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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548



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LOGISTICS AND COMMUNICATIONS
DIVISION

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B-133361

OCT 5 1976

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

While reviewing the management of recoverable material at the San Antonio Air Logistics Center, we observed that items had been reclassified to an unserviceable condition simply because they did not meet the stringent inspection criteria applied by the Center to foreign sales transactions. These assets were fully serviceable but had appearance blemishes. However, because they were classified as unserviceable they could not be used to fill other valid Air Force requirements and were either disposed of or sent to a repair facility. On the other hand two other Air Logistics Centers did not reclassify items as unserviceable just because they were considered unsuitable for shipment to a foreign country.

We are bringing this matter to your attention because other military organizations, when filling Security Assistance Program requisitions, may also follow more stringent inspection criteria than are necessary for assets intended for in-house use. If they too are reclassifying assets as unserviceable because of appearance blemishes, an unwarranted loss of serviceable assets may be occurring.

INSPECTION CRITERIA FOR SHIPMENTS

Air Force Manual 67-1, Vol. IX, Chapters 4 and 7, provides that all items selected to fill Security Assistance Program requisitions will be inspected before shipment. Air Force Regulation 400-6, which implements Department of Defense instructions, provides that the serviceability and appearance of items furnished foreign countries will be of the same quality provided overseas commands and reflect credit upon the United States. The San Antonio Air Logistics Center's local regulations interpret this objective to mean that items shipped to Security Assistance Program countries will be in a new or like-new condition.

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Complying with the local regulation, inspectors were rejecting for shipment items with scratches, dents, or other conditions that in any way detracted from the items' like-new appearance. Items rejected for foreign shipment were then reclassified to an unserviceable condition. The reclassification usually was justified on the basis that the appearance defect could adversely affect the items' functional capability. We found that in many instances the appearance blemishes would not interfere with the items' functional usefulness and thus would be suitable for use by Air Force activities.

Items reclassified as unserviceable cannot be used to fill requisitions and may be disposed of or sent to repair activity for overhaul. Thus, reclassifications reduce serviceable stock available for issue and may result in unwarranted additional costs to replace or repair the item.

ASSETS INCORRECTLY RECLASSIFIED
AS UNSERVICEABLE

We selected 83 reclassification actions at the San Antonio Center that resulted from inspections before shipments to foreign countries. The 83 reclassification actions resulted in 647 assets being changed from a serviceable to an unserviceable condition. We were able to locate 116 assets involving 38 of the 83 actions. The remaining 531 assets classified as unserviceable had apparently been disposed of or sent to maintenance activities for repair.

At our request those assets still on hand were reinspected by warehouse inspectors. Of the 116 assets reinspected, 31 appeared to be serviceable. Of the 31 assets, 20, valued at about \$6,000, were reclassified to a serviceable condition. We were told the remaining 11 assets, valued at about \$7,900, would require testing before their serviceability could be determined.

The following examples illustrate what happened at the Center.

An inspector reclassified a serviceable hydraulic puller (FSN 5130-764-5514RX) that a foreign country had requisitioned. According to the inspector, it was not suitable for shipment because it appeared worn and used. However, the item was not tested.

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Our check of the hydraulic puller revealed a scratch on the outside surface, but otherwise the item appeared unused. An accompanying Air Force inspector agreed with our observation. To determine whether the hydraulic puller was functional, we had it tested by an Air Force using organization. The unserviceable hydraulic puller was used to remove an engine bearing and performed flawlessly. On the basis of test results, the hydraulic puller was reclassified to a serviceable condition. It had a stock list price of \$397.60.

In another case, 16 electromechanical actuators (FSN 1680-554-4730) requisitioned by a foreign country were rejected as unsuitable for shipment and reclassified as unserviceable. Upon reinspection by an Air Force inspector, one asset was found unserviceable, four appeared new, and the remaining 11 appeared to have not been used since being repaired by a contractor. The inspector reclassified 15 of the 16 items to a serviceable condition. The 15 items had a total value of about \$4,700.

Inspection practices at two other Air Logistics Centers revealed that a similar situation did not exist. At the Warner Robins and Oklahoma City Air Logistics Centers, items determined not suitable for shipment to a foreign country are not automatically reclassified as unserviceable. Instead they remain classified as serviceable and, although unsuited for shipment to a foreign country, can be shipped to requesting Air Force organizations.

ACTION BY THE SAN ANTONIO CENTER

When advised of our findings, Center personnel visually reinspected certain items which had been reclassified as unserviceable because they were determined not suitable for shipment to a foreign country. Their reinspection indicated that many of these items should not have been classified unserviceable. To correct the problem, the Center established additional controls to preclude arbitrary reclassification of items rejected for shipment to a foreign country. Reclassification of these items from a serviceable to an unserviceable condition must now be authenticated by supervisory personnel.

This action, when accompanied by thorough inspection of assets rejected for foreign shipment, should reduce the number of erroneous unserviceable classifications. Since an erroneous unserviceable classification can result in unnecessary repair or replacement actions, we

believe a change from a serviceable to an unserviceable condition should be made only when there is a clear showing that the asset is unserviceable. Such a determination may require testing in addition to visual inspection.

CONCLUSION AND RECOMMENDATION

Air Force regulations providing for inspections of assets shipped to foreign countries do not provide specific appearance standards an asset must meet. The San Antonio Air Logistics Center has interpreted these regulations to require that all assets shipped to foreign countries must appear new or like new. More importantly, assets failing to meet the new or like-new standard were presumed to be unserviceable and reclassified at the San Antonio Center. Many assets reclassified as unserviceable because they were not appearance perfect were serviceable and could perform their intended function. The reclassification action precludes the asset from being shipped to Air Force requesting organizations and may cause unwarranted repairs and/ or procurements to obtain needed serviceable assets.

We are bringing this matter to your attention because foreign sales requisitions are filled by numerous military supply offices and should be handled in a uniform manner to assure that needless loss of serviceable assets to the military services does not occur because of application of appearance criteria peculiar to foreign military sales. While the shipment of appearance perfect assets to foreign customers may be warranted, it should not result in discarding or repairing functionally perfect assets with appearance blemishes.

We recommend that you take the action necessary to ensure proper interpretation of and compliance with Department of Defense instructions pertaining to foreign military sales inspections to preclude:

- Possible inconsistencies within and among the services in rejecting material for shipment as foreign sales.
- Arbitrary classification as unserviceable for in-house use, items which are not suitable for shipment to foreign countries.

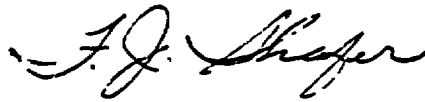
As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government

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Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairmen, Senate and House Committees on Government Operations, Appropriations, and Armed Services; and the Secretaries of the Air Force, the Army, and the Navy.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "F. J. Shafer".

F. J. Shafer
Director