Director, Defense Logistics Agency, in coordination with the Air Force, determine the most efficient and cost-effective method to reinstate national stock number items that were inappropriately deleted from the supply system.

DLA Comments. DLA concurred and stated that the Air Force is reviewing NSNs deleted through the DIIP to determine those that should be reinstated. Estimated completion date is January 2003.

3. We recommend that the Commander, Air Force Materiel Command:

a. Review the revised procedures for processing Defense Inactive Item Program transactions when the FY 2002 process is complete to ensure the procedures are working as intended and that inactive item review notifications are being promptly returned to the Defense Logistics Agency.

Air Force Comments. The Air Force concurred, stating that the current DIIP cycle will end on September 30, 2002, and it is currently monitoring the system changes to ensure they are working as programmed.

b. Establish controls to ensure that inactive item review notifications are reviewed by the user and are returned to the Defense Logistics Agency before an automatic retain notification is provided to the Defense Logistics Agency.

Air Force Comments. The Air Force concurred, stating that it is currently tracking the progress of the DIIP review process and the ultimate goal is to have all IIRNs reviewed in a timely manner by the appropriate Air Force personnel.

c. Establish controls to review Defense Logistics Agency transactions deleting national stock numbers from Air Force systems so that the inappropriate deletion of required data from the Air Force supply system is prevented.

Air Force Comments. The Air Force concurred in principle, stating that DLA is looking into implementing additional measures to notify the Air Force that deactivation is being considered for NSNs with an Air Force weapon system code. When DLA establishes procedures, the Air Force will establish a system to review the NSNs before any NSNs are deleted from the supply system.

Appendix A. Scope and Methodology

Work Performed. We selected a judgmental sample of 3,102 NSNs associated with eight Air Force weapon systems. We provided the sample to Air Force personnel for review to determine whether the NSNs had been inappropriately deleted from the DLA supply system. The NSNs were identified from DLA supply records available as of March 2000 and May 2001. We discussed the DLA DIIP with DIIP monitors, weapon system support program monitors, item managers, equipment specialists, computer programmers, and cataloging personnel at the Defense Supply Center Columbus, the Defense Supply Center Philadelphia, the Defense Supply Center Columbus, and the Defense Logistics Information Service. We discussed the Air Force procedures for responding to the DLA DIIP with Air Force equipment specialists, DIIP monitors, weapon system program personnel, and other cataloging, logistics, and programming personnel located at the Air Force Materiel Command, the Air Force Cataloging Office, the Oklahoma City ALC, and the Warner Robins ALC. The documents we reviewed included DoD, DLA, and Air Force policies and procedures related to the DIIP, catalog files, supply records, disposal files, and procurement records. The documents were dated from August 1988 through May 2002.

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.

Use of Computer-Processed Data. To identify NSNs that were deleted from the DLA supply system, we relied on computer-processed data from SAMMS that was provided by DLA. 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 that would change the conclusions in this report.

Universe and Sample. For two prior audits of the DLA DIIP, DLA provided us with databases of terminal 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. One database was provided from March 2000 supply files and one from May 2001 supply files of NSNs. To determine the NSNs deleted from the DLA supply system, we compared the databases; there were 198,130 items that had been in the March 2000 database but were not the May 2001 database. Of the 198,130 items, 41,478 items had no registered users and 156,652 had at least one registered user. There were two possible reasons for an NSN to have been in the March 2000 database but not the May 2001 database: either the NSN had been deleted from the supply system or there had been a demand for the NSN. We focused on the

41,478 NSNs with no registered users for further analysis. If an NSN had registered users, its absence from the May 2001 database was probably because a demand had been made for it. If an NSN had no registered users, it was more likely that the NSN was not in the May 2001 database because it had been deleted from the supply system.

We requested data from DLA to determine whether the 41,478 NSNs with no registered users were assigned weapon system designator codes. A weapon system designator code identifies NSNs that are in the DLA weapon system support program. Based on weapon system codes provided by DLA, we determined that 30,516 of the 41,478 NSNs were assigned weapon system designator codes. Further analysis of the 30,516 NSNs indicated that 27,140 supported Air Force weapon systems. Of the 27,140 NSNs, 15,295 were considered critical to the operation of Air Force weapon systems.

We judgmentally selected eight Air Force weapon systems for review. Those systems were the B-1B *Lancer*, B-2 *Stealth*, E-3 Airborne Warning and Control System, cruise missile, C-130 *Hercules*, C-141 *Starlifter*, C-5 *Galaxy*, and F-15 *Eagle*. Of the 15,295 critical NSNs, 6,464 were associated with the 8 systems. We judgmentally selected 3,102 of the 6,464 NSNs to provide to the Air Force for review and determination of whether the NSNs were required to support active weapon systems.

Audit Dates and Standards. This audit was performed from August 2001 through June 2002 in accordance with generally accepted government auditing standards.

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 and Air Force management controls for processing DIIP IIRNs. We reviewed DLA and Air Force self-evaluations applicable to those controls.

Adequacy of Management Controls. As defined by DoD Instruction 5010.40, we identified material management control weaknesses at DLA and the Air Force. DLA did not have controls to ensure that items that supported active Air Force weapon systems were not deleted from the supply system. The Air Force did not

have controls to ensure that DLA DIIP IIRNs were reviewed and promptly returned to DLA and to ensure that supply information in the Air Force supply system was not inappropriately deleted. Recommendations 1., 3.b., and 3.c. in this report, if implemented, will correct the material weaknesses identified by the audit. A copy of the report will be provided to the senior official responsible for management controls in DLA and the Air Force.

Adequacy of Management's Self-Evaluation. DLA did not identify coordinating the deletion of NSNs used on Air Force weapon systems with the Air Force as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

The Air Force did not identify reviewing and processing DLA IIRNs as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

Appendix B. Prior Coverage

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

IG DoD

IG DoD Report No. D-2002-131, "Terminal Items Managed by the Defense Logistics Agency for the Navy," July 22, 2002

IG DoD Report No. D-2002-060, "Management of Terminal Items at the Defense Logistics Agency," March 13, 2002

IG DoD Report No. D-2001-187, "Defense Logistics Agency Items Supporting Obsolete Army Weapon Systems," September 27, 2001

IG DoD Report No. D-2001-131, "Items Excluded From the Defense Logistics Agency Defense Inactive Item Program," May 31, 2001

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

IG 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 Aircraft Major-End Items," September 19, 2000

Appendix C. Report Distribution

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Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

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

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Commander, Air Force Materiel Command
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

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

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

22 AUG 2002

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

FROM: HQ USAF/IL
1030 Air Force Pentagon, RM 4E260
Washington D.C. 20330-1030

SUBJECT: DoDIG Draft Report, "Defense Logistics Agency-Managed Items Supporting Air
Force Weapon Systems," (Project Code D2001LD-0128.002)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force
(Financial Management and Comptroller) to provide Air Force comments on subject report.

In general, we concur with the recommendations to the Air Force in subject draft report.
Our detailed comments are attached. If DoD continues to use the Defense Inactive Item
Program, it is essential that the Air Force conduct adequate reviews of candidate items. We are
concerned about the phrasing of recommendation 3.c., which appears to create a new
requirement beyond our current review processes. We concur in principal and explain our
proposed action.

For additional information, please contact Bobby Buckles, HQ USAF/ILGP,
(703) 695-9798.


MICHAEL E. ZETTLER
Lieutenant General, USAF
DCS/Installations & Logistics

Attachment:
Detailed Comments

cc:
SAF/FMPF
OUSD(L&MR/SCI)
HQ AFMC/LG

Detailed Air Force Comments on DoDIG Draft Report, "Defense Logistics Agency-Managed Items Supporting Air Force Weapon Systems," (Project Code D2001LD-0128.002)

Recommendation 3. We recommend that the Commander, Air Force Material Command:

a. Review the revised procedures for processing Defense Inactive Item Program transactions when the FY 2002 process is complete to ensure the procedures are working as intended and that inactive item review notifications are being promptly returned to the Defense Logistics Agency.

AF Response: Concur. The work benching of the Inactive Item Review Notifications (IIRNs) was implemented in the D143C effective 8 DEC 2001. The IIRNs for the 2002 DIIP cycle were held by the Air Force programmers until the required program changes were implemented. The D143C now has a default response of RE (retain) for any IIRN not responded to in the appropriate timeframe (165 days) by the Air Force responder. The 2002 DIIP cycle will end 30 SEP 2002. We are currently monitoring the system changes to ensure that they are working as programmed.

b. Establish controls to ensure that inactive item review notifications are reviewed by the user and are returned to the Defense Logistics Agency before an automatic retain notification is provided to the Defense Logistics Agency.

AF Response: Concur. We programmed the D071 (Stock Number User Directory [SNUD]) to automatically return the follow-ups with an RE (retain) as an interim measure. The ultimate goal of the review process of the IIRNs is to have them all reviewed in a timely manner by the appropriate Air Force personnel. HQ AFMC/LGIS is tracking progress of the DIIP review program. As we continue to improve there will be no need for an automatic retain notification. We plan to use the automatic retain notification as backup for the 2003 DIIP cycle. We expect to have full manual review for the 2004 DIIP cycle.

c. Establish controls to review Defense Logistics Agency transactions deleting national stock numbers from Air Force systems so that the inappropriate deletion of required data from the Air Force supply system is prevented.

AF Response: Concur in principal. We understand that DLA is looking at implementation of additional measures to notify the Air Force that deactivation is being considered for national stock numbers with an Air Force weapon system code. Once DLA implements this process, we will establish a system to quickly review these notices so that appropriate action can be taken before any stock numbers are deleted.

Defense Logistics Agency Comments



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

AUG 22 2002

IN REPLY
REFER TO J-33

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Draft of a Proposed Audit Report – Defense Logistics Agency - Managed
Items Supporting Air Force Weapon Systems (Project No. D2001LD-
0128.002), dated June 21, 2002

Comments on the finding and recommendations of the subject draft report are attached.

The point of contact for this is Mr. Brian Schutsky, J-3341, 703-767-2657.

A handwritten signature in black ink, appearing to read "H. Proctor".

HAWTHORNE L. PROCTOR
Major General, USA
Director
Logistics Operations

Attachment
DLA Comments

Subject: Defense Logistics Agency-Managed Items Supporting Air Force Weapon Systems, June 21, 2002, Project No. D2001LD-0128.002

Finding: DLA and Air Force Defense Inactive Item Program procedures were not being followed and NSNs required to support Air Force weapon systems had been inappropriately deleted from the supply system. Air Force personnel reviewed 756 NSNs associated with 8 Air Force weapon systems that were judgmentally selected to determine whether NSNs deleted from the DLA supply system were still required. Of the 756 NSNs, the Air Force identified 571 that had been inappropriately deleted from the DLA supply system. The conditions occurred because DLA and Air Force management controls to ensure that NSNs were not inappropriately deleted from the DLA supply system were ineffective. As a result, NSNs were not available to support Air Force weapon systems and Air Force weapon system readiness could be adversely affected. Additionally, DLA disposed of assets, valued at \$153,000, that were required to support Air Force weapons, and DLA and the Air Force will incur unnecessary supply management costs to reinstate catalog and supply files for inappropriately deleted NSNs. (See page 3 of report)

DLA Comments: Concur. DLA has frozen all assets from being disposed of if the Air Force was a user and the item was cancelled as a result of DIIP.

Internal Management Control Weakness: DLA did not have controls to ensure that items that supported active Air Force weapon systems were not deleted from the supply system. Recommendation 1, if implemented, will correct the material weakness.

Nonconcur

Concur; weakness will be reported in the DLA Annual Statement of Assurance

Recommendation No.1: The DoDIG recommends that the Director, Defense Logistics Agency establish controls to ensure that national stock number items supporting current weapon systems are not deleted from the supply system. Those controls should include procedures to:

- a. Comply with the Defense Logistics Agency Manual 4140.2 requirement that Defense Logistics Agency item managers contact the supply center monitor for the weapon system support program to coordinate the deletion of the code that identifies the national stock number item as a weapon system item.

DLA Comments: Concur.

Disposition:

Action is ongoing. ECD: January 2003

Action is considered complete.

-
- b. Comply with the Defense Logistics Agency Manual 4140.3 requirement that the supply center monitor for the weapon system support program notify the Military Departments when a national stock number item supporting a weapon system is to be deleted from the supply system as a result of the Defense Inactive Item Program process.

DLA Comments: Concur

Disposition:

- Action is ongoing. ECD: January 2003
 Action is considered complete.

Recommendation No. 2: The DoDIG recommends that the Director, Defense Logistics Agency, in coordination with the Air Force, determine the most efficient and cost-effective method to reinstate national stock number items that were inappropriately deleted from the supply system.

DLA Comments: Concur. Tinker AFB reviewing the items to determine only those requiring reinstatement.

Disposition:

- Action is ongoing. ECD: January 2003
 Action is considered complete.

Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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