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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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AUG 30 1971

DEFENSE DIVISION

B-146727



Dear Mr. Secretary:

The General Accounting Office has reviewed the procedures used by the Navy Aviation Supply Office (ASO) in fiscal year 1970 for the retention and disposal of repairable items. The review was made to determine whether all requirements were considered in the computation of the quantities to be retained. As part of our review, we examined the computer program for determining the retention level, the instructions given the commodity managers for making their manual evaluation of the computer decisions, and final disposal decisions.

Repairable items accounted for about \$115 million of the \$246 million worth of assets which ASO declared excess during its fiscal year 1970 retention and disposal review.

We found that about \$6.7 million worth of material was erroneously declared excess because ASO, in computing quantities to be retained, did not consider all requirements for (1) mobilization, (2) items used on aircraft in production, and (3) items stocked for insurance and initial outfitting purposes.

We also inquired about retention and disposal procedures at the Navy Electronics Supply Office (ESO) and the Navy Ships Parts Control Center (SPCC) to determine whether the same problems existed at those locations. We made limited tests of transactions at SPCC, reviewed their procedures, and determined that they were adequate. Because of the limited amount of disposal activity at ESO, we decided that a review of procedures and a sampling of transactions were not warranted there. The details of our findings at ASO follow.

Items for mobilization

ASO declared as excess \$6 million worth of material which was needed to cover that portion of mobilization requirements for which funds had not been appropriated. Although these items were not authorized to be procured, assets already available to meet these requirements should have been retained.

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ASO's fiscal year 1970 formula for computing the retention level consisted of a 10-year stockage objective based on the previous year's demand plus back orders and planned program requirements. We noted that no provision for unfunded mobilization requirements had been made. Since the Department of Defense instruction dealing with the determination of excess material stipulates that these requirements be included in the retention level, we brought this matter to the attention of ASO officials. They stated that unfunded mobilization requirements were not specifically included because ASO officials considered these requirements to be adequately covered in the 10-year retention estimate.

We gave ASO officials a list of items for which certain assets had been declared excess, because unfunded mobilization requirements had not been included in the retention level computation. We suggested that the commodity managers reconsider decisions declaring these assets excess to determine whether any of these assets should be reclaimed. As a result, ASO reclaimed assets valued at more than \$1.2 million. This was based on ASO's fiscal year 1971 formula for computing the retention level which reduced the stockage objective from 10 years to 7 years and specifically included all mobilization requirements.

Items used on aircraft in production

During a previous review, we found that ASO had disposed of certain excess items applicable to aircraft in production which could have been offered as Government-furnished material (GFM) (B-157373 dated August 6, 1970). We discussed this matter with ASO officials at that time and were told that such items would be exempted from future disposal reviews. During this review, we noted that ASO also declared as excess, material valued at \$533,560 which should have been identified for possible use as GFM.

We found that ASO was scheduling items for disposal which were excess to an aircraft not in production, but were not considering possible use of those items on other aircraft which were still in production. Assets for two items related to aircraft in production were declared excess during ASO's fiscal year 1970 review. We brought this situation to ASO's attention. ASO initiated action to return these assets to the supply system.

Subsequent to the fiscal year 1970 review, ASO changed its policy, which now excludes all items related to aircraft in production from future disposal reviews.

Insurance and initial outfitting items

We noted that ASO's final decision concerning 10 insurance and initial outfitting items was to declare all assets excess because they had no demand, back orders, or planned program requirements for them. During initial provisioning, quantities to be procured and stocked are based on anticipated demand and other factors. In some instances, even though it is determined that there is little likelihood that a given item may be repetitively used, a minimal quantity (called insurance items) is stocked in case of emergency, because a lack of the item would endanger operational capability. Future requirements for these insurance items are not based on demand, but continue to exist until the items themselves, or the end items they support, become obsolete. Since most of the 10 items could be used on active aircraft, we believe that complete disposal is inadvisable. At our request, the commodity managers responsible for these items reconsidered their decisions and recalled assets valued at \$220,000.

ASO stated that it would exclude insurance and initial outfitting items from future reviews until better guidelines for their retention and disposal have been developed.

Conclusions

We recognize that the problems enumerated above could have been caused by new automatic data processing procedures and that actions have been taken to correct some of the problems. We believe, however, that more specific guidelines are necessary for retention and disposal of insurance and initial outfitting items.

Retention and disposal procedures for repairable items have not been reviewed by internal audit organizations at ASO. Since significant losses can occur from the disposal of needed material, we believe that this area should be under continuing review.

Recommendations


2 We recommend that the Navy issue guidelines for retention of insurance and initial outfitting items which provide that future requirements for them not be based on demand. We also recommend that the Naval Audit Service conduct periodic reviews of the retention and disposal procedures for repairable items in use by the Department of the Navy.

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The above recommendations are subject to the provisions of Section 236 of the Legislative Reorganization Act of 1970. We will appreciate receiving copies of the statements you furnish the specified committees in accordance with these provisions.

If you desire, we will be glad to discuss these matters in greater detail with you or with your staff.

Sincerely yours,


for Director

The Honorable
The Secretary of the Navy

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